EXTERNAL BORROWING, FOREIGN AID AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

The study examined the nexus between the external borrowing, foreign aid and economic growth in Nigeria. The data used were secondary data and were drawn from 1986 to 2016. The data were sourced and obtained from CBN statistical bulletin, published articles, and journals. This study applied ex post facto research design. The data collected were analysed using Pearson Correlation Matrix. The study revealed that economic growth proxied by Gross Domestic Product (GDP) has a positive association with foreign reserves, foreign aid and openness of the economy; but has negative association with external debts at 5% level of significance. The study, therefore among others recommends that Nigeria Government should be mindful of the high cost of capital and move from the practice of external borrowing. They should set a platform where the reserve of the country can be used for infrastructural development in order to support economic growth and that in order to reduce the cost of capital of external borrowing when making decision as regards to external borrowing since it has negative effect on economic growth. Caution should also be taken as regards to external debts because it reduced resources available for investment due to debt servicing.

Keywords: External Borrowing, Foreign Aid, Foreign Reserves, Openness of Economy, Economic Growth

INTRODUCTION

Background of the Study

Non-industrial nations face gigantic poverty, moderate GDP development, high death rates, and low degrees of schooling. In the year 1999, 1.2 billion individuals lived on less than $1 every day, and another 2.8 billion individuals lived on less than $2 per day (World Bank, 2003). Most agricultural nations of the world are viewed as being poor not on the grounds that they don't have the assets or resources but since main part of their assets or resources (income) are being diverted to meeting the consumption or utilization needs of their kin with little or nothing left for reserve funds (Ugwuegbe, Okafor & Akarogbe, 2016). Thus low reserve funds rate achieves low ventures rate and low speculations rate results to low development rate. In this way, destitution toward the start through low reserve funds, low ventures and low development prompts poverty once more (destitution trap). Consequently, non-industrial nations are left with no alternative than to result to outside borrowings and foreign assistance (foreign aid) to connect the saving - investment gap with the goal to accomplishing economic growth and poverty reduction.

Foreign aid basically encompasses all forms of assistance that a nation gets from different governments or multilateral offices and financial institutions to fill observable holes, particularly in production, savings and investments (Omotola & Saliu, 2009). As per Omotola & Saliu (2009), it takes assorted structures like grants, loans, Foreign Direct Investment (FDI), joint ventures and technical assistance. While grants are basically gifts with neither interest charged, nor any commitment to pay back, advances or loans attract both. It is thus that grouping

of advances or loan as aid has been vivaciously addressed. The contention has, in any case, been made that loans may qualify as aid to the degree that they are 'delicate' regarding reimbursement and the pace of interest they draw in. Conversely, be that as it may, loans cease to be aid in the event that they are industrially inspired particularly for the advancement of the giver's advantages (Adedayo, 1999).

Foreign aid is the gifts of cash, products, or administrations starting with one country then onto the next. Such gifts can be made for a philanthropic, selfless reason, or to propel the public interests of the giving (Murshed & Khanaum, 2014). Aid can be between two (bilateral) or many (multilateral) nations/organizations. Bilateral aid is typically tied aid (conditional aid), is when beneficiaries should purchase products/ services from the contributor country. Multilateral aid is typically untied aid that can be spent in any area of the beneficiary country. Numerous investigations in the exact writing on the viability of foreign aid have attempted to evaluate if aid reaches its main objective, characterized as the advancement of financial turn of events and government assistance of agricultural nations (Sandrina, 2005). Then again, the act of borrowing creates debt or obligation. Debt or obligation in this way, alludes to the resources or assets of cash being used in an association which isn't contributed by its owners/proprietors and doesn't in some other route have a place with them, it's anything but a risk addressed by a monetary instrument of other proper same (Udoka & Ogege, 2012).

Aside foreign aid, external borrowing has additionally throughout the long term pulled in much worry as a significant part of any country's macroeconomic arrangement structure. A non-industrial nation wishing to assemble capital assets to cultivate monetary advancement may at one time or the other resort to borrowing (internally or externally) to enhance domestic savings. Soludo (2003), responding to this, believed that nations borrow for two broad reasons: macroeconomic reasons [higher venture, higher utilization (instruction and health)] or to back short lived equilibrium of installments shortfalls [to lower ostensible loan fees abroad, absence of homegrown long haul credit, or to evade hard financial plan constraints]. This proposes that economy enjoys obligation to boost economic growth and reduce poverty. He is likewise of the assessment that once an underlying load of obligation develops to a specific limit, servicing them becomes a burden, and nations end up on some unacceptable side of the obligation laffer bend, with obligation swarming out investment and growth. This is by all accounts the situation of Nigeria today since speculation, which will in like manner result to fast development with a constructive outcome on destitution, is moving irregularly in both positive and negative ways. Sanusi (2003) believed that a raising obligation profile presents genuine obstructions to a country's way to economic growth and development. The expense of adjusting public obligation (homegrown and outside) may develop past the restriction of the economy to adjust, in this way influencing antagonistically on the ability to achieve the ideal financial and money related approach destinations. Nonetheless, regardless of whether outer obligation would be advantageous to the acquiring country relies upon whether the acquired cash is utilized in the gainful fragments of the economy or for utilization (Ezenwa, 2012).

Statement of the Problem

The viability of foreign aid is the subject of much discussion being developed financial aspects. A few financial experts contend that aid does not increase economic growth rates or improve human development indicators (Boone, 1996). Others, actually, trust it does, particularly when the beneficiary nation carries out suitable strategies (Burnside & Dollar, 2000). Still others would contend, for instance, that the impacts of bilateral and multilateral aid are uniquely extraordinary – while one sort may promote growth and development, the other one may not (Ram, 2003; Cassen, 1994; Sender, 1999). In an investigation of Official Development Assistance (ODA) information from 1971 to 1990, (Boone, 1996) tracked down that most foreign aid altogether affected essential improvement estimates like newborn child mortality or

essential tutoring proportions, albeit some specific projects (immunization and research, for example) could be powerful. His outcomes suggest that most foreign aid is burned-through instead of contributed, and that is receipts increment the size of government without affecting wellbeing markers. These debilitating discoveries comprise, as Boone would like to think, solid proof of government disappointment, whose motivators to improve human development indicators are deficient, aid inflows regardless Nigeria, which was one of the most extravagant 50 nations in the mid-1970s, has retrogressed to get one of the 25 least fortunate nations at the edge of the twenty first century. Ironically, Nigeria is the 6th biggest exporter of oil and simultaneously has the third biggest number of destitute individuals after China and India (Igbuzor, 2006). Recent years have seen a flood in calls for more Official Development Assistance (ODA) to non-industrial nations including Nigeria, to dispense with destitution. Created nations, global associations and different Philanthropists have all made renewed supplications for a massive infusion of development aid to Nigeria. Specialists who contended for more aid are of the view that infusing more foreign aid would tangibly profit individuals of the beneficiary country.

As at today, the specific connection between external borrowing, foreign aid and economic development continues to be controversial. For liberal researchers, the connection between foreign aid and economic development is positive, however for more extreme components, the relationship between them is viewed as contradictory. For the former, foreign aid in whatever structure engenders the process of economic growth and development in the recipient economy by filling the gaps between available and needed resources (Ihinmodu, 1985) as referred to in (Omotola & Saliu, 2009). All the more earnestly, in the liberal practice, foreign aid is reputed for bridging the gaps in production, savings, investments, foreign exchange, technology and consumption, all of which have been identified as hampering development in developing countries (Todaro, 1977) as cited in Omotola & Saliu, 2009). Borrowing, specifically, has been credited with permitting 'a nation to invest and consume beyond the limit of current domestic production and, again finance capital formation *via* (a) mobilization of domestic savings and (b) tapping savings from capital surplus economies' (Temi, 1999) as cited in (Omotola & Saliu, 2009). It is against the background of the foregoing developments that this paper is conceived to ascertain the nexus between external borrowing, foreign aid and economic growth in Nigeria.

OBJECTIVES OF THE STUDY

The main objective of this study is to examine the nexus between the external borrowing, foreign aid and economic growth in Nigeria. The specific objectives are to:
1) Ascertain the relationship between external debts and economic growth in Nigeria.
2) Determine the relationship between foreign reserves and economic growth in Nigeria.
3) Examine the relationship between foreign aid and economic growth in Nigeria.
4) Investigate the relationship between openness of the economy and economic growth in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Framework

Economic Growth

This is the expansion in worth of the labour and products delivered by an economy (Nnubia et al., 2020). It is ordinarily assessed as the per cent pace of expansion in real Gross Domestic Product (GDP). GDP is the estimation of all market and some non-market products and ventures conveyed inside a country. All things considered, it is the most extensive proportion of a country's financial yield that is by and large assessed by factual offices.

The GDP per capita (GDP pc) is characterized as the GDP of a nation partitioned by its all-out populace that is the normal way of life particularly when communicated in buying power equality (Purchasing Power Parity - PPP). It is thusly seen as a rough indicator of a nation's prosperity. The GDP per utilized individual is the normal work profitability (Nnubia & Obiora, 2018). It gives an overall image of a nation's efficiency and worldwide seriousness. The growth rate of real GDP is the rate change in genuine GDP starting with one year then onto the next. For purposes of evaluating how economic growth can feed into economic development, focus is put on the growth rate of GDP per capita—that is, output per person—rather than simply on overall output. Solow (1957) contended that output could be created by a "production function," which is a numerical connection between different data sources and the degree of yield. The yield of an economy is communicated as an element of streams from every one of the various sorts of capital that make creation conceivable.

An economy's growth is estimated by the adjustment in the volume of its yield or in the genuine incomes of its inhabitants. The 2008 United Nations System of National Accounts offers three conceivable markers for computing development: the volume of Gross Domestic Product (GDP), real/genuine gross domestic income, and real gross national income. The volume of GDP is the amount of significant worth added, estimated at steady costs, by families, government, and businesses working in the economy. Gross domestic product represents all domestic production, whether or not the income builds to domestic or foreign organizations. In this investigation, economic growth is estimated by the Annual rate development pace of GDP at market costs dependent on steady neighborhood money. Totals depend on steady 2010 U.S. dollars. As earlier communicated, GDP is the measure of gross worth added by all occupant creators in the economy notwithstanding any item expenses and short any appropriations excluded from the estimation of the items (Nnubia et al., 2020). It is determined without making allowances for deterioration of manufactured resources or for consumption and debasement of regular assets.

External Borrowing/External Debt

This is estimated by the total external debt stocks to Gross National Income (GNI). Total external debt is debt owed to non-residents repayable in currency, goods, or services. Total external debt is the amount of public, openly ensured, and private nonguaranteed long haul obligation, utilization of IMF credit, and momentary obligation (short-term debt). Short-term debt incorporates all obligation having a unique development of one year or less and premium falling behind financially on long haul obligation. Gross National Income (GNI) (previously GNP) is the amount of significant worth added by all resident producers in addition to any product taxes (less subsidies) excluded from the valuation of yield in addition to net receipts of essential pay (remuneration of representatives and property income) from abroad.

Debt (loan), be it internal or external are ordered into two *i.e.,* profitable (productive) debt and extra (dead) weight debt. At the point when a credit or loan is gotten to empower the country purchase a type of resources, the debt is supposed to be beneficial e.g. cash acquired for obtaining factories, electricity, refineries and so on. In any case, debt embraced to back war and costs on current uses are extra weight obligations. At the point when a nation acquires an advance from abroad, it implies that the nation can import from abroad merchandise and enterprises to the estimation of the advance without simultaneously trading anything in return. At the point when capital and interest must be reimbursed, a similar nation should get the weight of trading products and administration without accepting any imports in return. These two sorts of obligation, nonetheless, necessitate that the borrowers' future investment funds should cover the premium and principal payment (obligation overhauling, *i.e.,* debt servicing). Hence, debt finance investment should be gainful and well oversee enough to acquire a pace of return higher than the expense of obligation adjusting (cost of debt servicing) (Ajayi & Oke, 2012) as refered

to in (Ugwuegbe, Okafor & Akarogbe, 2016). Nigeria in her urgent journey for cash to finance economic growth acknowledged foreign loans under severe conditions. In any case, these conditions like cheapening, among others scarcely improved Nigeria's capacity to pay the credit and came about to what in particular could be named as external debt crisis (Umaru, Hamidu & Musa, 2013).

As studies have appeared, there is a positive connection between external debt and capital flight, with negative ramifications for economic growth and development (Ajayi & Khan, 2000). For example, (Ugwuegbe, Okafor & Akarogbe, 2016) examines the effect of external borrowing and foreign financial aid (foreign grant) as true improvement help (ODA) on the development of the Nigerian economy over a time of a long time from 1980 to 2013 and tracked down that outer obligation has a positive and huge impact on economic growth in Nigeria.

Foreign Reserve

Total reserve is the per cent of total external debt. This is the international reserves to total external debt stocks. They are the resources hung on save by a national bank in foreign monetary standards. These reserves are utilized to back liabilities and impact money related approach. It incorporates any foreign cash held by a national bank. They are additionally called foreign currency reserves or foreign reserves. Foreign exchange reserves can incorporate banknotes, deposits, bonds, depository bills and other government securities. These resources fill numerous needs however are most essentially held to guarantee that a focal government organization has reinforcement reserves if their public money quickly degrades or turns into all together bankrupt. It is a typical practice in nations all throughout the planet for their national bank to hold a lot of reserves in their foreign exchange. The majority of these reserves are held in the U.S. dollar since it is the most traded currency in the world. It is not exceptional for the foreign exchange reserves to be comprised of the British pound (GBP), the euro (EUR), the Chinese yuan (CNY) or the Japanese yen (JPY) too. The business analysts speculate that it is smarter to hold the foreign exchange reserves in a currency that is not directly connected to the country's own currency in order to provide a barrier should there be a market shock. Be that as it may, this training has gotten more troublesome as monetary standards have gotten more entwined as worldwide exchanging has gotten simpler.

A few examinations have shown that reserves aggregation has both economic and social costs, including opportunity cost emerging from low profits from reserve assets, misfortunes because of save cash devaluation, and done without gains from speculation and social uses that could be financed by these reserves. The costs might be important to such an extent that they subvert economic output (monetary yield) in which the reserves gathering gets hostile to overall growth (Rodrik, 2006; Adam & Léonce, 2007). Different examinations have contended that external reserves gathering have been instrumental to growth execution of countries as such reserves are utilized to back exchange needs, mediate in foreign exchange markets, upgrade credit value, promote wealth accumulation, create buffer against external shocks and settle in the validity of financial strategy (Yeyati, 2006; Cave & Jones, 1973; Obaseki & Bello, 1996; Ogwumike, 2001; Abeng, 2007). For most normal asset invested arising economies, a repetitive macroeconomic arrangement question identifies with the degree to which their external reserves management strategies should plan to promote growth or upgrade government assistance. Ozan & Oguzoglu (2021) examined the connection between the degree of international reserves and economic growth for an example of 120 created and non-industrial countries for the time frame 1981–2010. Utilizing dynamic panel data techniques and controlling for a wide scope of covariates, they track down that global reserves positively affect growth. Besides, the impact debilitates as the opportunity cost of holding reserves increases. Eniekezimene & Apere (2016) uncovered that there is a negative connection between External Reserve (EXR) and Real Gross Domestic Product (RGDP) in the short run, External reserve is genuinely huge over the long

haul, and that Nigerian's external reserve has not been directed to support economic growth in the previous years.

Foreign Aid

Foreign aid is alluded to as international aid or overseas aid, is the assistance, mostly economic, which might be given to communities or nations in the event of a humanitarian crisis or to accomplish a financial (socioeconomic) target. Humanitarian aid is accordingly principally utilized for emergency relief, while development aid otherwise called Official Development Assistance (ODA) intends to create long-term sustainable economic growth. This exploration considers aid as Official Development Assistance (ODA), characterized as government aid to non-industrial nations intended to advance the financial turn of events and government assistance of beneficiary nations. Advances and credits for military intentions are barred. The aid might be given bilaterally, from giver to beneficiary, or it very well might be directed through a multilateral development agency like the United Nations or the World Bank. Aid includes grants, "soft" loans, and the provision of technical assistance.

Net Official Development Assistance (ODA) comprises of distributions of credits made on concessional terms (net of repayments of principal) and grants by official agencies of the individuals from the Development Assistance Committee (DAC), by multilateral foundations, and by non-DAC nations to advance financial turn of events and government assistance in nations and regions in the DAC rundown of ODA beneficiaries. It incorporates credits with a grant element of in any event 25% (determined at a pace of markdown of 10%). Net official aid refers to aid streams (net of reimbursements) from true benefactors to nations and territories in part II of the DAC rundown of beneficiaries: further developed nations of Central and Eastern Europe, the nations of the previous Soviet Union, and certain high level agricultural nations and regions. Official aid is given under terms and conditions like those for ODA.

In the study of (Burnside & Dollar, 2000), it was observed that aid decidedly affects economic growth in agricultural nations with great monetary, money related and exchange approaches, yet is somewhat ineffectual when policies are poor. They decipher foreign aid as an income transfer, which can be contributed to produce growth, or scattered in useless government consumption. Their discoveries show that single direction to expand the adequacy of aid is to make it all the more methodically restrictive on the nature of the beneficiary nations' approaches. Ram (2003) censures their approach and contends against obliging the regression coefficients of bilateral and multilateral aid to be equivalent, as Burnside and Dollar have done. He finds that, if the coefficients for the impacts of bilateral and multilateral aid on economic growth rates are discrete and unconstrained, the estimated parameters change fundamentally. The bilateral aid parameters are assessed to be positive, though the assessed impact of an increment in multilateral aid is negative. Both parameters are sizeable, recommending that there is an emotional distinction between the impacts of the two aid components on growth rates. These inconsistent impacts of bilateral and multilateral development assistance could not have been gotten by (Burnside & Dollar, 2000), as their regression condition expected that the impacts of aid did not vary across the two classifications. Ram recommends that the constructive outcomes of bilateral aid on growth get from a superior comprehension by the contributors of the beneficiaries' necessities. He alludes to (Cassen, 1994) who contends that particular specialized ability, semantic and individual affinities, comparable institutional constructions, long-standing business association, and the capacity to deliver.

Openness of the Economy

Economic openness, in political economy, the degree to much nondomestic transactions (imports and exports) occurs and influences the size and growth of a national economy. The

level of openness is measured by the actual size of registered imports and exports within a national economy, otherwise called the Impex rate. The contemporary exertion to make it simple to trade merchandise and ventures, work data, capital, and thoughts across the boundaries is known as trade openness. The primary point is to incorporate social orders and economies at worldwide level. Trade openness has helped movement of resources/assets from creating to created economies and improved mechanical headway. As of late, world economies are reaping fruits (Benefits of) of trade openness because of the dispersion and ingestion of innovation. Progress of correspondence and transportation has rediscovered the chances at worldwide level and distinguish new global business sectors for trade of merchandise and ventures. Openness allows Foreign Direct Investment (FDI) in host country which encourages to economic growth by supplementing domestic capital, boosting productivity, redefining the concept of economic efficiency, and bringing the world together.

The connection between trade openness and economic growth is likewise a broadly explored in applied financial matters. The hypothetical system that officially relates openness to trade to economic growth is given by (Grossman & Helpman, 1991). In this structure, trade openness is viewed as positively affecting economic growth by facilitating technology spill overs, which, thus, would build worldwide seriousness, profitability, and fare incomes. Other hypothetical clarifications recommend that trade openness may negatively affect economic growth, particularly on account of low income nations. Moreover, this elective view depends on the possibility that the underlying attributes of low- income agricultural nations will in general opposite the terms of exchange in a tough spot.

Hypothetically, (Vlastou, 2010) was of opinion that the causality between openness to trade and economic growth can run both directions. Experimental proof shows that the connection between trade openness on economic growth remains to be uncertain outcome; the writing is brimming with blended discoveries. Studies like (Oskooee & Niroomand, 1999; Edwards, 1992) tracked down a positive effect of trade openness on economic growth, while others discovered inconsequential effect of trade openness on economic growth (Harrison & Hanson, 1999). Likewise, (Vlastou, 2010) in a new report focusing on the connection between trade openness on economic growth in 34 African nations over the time frame 1960 and 2003, he found that openness to trade adversely affects economic growth. He additionally tracked down that the causality runs from openness to economic growth, and not the other way. Khalid (2016) dissecting the effect of trade openness on economic growth in the instance of Turkey, applied the ARDL model to analyze for a short and long run relationship between trade openness and economic growth over the example time frame 1960 - 2014. The investigation affirms co-integration among the series; and stated that in the short run, trade openness promotes economic growth; while over the long haul this relationship doesn't exist. Besides, the outcomes allude that over the long haul this relationship is positive and genuinely inconsequential.

Theoretical Framework

Debtcum-Growth Model

This model expresses that in order for debt accumulation to be sustainable, growth rate of external debt must not be higher than that of domestic output, export or tax revenues. All in all the proportion of external debt stock to domestic output ought to either stay consistent or decline after some time (Darryl, 2011). This hypothesis considers external debt as a substitute for domestic savings and investment and along these lines domestic savings and investment are packed out accordingly (Krugman, 1988; Alesina & Tabellini, 1990) as cited to in (Udoka & Ogege, 2012). This reasoning is that the profits from putting resources into a nation are viewed as being exposed to a high minimal assessment by lenders and this may discourage domestic and foreign investors.

Harrod-Domar Model

The Harrod-Domar model was grown autonomously by Sir (Harrod, 1939; Domar, 1946). It is a growth model which expresses that the pace of economic growth in an economy is subject to the degree of saving and the capital yield proportion. On the off chance that there is an undeniable degree of saving in a country, it provides funds for firms to borrow and invest. Investment can build the capital supply of an economy and create economic growth through the expansion underway of products and ventures. The capital yield proportion estimates the efficiency of the venture that happens. On the off chance that capital yield proportion diminishes the economy will be more beneficial, so higher amounts of output are generated from fewer inputs. This once more, prompts higher economic growth. The model recommends that if agricultural nations need to accomplish economic growth, governments need to empower saving, and support technological advancements to diminish the economy's capital yield proportion.

The Two Gap Model

The standard model used to legitimize aid was the 'two gap model' of (Chenery & Strout, 1966). In this model the main gap is between the amount of investment necessary to achieve a specific pace (rate) of growth and the accessible domestic savings (the saving gap). The second gap is the trade gap or foreign exchange gap. This happens when there is a gap between import necessities for a given degree of production and foreign exchange earnings. Despite the fact that the saving investment gap would be little, a larger trade gap would subvert gainful venture because of restricted imports of capital merchandise required for venture. It is contended that at any moment in time one gap is restricting in aid beneficiary nations accordingly foreign aid is needed to fill that aid. The 'two gap model' upholds the hypothesis of investment-limited growth based on the Harrod-Domar model which expects a particular amount of investment to increase growth (Conchesta, 2008).

The Three Gap Model

This model is a mix of the reserve funds-investment gap, trade gap and fiscal gap. The financial (fiscal) gap which is regularly called "a structural deficit" by budget watchers-implies that typical revenue growth isn't sufficiently high to fund the normal growth of expenditures over the long haul. Henceforth to praise government financial plan, there is need for external resources to bridge this gap.

Review of Empirical Studies

Foreign Aid and Economic Growth

Agunbiade & Mohammed (2018) investigated into the effect of Foreign Aid (FA) on the Economic Development in Nigeria from 1986 – 2016. The examination utilized secondary data and evaluated past works done in the area for information gathering. They utilized Vector Error Correction Model (VECM), after unit root test and Johansen co-integration test of the arrangement were completed. The investigation discovered that Foreign Aid Flow (FAF) in Nigeria is decidedly identified with Gross Domestic Product (GDP), yet anyway inconsequential. That is, it doesn't make sway on the economy to be felt by individuals.

Biscaye, Reynolds & Anderson (2016) inspected 45 papers that exactly test the relationship among bilateral and multilateral aid flows and various development outcomes

including gross domestic product growth, governance indicators, human development indicators and levels of non-aid investment flows. Discoveries propose that contrasts among nations and districts, time spans, aid targets, and individual giver associations all may impact the viability of aid conveyed bilaterally and multilaterally. They find, nonetheless, no steady proof that either bilateral or multilateral aid is more viable generally speaking.

Ighodaro & Nwaogwugwu (2013) inspected the effectiveness of foreign aid to the growth of the agricultural sector in Nigeria utilizing the ARDL and the ECM approach and quarterly information covering the time frame 1981 to 2009. While every one of the factors utilized were discovered to be I(I), four co-integration connections exist between the reliant and the autonomous factors. As opposed to assumption, the boundary gauge of foreign aid has a negative and irrelevant relationship with agricultural output in the short and long run. Actually, reserve funds and innovative pattern are critical and have positive relationship with agricultural output both in the short run and long run.

Bashir (2013) analyzed the effect demanded by foreign assistance in the form of Official Development Assistance (ODA) and Foreign Direct Investment (FDI) on real growth in Nigeria over the time frame 1980 to 2011. Utilizing the Two-Gap model and different econometric strategies which incorporate Augmented Dickey Fuller (ADF) test, Granger causality test, Johansen co-integration test and Error Correction Method (ECM), observational outcomes uncover that there is Granger no-causality between any pair of the factors. Discoveries of the investigation additionally settled a negative connection among FDI and real growth as ODA demands no effect on real growth in the country.

Fasanya & Onakoya (2012) examined the effect of foreign aid on economic growth in Nigeria during the time of 1970-2010. The exact investigation lays on the neo-traditional demonstrating insightful system and consolidated a few methodologies in present day econometric examination/assessment strategies. Their discoveries show that aid flows essentially affects economic growth in Nigeria: home-grown (domestic) venture expanded because of aid flows and populace development has no critical impact on aid flows. Aid flows likewise gives free assets to expand home-grown venture, in this manner affirming the aid-policy growth hypothesis.

External Borrowing and Economic Growth

Eniekezimene & Apere (2016) analyzed External Reserve Management and Economic Growth in Nigeria. Time arrangement information for 34 years was utilized. Ordinary Least Square of the econometric exploration strategy was utilized to examine and gauge the model. The reliant variable in the model is Real Gross Domestic Product, while the autonomous factors are: External Reserve and Exchange Rate. It was uncovered from the examination that: there is a negative connection between External Reserve (EXR) and Real Gross Domestic Product (RGDP) in the short run, External reserve is measurably huge over the long haul, and that Nigerian's external reserve has not been diverted to help economic growth in the previous years.

Umaru, Hamidu & Musa (2013) researched the effect of external debt and domestic debt on economic growth in Nigeria from 1970 – 2010 through the use of the O.L.S technique. While the causality test uncovered a bi-directional causation between external debt and GDP, no causation existed between domestic debt and GDP just as no causation between external debt and domestic debt. The O.L.S strategy likewise uncovered that external debt had an adverse consequence on economic growth while domestic debt has affected emphatically.

An examination directed by (Ajayi & Oke, 2012) on the impact of external debt on economic growth and development of Nigeria utilizing the ordinary least square regression method uncovered that external debt affected decidedly on the growth and development of Nigeria inside the time frame under survey. A comparative report by (Ishola, Olaleye, Ajayi &

Giwa, 2013) for the time frame 1980 – 2010 utilizing O.L.S regression method shows that external debt doesn't in any capacity help the Nigerian economy.

Egbetunde (2012), utilizing the granger causality test on public debt and economic growth in Nigeria for the time frame 1970 – 2010 recommend that improvement in economic exercises call for borrowing to upgrade on-going development processes in the economy. This is because of the way that his outcome uncovers that there exist bi-directional causality between external debt and economic growth just as domestic debt and economic growth.

External Borrowing, Foreign Aid and Economic Growth

Ugwuegbe, Okafor & Akarogbe (2016) analyzed the impact of external borrowing and foreign financial aid (foreign grant) in the form of Official Development Assistance (ODA) on the growth of the Nigerian economy over a time of 34 years from 1980 to 2013. Yearly time arrangement information was acquired from the Central Bank of Nigeria (CBN) statistical bulletin and Organization for Economic Cooperation and Development (OECD's on the web). The examination utilized Ordinary Least Square procedure (OLS), multiple regression models in deciding the causal-impact between the factors under investigation. The test for Unit Root was led utilizing Augmented Dickey-Fuller (ADF), Johansen Co- integration test was utilized to decide the long-run connection between the factors (variables) and Error Correction Method (ECM) was embraced to assist us with deciding the speed of change. The outcomes show that while external debt has a positive and huge impact on economic growth, foreign aid in congruity with the deduced assumption is decidedly identified with GDP too however genuinely immaterial.

Mba, Bell-Gam & Ubi (2012) examined the interchange of foreign aid, external debt and economic growth. Given the probable concurrence between foreign aid, external debt and economic growth, they utilized the apparently irrelevant regression assessment model to look at the interaction between these factors utilizing Nigerian information. They tracked down that foreign aid decidedly affects growth and that external debt adversely affects economic growth in Nigeria. A curiosity in this investigation is that there is proof of complex interaction between the degree of external debt and aid inflows.

Oayyum & Haider (2012) experimentally inspected the effect of external debt and foreign aid on economic growth by mulling over the nature of establishment as far as successful administration. Yearly information for the period 1984 to 2010 has been taken from a board of sixty non-industrial nations. Experimental outcomes show that the great administration and foreign aid influence the economic growth decidedly while that of external debt has an adverse consequence. These outcomes are vigorous for different elective determinations.

METHODOLOGY

Research Design

This examination applied ex-post facto research plan. The ex-post facto arrangement was applied on the reason that it doesn't offer the examination a chance to control the variables generally since they have as of late happened and can't be influenced. It figures the effect of a treatment (*i.e.,* an illustrative variable or an independent variable) on a result (*i.e.,* a reaction variable or ward variable) by comparing the normal variety over the long run in the result variable for the treatment bunch, compared to the normal variety over the long haul for the gathering.

The examination applied secondary data gotten from National Bureau of Statistics, Central Bank of Nigeria publications (Various Years), and International Monetary Fund Balance of Payments database. These data were time arrangement information covers the time frame

from 1986 to 2016. This period is picked as it relates to the time frame where uniform and reliable information on the applicable factors are accessible.

In dissecting the information assembled, regressions of ordinary least square technique was utilized to decide the exact impact of logical factors on subordinate variable. Pearson Correlation Matrix was additionally received to analyse the nexus between the external borrowing, foreign aid and economic growth in Nigeria.

Model Specification & Operationalization of Dependent & Independent Variables

This work adopted and modified the econometric model of Udoka and Ogege (2012) as follows:
$(L)GDP=b_0+b_1FR(L)+b_2DSK(L)+b_3FRINV(L)+b_4DSP(L)+b_5OPEN(L)+b_6POL(L)+\mu t$ ……
……………………………………(1)
Where:
FR= foreign reserve
DSK= total debt stock
FRINV= foreign investment
DSP= debt service payment
OPEN=openness of the economy (total trade/GDP ratio)
POL=political instability
μ=stochastic error term

The model for this investigation is prefaced on the principal objective and tied down on the sub-objective. The functional relationship between external borrowing, foreign aid and economic growth in Nigeria are expressed thus:
$GDP=f(EXD, FRS, FAD(L), OPN)$...(2)
Explicitly the above equation can be stated thus:
$GDP=a+\beta_1EXD+\beta_2FRS+\beta_3FAD(L)+\beta_4OPN+\mu$ .... (3)
Where:
GDP=Gross domestic product
EXD=External debts
FRS=Foreign reserves
FAD(L)=log of foreign aids
OPN= openness of the economy (total trade/GDP)
μ =Error term
β_0=Intercept
β_1-β_4=the independent variable co-efficient

DATA PRESENTATION, ANALYSIS, INTERPRETATION AND DISCUSSIONS OF RESULTS

Introduction

The factors utilized in this investigation as determined in the model details are economic growth (proxied by Gross Domestic Product - GDP), External Debts (EXD), Foreign Reserves (FRS), Foreign Aids (FAD) and Openness of the Economy (OPN). The assessment was upheld utilizing regression of Ordinary Least Square (OLS) Method and Pearson Correlation Matrix, through the assistance of E-view 8. The rundown of the examination result and its comparing understandings of the nexus between the external borrowing, foreign aid and economic growth in Nigeria follow the presentation of data.

Data Presentation

				Table 1			
				TREND DATA ANALYSIS OF THE EXTERNAL BORROWING, FOREIGN AID AND ECONOMIC GROWTH INDICATORS			
Year	GDP	EXD	FRS	FAD	IMPT	EXPT	OPEN
1986	0.06	41.62	5.16	$58,120,000	5.9836	8.9206	0.000978095
1987	3.20	57.73	3.15	$67,620,000	17.8617	30.3606	0.003159232
1988	7.33	60.29	6.78	$118,080,000	21.4457	31.1928	0.00324621
1989	1.92	71.86	12.34	$344,000,000	30.8602	57.9712	0.005136343
1990	11.78	65.41	13.95	$255,080,000	45.7179	109.8861	0.008060032
1991	0.36	71.85	4.12	$258,320,000	89.4882	121.5354	0.010991351
1992	4.63	64.71	5.34	$258,820,000	143.151	205.6117	205.6117
1993	-2.04	120.84	4.98	$288,420,000	165.629	218.7701	0.019289407
1994	-1.81	105.12	5.01	$189,660,000	162.789	206.0592	0.018461684
1995	-0.07	81.48	13.78	$210,960,000	755.128	950.6614	0.083809396
1996	4.20	64.32	27.33	$188,750,000	562.627	1309.5434	0.088401996
1997	2.94	54.51	24.08	$199,840,000	845.717	1241.6627	0.095799262
1998	2.58	58.55	19.42	$203,340,000	837.419	751.8567	0.071163075
1999	0.58	50.25	31.20	$151,990,000	862.516	1188.9698	0.091382615
2000	5.02	51.14	33.89	$173,800,000	985.022	1945.7233	0.123721321
2001	5.92	44.92	23.81	$167,820,000	1358.18	1867.9539	0.127678987
2002	15.33	35.59	20.20	$299,550,000	1512.7	1744.1777	0.11247014
2003	7.35	37.75	43.25	$309,850,000	2080.24	3087.8864	0.162983792
2004	9.25	31.53	111.17	$578,770,000	1987.05	4602.7815	0.188170417
2005	6.44	15.82	444.36	$6,401,790,000	2800.86	7246.5348	0.268109625
2006	6.06	4.16	427.41	$11,431,960,000	3108.52	7324.6806	0.260859362
2007	6.59	4.60	408.25	$1,958,600,000	3911.95	8309.7583	0.284739625
2008	6.76	4.08	285.47	$1,293,720,000	5593.18	10387.694	0.347315862
2009	8.04	5.75	231.75	$1,639,230,000	5480.66	8606.3197	0.282552781
2010	8.01	4.50	205.31	$2,052,360,000	8163.97	12011.476	0.369430710
2011	5.31	4.56	262.30	$1,809,860,000	10995.9	15236.666	0.4561310962
2012	4.23	4.15	218.76	$1,916,170,000	9766.56	15139.326	0.415583710
2013	6.67	4.32	151.47	$2,515,720,000	9439.42	15262.014	0.390729740
2014	6.31	4.50	100.98	$2,478,600,000	10538.8	12960.493	0.349937702
2015	2.65	5.97	91.31	$2,431,540,000	11076.1	8845.1588	0.288613801
2016	-1.62	7.75	101.83	$2,498,190,000	9480.37	8835.6119	0.269625314

This table analyzes the nexus between the external borrowing, foreign aid and economic growth in Nigeria (1986 - 2016).

DATA ANALYSIS

		Table 2			
		DESCRIPTIVE STATISTICS			
VARIABLES	GDP	EXD	FRS	FAD	OPN
Mean	4.644516	39.98806	107.6826	1.38E+09	6.800330
Median	5.020000	41.62000	31.20000	3.00E+08	0.127679
Maximum	15.33000	120.8400	444.3600	1.14E+10	205.6117
Minimum	-2.04	4.080000	3.150000	58120000	0.000978
Std. Dev.	3.962329	32.72357	135.7625	2.29E+09	36.89811
Skewness	0.344701	0.505962	1.317916	3.139387	5.294524
Kurtosis	3.275766	2.534958	3.535822	13.53817	29.03246
Jarque-Bera	0.712125	1.601994	9.344843	194.3649	1020.180
Probability	0.700429	0.448881	0.009350	0.000000	0.000000
Sum	143.9800	1239.630	3338.160	4.28E+10	210.8102

Sum Sq. Dev.	471.0016	32124.96	552943.9	1.58E+20	40844.11
Observations	31	31	31	31	31

Source: Author's computation with E-view 8

Table 2 above shows the mean (average) for each variable, their maximum values, minimum values, standard deviation. The result provides some insight into the nature of the data used for the study. Firstly, it was observed that over the period under review, the GDP have positive average of 4.644516. This means that the GDP (Economic growth) are positive in the period of the study. The table also reveals that a positive average value of 39.98806 for External Debts (EXD), 107.6826 for foreign reserves (FRS), 1.38E+09 for foreign aid (FAD), and 6.800330 for openness of the economy (OPN) for the selected period of the study. These values mean that within the period under review, Nigerian Economy meet up to 4.644516 on the average. The maximum value of EXD is 120.8400 and its minimum value is 4.080000, maximum value for FRS is 444.3600 and its minimum value is 3.150000; maximum value for FAD is 1.14E+10 and its minimum value is 58120000; maximum value for OPN is 205.6117 and its minimum value is 0.000978. The large differences between the maximum and minimum value shows that the data used for the study are homogeneous.

Table 3 CORRELATION MATRIX					
VARIABLES	GDP	EXD	FRS	FAD	OPN
GDP	1.000000	-0.44201	0.284614	0.135413	0.000444
EXD	-0.44201	1.000000	-0.71204	-0.53005	0.136887
FRS	0.284614	-0.71204	1.000000	0.773536	-0.13713
FAD	0.135413	-0.53005	0.773536	1.000000	-0.08875
OPN	0.000444	0.136887	-0.13713	-0.08875	1.000000

Source: Author's computation with E-view 8

The correlation matrix is to check for multi-colinearity and to explore the association between each explanatory variable and the dependent variable. The findings from the correlation matrix table (table 3 above) show that gross domestic product (GDP) has a positive association with FRS (0.284614), FAD (0.135413) and OPN (0.000444) respectively; and negatively associated with EXD (-0.442013). External debt (EXD) has a negative association with FRS (-0.712043) and FAD (-0.530053); and also has a positive association with OPN (0.136887). Foreign reserve (FRS) has a positive association with FAD (0.773536) and a negative association with OPN (-0.137132). Foreign aid (FAD) has a negative association with OPN (-0.088747). In checking for multi-colinearity, the study observed that no two explanatory variables were perfectly correlated.

Table 4 REGRESSION RESULTS				
Dependent Variable: GDP				
Method: Least Squares				
Date: 04/07/21 Time: 21:09				
Sample: 1986 2016				
Included observations: 31				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.084218	1.961445	3.611734	0.0013

EXD	-0.058433	0.030044	-1.944921	0.0627
FRS	0.002792	0.009692	0.288075	0.7756
FAD	-3.26E-10	4.74E-10	-0.687625	0.4978
OPN	0.006751	0.018873	0.357695	0.7235
R-squared	0.721499	Mean dependent var		4.64452
Adjusted R-squared	0.709422	S.D. dependent var		3.96233
S.E. of regression	3.771039	Akaike info criterion		5.63927
Sum squared resid	369.7392	Schwarz criterion		5.87056
Log likelihood	-82.40866	Hannan-Quinn criter.		5.71466
F-statistic	1.780189	Durbin-Watson stat		1.52733
Prob (F-statistic)	0.163137			

Source: Author's computation with E-view

Interpretation of Findings

- From the result of the analysis presented in table 4, External debts (EXD) have negative effect on Economic Growth (GDP). This is shown by a regression coefficient of -0.058433 and it is statistically insignificant at 5%. Though, it is statistical significant at 10%. This implies that increase in external debts of a country is detrimental to the economic growth of the country.
- Foreign Reserves (FRS) have positive effect on Economic Growth (GDP) as indicated by a coefficient of 0.002792 and it is statistically insignificant at 5% level. This shows that the management of foreign reserves helps to increase the economic growth of the country.
- Foreign Aids (FAD) have negative effect on Economic Growth (GDP). This is indicated by a regression coefficient of -3.26E-10. The effect is statistically insignificant at 5%. This means that the increase in Foreign Aids is highly detrimental to the economic growth of the country.
- Openness of the Economy (OPN) has positive effect on Economic Growth (GDP) as indicated by a coefficient of 0.006751 and it is statistically insignificant at 5% level. This means that the increase in openness of the economy brings about increased economic growth of the country.

Conclusively, table 4 shows that the relationship existing between the dependent and independent variables are stated thus:
GDP=7.084218 - 0.058433EXD+0.002792FRS - 3.26E-10FAD+0.006751OPN
From the two results, this means that Foreign Reserves and Openness of the Economy variables conform to a priori expectation. Their coefficients of 0.002792 and 0.006751 indicates that economic growth of the country (GDP) will rise by 0.002792 and 0.006751 units if proper managed and will increase by 0.28% and 0.68% respectively, ceteris paribus. These findings were in line with the findings of Agunbiade & Mohammed (2018) that revealed positive insignificant relationship between GDP. On the contrary, External debts and Foreign Aids variables of coefficients of -0.058433 and -3.26E-10 indicate that economic growth of the country (GDP) will dwindle by 5.84% and 326% respectively. These findings were in line with the findings of (Umaru, Hamidu & Musa, 2013; Ighodaro & Nwaogwugwu, 2013) respectively (Table 5).

Table 5 SUMMARY OF REGRESSION RESULT				
Variables	Coefficients	P-value	Decision Rule	Conclusion
External Debts	-0.058433	0.0627	P-value > 0.05	Insignificant
Foreign Reserves	0.002792	0.7756	P-value > 0.05	Insignificant
Foreign Aids	-3.26E-10	0.4978	P-value > 0.05	Insignificant
openness of the economy	0.006751	0.7235	P-value > 0.05	Insignificant

Source: Extract from Regression Estimation Result (table 4)

Hypotheses Testing

For proper test, the hypotheses were restated in null form as follows:

Hypothesis 1:

H0: External debts do not have positive significant relationship with economic growth in Nigeria.

Drawing inference from table 5 above, external debts have negative coefficient of -0.058433 with p-value of 0.0627 which is statistically insignificant at 5% level. Thus, we accept the null hypothesis and reject the alternative. Therefore, external debts have negative insignificant effect on economic growth as well as, showing insignificant negative relationship with economic growth in Nigeria.

Hypothesis 2:

H0: Foreign reserves do not have positive significant relationship with economic growth in Nigeria.

Drawing inference from table 5 above, foreign reserves have positive coefficient of 0.002792 and the p-value is 0.7756, it is statistically insignificance at 5% level. Thus we reject the alternative hypothesis and accept the null and conclude that, foreign reserves have positive insignificant effect on economic growth as well as, showing insignificant positive relationship with economic growth in Nigeria.

Hypothesis 3:

H0: Foreign aid does not have positive significant relationship with economic growth in Nigeria.

Drawing inference from table 5 above, foreign aid has a negative coefficient of $-3.26E-10$ with p-value of 0.4978 which is statistically insignificant at 5% level. Thus, we accept the null hypothesis and reject the alternative. Therefore, foreign aid has a negative insignificant effect on economic growth as well as, showing insignificant negative relationship with economic growth in Nigeria.

Hypothesis 4:

H0: Openness of the economy does not have positive significant relationship with economic growth in Nigeria.

Drawing inference from table 5 above, openness of the economy has a positive coefficient of 0.006751 and the p-value is 0.7235, it is statistically insignificance at 5% level. Thus we reject the alternative hypothesis and accept the null and conclude that, openness of the economy has a positive insignificant effect on economic growth as well as, showing insignificant positive relationship with economic growth in Nigeria.

DISCUSSION OF FINDINGS

The result is compared with a priori expectation and with prior research findings, and our personal contribution is stated.

From the GDP Model

- External debts have negative coefficient of -0.058433 indicating a negative relationship with economic growth (GDP); this is in agreement with the a priori expectation of external debts. The finding concurs with that of (Umaru, Hamidu & Musa, 2013) which revealed that external debt possessed a negative impact on economic growth. These findings were also in variance with the findings of (Ugwuegbe, Okafor & Akarogbe, 2016) which stated that external debt has a positive and significant effect on economic growth.
- Foreign reserves have positive coefficient of 0.002792 showing a positive relationship with economic growth (GDP), which is in conformity with the a priori expectation of foreign reserves. The result showed consistency with the earlier findings of (Agunbiade & Mohammed, 2018) that stated positive insignificant relationship between saves and GDP.
- Foreign aid has a negative coefficient of -3.26E-10 indicating a negative relationship with economic growth (GDP); this is in agreement with the a priori expectation of foreign aid. The finding concurs with that of (Ighodaro & Nwaogwugwu, 2013; Bashir, 2013) which found that foreign aid has a negative and insignificant relationship with Economic growth. The findings were also against the findings of (Agunbiade & Mohammed, 2018; Ugwuegbe, Okafor & Akarogbe, 2016) which found that foreign aid has positive relationship with the economic growth (GDP).
- Openness of the economy (OPN) has a positive coefficient of 0.006751 showing a positive relationship with economic growth (GDP), which is in conformity with the a priori expectation of openness of the economy. The result showed consistency with the earlier findings of (Agunbiade & Mohammed, 2018) that revealed positive insignificant relationship between OPN and GDP.

Implications of Findings

1) External debts have negative effect showing that it dwindles economic growth (GDP). This may be as a result of the reduced resources available for investment due to debt servicing and the high cost of capital because of higher interest rates, which may lead to lower investment at the private sector.
2) Foreign reserves have positive influence indicating that an increase in foreign reserves would naturally lead to currency appreciation, permanent decline of consumption, depreciation of real exchange rate, and temporal improvement of current account. This suggests that the increase in foreign exchange reserves causes the growth of GDP.
3) Foreign aid has a negative effect showing that increased of foreign aid led to an economic growth decreased. This may be as a result of aid dependency, bad economic management of the recipient countries, corruption and poor coordination and cooperation among aid agencies.
4) Openness of the economy has a positive effect and these findings indicated that in the long run, trade openness can potentially enhance economic growth by providing access to goods and services, achieving efficiency in the allocation of resources and improving total factor productivity through technology diffusion and knowledge dissemination.

CONCLUSION AND RECOMMENDATION

The estimated result on the nexus between the external borrowing, foreign aid and economic growth in Nigeria with focus on the GDP as a proxy for the economic growth; we found that the regression coefficient of Foreign reserves and Openness of the economy are positive indicating that they positively influence economic growth (GDP) during the period studied. However, External debts and Foreign aid are detrimental to the economic growth. Based on the findings, the study concluded that external borrowing and foreign aid had relationship with economic growth in Nigeria. Although, economic growth could not grow or perform as expected due to the reduced resources available for investment (due to debt servicing and the high cost of capital); and bad economic management of the recipient countries, corruption and poor coordination. Trade openness can potentially enhance economic growth by providing access to goods and services, achieving efficiency in the allocation of resources and improving total factor productivity through technology diffusion and knowledge dissemination.

In line with the findings of the study, the study recommends that:

- Nigeria Government should be mindful of the high cost of capital and move from the practice of external borrowing. They should set a platform where the reserve of the country can be used for infrastructural development in order to support economic growth and that in order to reduce the cost of capital of external borrowing when making decision as regards to external borrowing since it has negative effect on economic growth. Caution should also be taken as regards to external debts because it reduced resources available for investment due to debt servicing.
- Foreign Reserves (FRS) have positive relationship with Gross Domestic Product (GDP). Thus, major policy implication of the result is that improved foreign reserves are imperative to the increase in economic growth rather than encourage foreign aid for economic growth in Nigeria. Government should consider formulating fiscal policy that will boost level of the country's reserves since it is favourable to the economy.
- Corruption of the foreign aid regime by both internal and external actors has been compounded by the recent global economic crisis, posing further constraints on the effectiveness of foreign aid in Nigeria. Therefore, if foreign aid must yield the desired result, it has to be accompanied by a sustainable campaign to fundamentally reform the world order to make it more equitable, together with a drive for good governance that is not only democratic, but also efficient and development-oriented in Nigeria. Donors should also provide information on future aid disbursements in order to reduce the uncertainty associated with aid flows and improve fiscal planning.
- Openness of the economy has a positive insignificant relationship with Gross Domestic Product (GDP) at 5% level. This implies that export and import as regards to GDP is beneficial to Nigeria, though it has not been much felt. We therefore recommend for policy implication of improving openness of the economy since it is favorable to economic growth in Nigeria.

The essence of this research work is to make contributory impact to knowledge and to extend or validate the wisdom of mankind. Therefore, this study has contributed to knowledge in the following ways:

I. It has shown the possible combination of external borrowing and foreign aid indicators.
II. The work provides additional literature for further research in external borrowing, foreign aid and economic growth.
III. The study covered knowledge gap by extending the period of studies captured up to 2016 starting from 1986 and has put the research in the Nigerian context using indicators such as external debts, foreign reserves, foreign aid and openness of the economy. The study also extended the knowledge from the findings of Ugwuegbe, Okafor & Akarogbe (2016) and also validated the study of Agunbiade & Mohammed (2018); Hamidu & Musa (2013); Ighodaro & Nwaogwugwu (2013); Bashir (2013).

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