**FOREIGN AID, FISCAL POLICY AND ECONOMIC GROWTH IN NIGERIA**

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**Abstract:** *This study examines the impact of foreign aid and fiscal policy on Economic growth in Nigeria from 1971 to 2022. Secondary data were sourced from Central Bank of Nigeria (CBN) statistical Bulletin and World Bank Development indicator. The study adopts the ARDL Co-integration and Error Correction Modeling (ECM) techniques for its analysis. The result shows that foreign aid and government Expenditure do not significantly influence growth in Nigeria. Meanwhile, it was established that public debt did not only impact GDP negatively, but played a significant role in financing expenditure and ultimately improved growth. The R2 value (0.72) is consistently high in the model and the ECM showed quick response to the adjustments of the variables. Based on the findings, the study recommended that government should reduce international loan defaults to avoid huge debt accumulation and debt service; embrace more Public-Private Partnership (PPP) to procure government assets rather than sought foreign loans with or without concessions; and loans sought from official development assistance agencies meant for development projects be utilized for such purpose(s) rather than diverted to enhance economic growth.*

**Keywords:** fiscal policy, Economic Growth, Official Development Assistance, Government Revenue and Expenditure

**Introduction**

Fiscal discipline is key to achieving sustainable economic growth and development in many less developed economies, especially in this era of liberalization. While fiscal instruments (Taxes and government expenditure) are designed for this purpose, the correct selection and composition are important in achieving broad-based stable path of economic growth across countries (Gallo and Roca-Sagales, 2013). In other words, fiscal policy has been identified as a policy that tends to have long run relationship with growth. Consequently, it is a general believe that such policy will be highly susceptible to external influences which might have serious implications on its behaviour during a particular period and this can mitigate having sustainable effect on output over the long run period horizon it is designed for (see Olasunkanmi, 2013 cited in Olagboyega, 2015).

Over the years, researchers have identified several challenges plaguing effective management of fiscal policy as; gross mismanagement or misappropriation of public funds (Okemini and Uranta, 2008); lack of integration of macroeconomic plans and absence of harmonized and coordination of fiscal instruments (Onoh,2007) among others. Lack of fiscal discipline may therefore result in persistent budget deficit, huge debt burden, declining reserves and high unemployment rate (Pradhan, 2019, Calmfors, 2020, Begum & Flath, 2020).

For about four (4) decades, developed countries and international institutions have been engaged in the transfer of aid to less developed countries as a major strategy of reducing poverty, unemployment, indebtedness as well as improving growth and development; yet the aid-recipient countries still experience serious economic hardship. This scenario prompted aid donor agencies and experts to revisit the earlier discussions on the effectiveness of foreign aid (Lancaster, 1999). According to Bashir (2013) the benefits and access to foreign aid by most developing countries is largely affected by fiscal behaviour of government institutions in these countries. While some countries have greatly benefitted from foreign assistance and have joined the league of donors (North and South Korea, China and so on), most African recipients (sub-Saharan) have not exhibited the dividends from the transfer. Therefore, aid has to be allocated to those countries pursuing good policies and not countries pursuing “pocket policies” (Omoruyi, 2014). There are several factors both qualitative and quantitative, explaining these unfavourable trends; the incessant socio-political crisis, policy inconsistencies, macroeconomic instability and bad governance evident in many developing countries which are indeed indicators of poor policy framework (Salisu, 2007). Economic development is the fundamental problem of nearly all countries and capital accumulation is a focal point of economic growth – particularly in less developed nations. Even though the significance of capital accumulation was recognized long ago (see Lewis, 1954; Harrod, 1939; and Domar, 1946), less developed nations have usually failed to fund the desired level of investment out of their personal resources such as savings (Omoruyi, 2014). Other possible reasons for retarded growth in the presence of poor policies in developing economies include; increased rent seeking, corruption increased inequality, postponed reforms, increased risk to Dutch disease and absorptive capacity of recipient countries (Anderson, 2013).

For the past three and a half decades in Nigeria, the various economic reforms have their targets at improving economic growth. However, with the Gross domestic product (GDP) rebase in 2014, the economy was adjudged one of the fastest growing economies in Africa with an average GDP growth rate of 6.3 percent between 2001 and 2015 (World Bank, 2015). Also on average, Nigeria’s total revenue (TR) improved significantly due to increase in oil tax revenue (CBN, 2020) which accounted for about 70 percent of the total federal government revenue despite all efforts to diversify the revenue base to non-oil tax. In the same vein, the total government expenditure (TGE) increased tremendously over the years as a result of favourable changes in the price of oil in the international market and recent exchange rate fluctuations. However, the distribution of the TGE between recurrent (RE) and capital (CE) has always been lopsided, with RE dominating almost every year (RE averaged 74.6% while CE averaged 25.4%).

The nature of fiscal policy in Nigeria was largely deficit due to overwhelming nature of GE to the TR, especially after the adoption of Structural Adjustment Programme (SAP) in 1985. Beyond the issue of poor quality of public expenditure, the ability to save windfalls from excess crude oil proceeds by the government remains critical in ensuring that government expenditure is maintained at a sustainable level and consistent with the absorptive capacity of the economy (Obinyeluaku & Viegi, 2009). The adoption of Structural Adjustment Programme (SAP) in 1985 marked the beginning of the deregulation policy in the country and this witnessed a considerable increase in government indebtedness (Obinyeluaku & Viegi, 2009; Odetayo & Adeyemi, 2017; Saibu, 2018). Beyond the issue of poor quality of public expenditure, the ability to save windfalls from excess crude oil proceeds by the government remains critical in ensuring that government expenditure is maintained at a sustainable level and consistent with the absorptive capacity of the economy. Consequent upon this, there has been a substantial increase in government spending, primary deficits and debts in Nigeria. (Obinyeluaku & Viegi, 2009 cited in Olagboyega, 2015).

In order to finance the fiscal deficits created overtime, the official development assistance (ODA) remains a veritable tool. United Nations Millennium Development goals (2015) reported that Nigeria was among the top 20 recipients of ODA distribution claiming about $ 2.52m in 2008. In 2014, the country received $4.76m (UNESCO, 2014) which was 88% of the value obtained in 2016. Fasanya and Onakoya (2012) also posited that, although Nigeria has continued to benefit from all sorts of foreign assistance and in fact still collects at least as much as the amount collected in the early 1980s, yet socio-economic development has remained gloomy.

Adeyeye (2013) also noted that Nigeria’s development indicators have not improved and unfortunately taken down trend despite four decades of continuous aid with nearly Two-thirds of the population living on less than a dollar a day. Furthermore, Mbah and Amassoma (2014) resolved that with the increased flow of foreign aid into Nigeria and its enormous potential in accelerating economic growth through bridging savings and foreign exchange gaps, Nigeria economy is still characterized by low level of income, high level of unemployment, very low industrial capacity utilization, and high poverty level.

Therefore, flow of aid may provide an incentive to relax tax and also favour larger budget deficits created by larger saving-investment gap. Larger budget deficit may not necessarily impair growth if higher government expenditure executed with aid is committed into development purposes.

From the foregoing, the country has had steady growth and benefits from all sorts of foreign assistance but her socio-economic development remains dismal. Studies on Nigeria like Odusola and Akinlo (1995); Odusola (1996); Obadan (2004); Abiola (2003); Gethu (2005); Ekanayake et al (2007); Salisu (2007; Bell-Gam and Ubi (2012); Fasanya and Onakoya (2012); Aregbeyen and Fasanya (2014); Omoruyi (2014); and Olagboyega (2015) explicitly relied on growth factors such as policy environment, institutional factors, macroeconomic variables and poverty, but none of these studies considered the role of fiscal policy in aid-growth nexus. Hence, the contribution of this study to the existing literature goes beyond the analysis of how foreign aid influences economic growth but also include the role of fiscal policy in Nigeria, giving credence to the endogeneous growth theory and using a more recent data from 1971 to 2022.

The rest of this article is organized as follows: Section II describes the literature review while Section III presents the methodology. Section IV explains the results and Section V discusses the conclusion and recommendations

**II. Theoretical Literature**

The relevant theories reviewed in this study include: the Harrod-Domar growth theory, the Two-gap theory, the Neo-classical growth theory and the endogeneous growth theory. These theories are in turn discussed accordingly:

**The Harrd-Domar Theory**

The Harrod-Domar theory is a classical Keynesian theory of economic growth developed by Harrod (1939) and Domar (1946). The growth theory explains that given the quantity of labour and capital, an increase in investment will lead to capital accumulation and eventually generates economic growth. Thus, the theory implies that economic growth depends on policies to increase investment by increasing savings and using the investment more efficiently through technological advancement. It was however concluded that an economy does not naturally find full employment and stable growth rates.

**The Two–Gap Theory**

The Two-gap model popularized by McKinnon (1964) and Chenery and Stout (1966) was an improvement over Harrod-Domar growth theory. It began with the idea that investment in Less developed countries (LDCs) could be stimulated through the injection of overseas capital thereby helping to achieve growth and development. The general view that aid enhances growth is predicated on the assumption that it is an exogenous net increment to the capital stock of the recipient country (Rosenstein-Rodan 1961). The basic two-gap model has two components. The first was based on Harrod-Domar theory where increases in foreign aid fill the Saving-Investment gap and ultimately contribute to capital formation and economic growth. The second gap is the one created between exports and imports. Developing country produces only primary goods, whereas it requires large imports of consumer and capital goods. There is obviously a cost differential resulting from current account deficits otherwise called foreign exchange or trade gap and can also be corrected by foreign aid to achieve desired level of growth in the recipient country.

**The Neo-classical Growth Theory**

The Neo-classical growth theory originated from the critiques of Harrod-Domar theory by Solow (1956) and Swan (1956). In this theory, the relationship between physical stock of capital and labour supply determines output. The ratio of the variables (Capital-labour ratio) greatly depends on the amount of capital per worker. Thus, the returns of both labour and capital in an economy are diminishing. This implies that increases in these two inputs have exponentially decreasing returns.

In the Neoclassical growth theory, the role of fiscal policy is explicit in the long run. This is because the fiscal stance of the government can only affect the equilibrium Capital-output ratio equivalent to the level of output but not the long run growth (Angell et al, 2003).

**The Endogeneous Growth Theory**

One of the resolves of endogeneous growth theory over the Neoclassical is the proposition of the channels through which the rate of technological progress and hence the long run rate of economic growth can be influenced by economic factors. The Neoclassical assumes the rate of technological progress to be determined by a scientific process that is separate from, and independent of economic factors. It then implies that the long run growth rate is exogeneously from outside the economic system. The endogeneous theory is therefore, a long run economic growth determined by internal forces in an economic system, particularly those forces governing the opportunities and incentives to create technological knowledge or enhance increasing returns to the use of knowledge through investment. The technological progress takes place through innovation (Research and Development, R&D) in the form of new products, processes and markets, many of which are the results of economic activities. The fiscal behavior of the government to invest in R&D is a major determinant in the long run growth process (Barro, 1990)

In conclusion, the various theoretical postulations indicate that though aid inflow could assist in closing the saving-investment gap in recipient countries, however, its potential ability to contribute to the growth process depends on the fiscal behavior of the government. Hence, it can be concluded that the effectiveness of aid in a country is determined by the fiscal behavior and discipline of the government.

**Empirical Literature**

**Foreign Aid and Economic growth Literature**

In the recent time, most cross-country studies on aid-growth nexus have shown that in the long run aid has positive and significant effect on economic growth. For instance aid inflow; serves as an important tool for achieving desired rate of growth (Chowdhury, 2011); generates decreasing returns because of the capacity constraints of institutions to utilize it effectively (Hossain, 2014); encourages growth and is heterogeneous across sectors such as agriculture, trade and policies, and education, particularly (Aboubacar et al, 2015). Although, a huge empirical literature confirmed that aid has negative effect on growth (for example, Juselius et al, 2014 ; Albiman, 2016 ; Thamae & Kolobe, 2019) but in contrast, some authors claimed that; the impact of aid depends on the political stability in the host countries (Kargbo, 2012); the positive coefficient of aid policy index interaction has positively contributed to economic growth if supplemented with stable macroeconomic policy environment (Girma, 2015).

**Fiscal policy and Aid-growth Literature**

Studies on aid and fiscal behaviour were the central focus of aid-saving debate which relied on the initial work of Griffin and Enos (1970). The work explored the general macroeconomic relationship among foreign aid, domestic savings and growth. The major controversy in this area was the effect of aid on public investment rather than on consumption (non-investment). As a result, aid money increases resources and government expenditure as well as cut taxes or reduces fiscal deficits. It was further established that the fiscal operations of the government were significantly influenced by aid inflows (see Heller, 1975; Pack &Pack, 1993; Iqbal, 1997; Movrotas, 2002; Gomanee, 2005; Quattara & Strobl, 2018; and McGillivray & Morrissey, 2015).

Contrary to this and in mixed results for both single and cross-country studies, aid has also been confirmed to exert very minimal impact on the fiscal behaviour of the government. Thus, this implies that aid is positively associated with both public investment and consumption but with no positive impact on taxation (see McGillivray, 2000; Fegernas & Roberts, 2004; Njeru, 2004; Andersson, 2013; and Bult & Javid, 2013). The common ground in these studies is that foreign aid reduces domestic revenue collection.

From the literature, it can be concluded that both cross and country-specific studies on the impact of foreign aid and fiscal policy on growth have also not been without any problems. The challenges have been due to insufficient and shorter duration of studies with omission of variables. The studies reviewed so far have shown divergence in terms of the findings, with some showing a negative relationship between foreign aid and growth while others found a positive relationship. These studies have assumed that the aid –growth nexus is predictable without necessarily looking at the influence of fiscal policy.

**III. Methodology and Data**

**Model Specification**

The theoretical framework underpinning for this study is basically endogenous growth theory which advocates the stimulation of level and growth rate of per capita output within the model using policies like fiscal instruments (taxes and government spending). With Cobb-Douglas production function:

Y = ALα Kß (1)

Where Y is total production, A is total factor Productivity, L is Labour input, K is Capital inputs, α and ß are output elasticities of labour and capital. These values are constant and determined by technology. Output elasticities measure the responsiveness of output to a change in level of either labour or capital used in production, ceteris paribus.

Drawing inspiration from the framework above and following the works of Mohammed and Qayyun (2011), Ogundipe, et’al (2014) and Albiman (2016), the study modeled economic growth to capture the influence of fiscal behaviour and aid inflow variables (government expenditure, revenue and ODA) and also incorporating exchange rate as well as debt stock as control variables.

GDPt = (EXPt, REVt, ODAPCt, EXRt,, DEBTt) (2)

In order to arrive at the economic growth rate, we have the equation below;

= + + (3)

GDPGRt is the growth rate of real gross domestic product used as a proxy for economic growth rate in year t; is the ratio of Expenditure to the GDP in year t; is the ratio of Revenue to GDP in year t; is the ratio of Official Development Assistance GDP in year t; is the ratio of Exchange Rate to GDP in year t;  is the ratio of Debt to GDP in year t; is the white error term; s are the respective elasticities.

The Ordinary Least Square (OLS) technique being the baseline along Autoregression Distributed Lag (ARDL) were employed to estimate long run and short run coefficients of the variables using time series data from the Central Bank of Nigeria (CBN) Statistical Bulletin and World Bank Development Indicator (WDI).

**IV Results and Discussion**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Variable** | **Mean** | **Max** | **Min** | **Std. Dev.** | **Skewness** | **Kurtosis** | **Observations** |
| **GDP** | **32189.12** | **176075.5** | **10.375** | **49970.3** | **1.490** | **3.947** | **52** |
| **REVGDP** | **0.146** | **0.303** | **0.055** | **0.067** | **0.447** | **2.132** | **52** |
| **EXPGDP** | **0.106** | **0.298** | **0.0509** | **0.059** | **1.900** | **5.815** | **52** |
| **DEBTGDP** | **0.279** | **0.797** | **0.071** | **0.217** | **1.097** | **2.862** | **52** |
| **ODAPC** | **6.853** | **79.741** | **0.359** | **12.651** | **4.328** | **23.871** | **52** |
| **EXR** | **97.109** | **448** | **0.546** | **122.255** | **1.330** | **3.981** | **52** |

The analysis of data and discussion of results in the study were done in 3 phases. It began with the descriptive statistics, followed by the unit root rest and the auto-regressive distributed lag (ARDL).

**Table 1: Descriptive Statistics**

*Source: Author’s Computation using E-views 10*

The result presented above is the Descriptive Statistics of the variables namely; Gross Domestic product (GDP), Revenue as a ratio of GDP (REVGDP), Expenditure as a ratio of GDP (EXPGDP), Debt as a ratio of GDP (DEBTGDP), Official Development Assistance per capita (ODAPC) and Exchange rate (EXR) are presented in Table 1(panel A) .Apart from the GDP value (32189.12) which appeared to be more volatile, the values of the mean were between 0.106 and 97.109. the minimum and the maximum values are quite instructive as they range between 0.055 and 448.0 respectively. The standard deviation away from the mean for GDP was the most volatile in the series assuming a value of 49970.30 while EXPGDP was the least volatile variable with a value of 0.059. Also, the calculated value of the skewness statistics for all the variables were positive, suggesting that their distributions have a long right tail. The Kurtosis statistics of GDP, EXPGDP, ODAPC, and EXP were Leptokurtic, meaning that their distributions were peaked relative to normal distributions while REVGDP and DEBTGDP were platykurtic, implying that their distributions were flat relative to normal distribution. Again, the Jarque Bera Statistics (J.B) for all the variables rejected the null hypothesis for distribution at 5 percent level of significance except REVGDP. Premised on these observations, it then means that there is non-stationarity (unit root) in the series. As such, estimating the variables at level might not give good results. Thus, a unit root test was conducted to test for stationarity.

The Augmented Dickey fuller (ADF) unit root rest was adopted and the results presented in Table 2.

**Table 2: Unit Root and Cointegration Test**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Augmented Dickey-Fuller | |  | Remark |
|  | At Level | First Difference | Critical Value |  |
| GDP | -3.394 |  | -3.51 |  |
| ∆GDP |  | -2.254 | -3.51 |  |
| DEBTGDP | -2.071 |  | -3.51 |  |
| ∆DEBTGDP |  | -5.002\*\* | -3.51 | I(1) |
| EXPGDP | -2.835 |  | -3.51 |  |
| ∆EXPGDP |  | -10.174\*\* | -3.51 | I(1) |
| EXR | 2.781 |  | -3.51 |  |
| ∆EXR |  | -5.508\*\* | -3.51 | I(1) |
| ODAPC | -3.781\*\* |  | -3.51 | I(0) |
| ∆ODAPC |  | -7.700\*\* | -3.51 | I(1) |
| REVGDP | -2.701 |  | -3.51 |  |
| ∆REVGDP |  | -7.502\*\* | -3.51 | I(1) |

*Source: Author’s Computation using E-views 10*

Table 2 reveals that only ODAPC was stationary at level I(0) while DEBTGDP, EXPGDP, EXR AND REVGDP were stationary at first difference I(1). Therefore, the study concludes that the variables deployed in the model were both order zero (0) and one (1). Hence, the use of ARDL shown in Table 3 below.

In Table 3, Panel A shows the ARDL results for determinary Log GDP. Apart from LogGDP(-1), LogEXR, LogEXPGDP(-1), LogEXPGDP(-2), LogDEBTGDP(-1), LogODAPC(-2) and LogODAPC(-4) that have positive coefficients, others are negative. These indicate that a unit increase in the variables with positive coefficients will bring about 0.848, 0.404, 0.143, 0.083, 0.401, 0.088 and 0.078 increase in the LogGDP respectively. In a sharp contrast, a unit of increase in LogEXR(-1), LogEXPGDP, LogDEBTGDP, LogODAPC, LogODAPC(-1), LogODAPC(-3) and LogREVGDP will bring about 0.270, 0.295, 0.439,0.015, 0.042, 0.064 and 0.025 decrease in LogGDP respectively.

The T-Statistics value of LogGDP(-1), LogEXR, LogEXR(-1), LogEXPGDP, LogEXPGDP(-1), LogDEBTGDP, LogDEBTGDP(-1) and LogODAPC(-4) were significant at 5% respectively, implying that they were factors determining LogGDP. Conversely, the T-statsitics of LogEXPGDP(-2), LogODAPC, LogODAPC(-1), LogODAPC(-2), LogODAPC (-3) and LogREVGDP were not significant in determining LogGDP.

**Long And Short run Estimation Results For The Model Based On ARDL**

**Table 3: Dependent Variable: Log GDP**

**Panel A: ARDL**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-Statistic | Prob.\* |
| LOGGDP(-1) | 0.848 | 0.057 | 14.825 | 0.000 |
| LOGEXR | 0.404 | 0.082 | 4.935 | 0.000 |
| LOGEXR(-1) | -0.270 | 0.083 | -3.251 | 0.003 |
| LOGEXPGDP | -0.295 | 0.081 | -3.630 | 0.001 |
| LOGEXPGDP(-1) | 0.143 | 0.075 | 1.898 | 0.066 |
| LOGEXPGDP(-2) | 0.083 | 0.061 | 1.367 | 0.181 |
| LOGDEBTGDP | -0.439 | 0.087 | -5.030 | 0.000 |
| LOGDEBTGDP(-1) | 0.401 | 0.082 | 4.903 | 0.000 |
| LOGODAPC | -0.015 | 0.037 | -0.393 | 0.697 |
| LOGODAPC(-1) | -0.042 | 0.050 | -0.843 | 0.406 |
| LOGODAPC(-2) | 0.088 | 0.055 | 1.602 | 0.119 |
| LOGODAPC(-3) | -0.064 | 0.051 | -1.255 | 0.218 |
| LOGODAPC(-4) | 0.078 | 0.036 | 2.166 | 0.038 |
| LOGREVGDP | -0.025 | 0.057 | -0.433 | 0.668 |
| C | 0.636 | 0.123 | 5.151 | 0.000 |

**Panel B: Diagnostic Test**

|  |  |  |
| --- | --- | --- |
| Test | Statistics | Prob |
| Adjusted R2 | 0.99 |  |
| F-Test | 3.062 | 0.000 |

*Source: Author’s Computation using E-views 10*

In panel B, the Adjusted R2 of 99% suggests that all the variables explain about 99 percent factors determining GDP while the remaining 1 percent accounts for other factors not captured in the model. The F-Test of 3.062 (with P-value = 0.000) and D.W of 1.783 shove that the null hypothesis was accepted.

**Table 4: ARDL Error Correction Regression Panel A**

**Dependent Variable: LogGDP**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| D(LOGEXR) | 0.404 | 0.059 | 6.810 | 0.000 |
| D(LOGEXPGDP) | -0.295 | 0.052 | -5.646 | 0.000 |
| D(LOGEXPGDP(-1)) | -0.083 | 0.047 | -1.763 | 0.087 |
| D(LOGDEBTGDP) | -0.439 | 0.069 | -6.351 | 0.000 |
| D(LOGODAPC) | -0.015 | 0.030 | -0.493 | 0.625 |
| D(LOGODAPC(-1)) | -0.102 | 0.031 | -3.341 | 0.002 |
| D(LOGODAPC(-2)) | -0.014 | 0.029 | -0.493 | 0.625 |
| D(LOGODAPC(-3)) | -0.078 | 0.029 | -2.726 | 0.010 |
| ECM(-1)\* | -0.152 | 0.013 | -11.586 | 0.000 |

**Panel B: Diagnostic Test**

|  |  |  |
| --- | --- | --- |
| Test | Statistics | Prob |
| Bound Test | 16.225 |  |
| Adjusted R2 | 0.724 |  |
| BGLM | 1.027 | 0.369 |
| BPG | 1.275 | 0.274 |
| RESET | 0.861 | 0.361 |
| Stability Test | CUSUM | Stable |

*Source: Author’s Computation using E-views 10*,

In panel A, apart from the coefficient of D (LogEXP) that was positive, others were negative. This shows that a unit increase in D (LogEXR) will bring about 0.404 decrease in LogGDP. In contrast to this, D(LogEXPGDP), D(LogEXPGDP(-1)), D(LogDEBTGDP), D(LogODAPC), D(LogODAPC(-1)) D(LogODAPC(-2)) and D(LogODAPC(-3)) assumed negative coefficients indicating that a unit increase will lead to 0.295, 0.083, 0.439, 0.015, 0.102, 0.014 and 0.078 decrease in LogGDP.

The T-Statistics of D(LogEXR), D(LogEXPGDP), D(LogEXPGDP(-1)), D(LogDEBTGDP), D(LogODAPC(-1)) and D(LogODAPC(-3)) (6.810,-5.646,-1.762,-6.350,-3.341,-2.726) were significant at 5% respectively implying that they were significant factors determining LOgGDP. Also, the t-Statistics of -0.493 for both D(LogODAPC) and D(LogODAPC(-2)) were not significant, indicating that the variables were not significant in determining GDP.

The Error correction term which measures the speed of adjustment of the variables to long run equilibrium satisfies three conditions: the value should be negative (-0.152), less than one in absolute value (-0.152) and statistically significant at 5 percent (p-value = 0.000). The coefficient of -0.152 shows that the variables adjust back to equilibrium to the tune of 15% every fiscal year.

In Panel B, the Adjusted R2 of 72.4 percent indicates that all the variables explain about 72percent change in the GDP while the remaining 28 percent was accounted by other factors not captured in the model. The Bruesch-Godfrey serial correlation LM test (BGLM) F-Statistic of 1.027 (with p-value =0.369) shows that the null hypothesis of non-autocorrelation was not rejected. Hence, there was no autocorrelation among the variables estimated in the model. The Bruesch-pagan Godfrey Heteroscedasticity test (BPG) value was 1.275 (with P-value = 0.274) indicating that the residual was distributed with equal variance at each level of independent variables. The Ramsey Regression Specification Error Test (RESET) value of 0.861 confirmed that the null hypothesis of linearity was no rejected and there was no misspecification in the model. Summarily, the stability test of the cumulative sum(CUSUM) of the estimated model was stable.

**Conclusion And Recommendations**

The study has empirically examined the impact of foreign aid receipts and fiscal policy on economic growth in Nigeria from 1971-2022. The study adopted ARDL, co-integration and Error correction modeling techniques for the analysis. Data were sourced largely from secondary sources like Central Bank of Nigeria (CBN) Statistical Bulletin and the World Bank Development Indicators.

The results on the average indicate that foreign aid does not significantly influence spending patterns and growth in the economy. This suggests that public debt plays significant role in financing expenditure and ultimately enhanced economic growth. The implication is that the revenue collected was largely used to finance recurrent rather than developmental projects that will enhance growth. These results are consistent with the findings of other studies such Omotor (2010); Friedman (1978); and Kaya and Anslan (2020). Based on the findings, the study recommends the following:

* Government should reduce international load defaults to avoid huge debt accumulation and debt service.
* Government should embrace more Public-Private Partnership (PPP) to procure government assets rather than sought foreign loans with or without concessions.
* Enactment and implementation of tax laws to reduce the level of tax evasion and corruption.
* Official development assistance sought for development projects should be used for such purpose(s) rather than diversion to enhance economic growth
* The issues around fiscal discipline should be embraced by the government to avoid rather wasteful spending.

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