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Research Article

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Foreign Aid and African Development: Lessons from Nigeria

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Abstract

The interdependence of developing countries necessitates the granting of aid to needy countries. However, analysts have diverse opinions about factors responsible for the underdevelopment of Africa. Many assumed that the underdevelopment and dependency situation of most African countries on foreign aid are due to poor leadership, mismanagement of national resources and elevation of personal aggrandizement and primordial interest over and above national interest. The neo-Marxist scholars, on the other hand, submitted and insisted that what propelled the development of developed countries are also the same factors that facilitated the underdevelopment of developing countries. These factors are: colonialism, slave trade, and unequal exchange. This paper adopts dependency theory in analyzing the implication of foreign aid on the economies of developing world.

Keywords: Foreign aid, Development, Dependency

Conceptual Clarifications

Aid is used to represent financial transactions made or guaranteed by one government to another. Indeed, foreign aid has become a major issue and instrument of foreign policy by advanced economies to strengthen their economic ties with the developing countries. Aid according to Ajayi [1] is a form of assistance by a government or financial institution to other needy countries, which could be in cash or kind.

The establishment of aid was one of the principles of Breton Wood system in 1914. The system believes that there should be a free capital market which allows for an unrestricted inflow of foreign aid. Based on this thinking, a Marshal Aid Assistance of about S17.5 billion was granted to European countries to resuscitate their ruined economies due to Second World War. Since then, foreign aid has remained a veritable economic phenomenon of the international economic system [2].

Foreign Aid according to Todaro and Smith is the international transfer of public funds in the form of loans or grants either directly from one government to another (bilateral assistance) or indirectly through the vehicle of a multilateral assistant agency such as World bank. Economist have defined Foreign aid, therefore, as any capital flow to a developing country that meets two criteria: (1) Its objectives should be noncommercial from the point of view of the donor, and (2) Its should be characterized by non-concessional terms; that is, the interest rate and repayment period for borrowed capital should be softer (less stringent) than commercial terms.

Foreign aid is very important for the acceleration of economic development. Foreign aid can be used by the recipient country in accordance with its development programmes. Foreign aid can also be in the form of economic assistance like:

- Investment in the economy of the needy country,
- Loan,
- Infrastructural development,

Foreign Aid can also come in form of military assistance such as:

- Supply of military hardware at subsidized rates,
- Military agreements, bilateral or multi-lateral, loose or solid or in defence pact,
- Supply of military technical assistance such as military presence to a country in conflict or war with another,
- Military subversions, coup, assassinations, etc.

The conceptualizations of aid above clearly depict that aid is not the same thing as loan. While aid is more comprehensive and encompassing, loan is embedded in aid. Loan is money or other valuable item that an organization, individual or a country lends out usually with interest. Foreign aid is succinctly divided into three broad categories namely: Bilateral, multilateral and private [3]. Bilateral foreign aid is a financial outflow from one country to another, that is, it involves capital outflow between two countries. It accounts for more than 60% of aid to developing countries. Bilateral aid according to Nwoke can be in four forms: Development loan which is usually repayable within long term duration; Technological assistance involving the technological and managerial know how and transfer technology for substitution. For instance the Nigerian Technical Aid Scheme (Technical Aid Corps) which Nigerians Professionals are sent to needy country. The fourth one is military cooperation between a powerful nation and a relatively weak one. Armament and training of military personnel as well as supply of military hardware at subsidized rates are usually major components of such aid pact. Grant, which is the least, is used by wealthy countries like USA, Canada, Switzerland, Swiss, etc to give aid to less fortunate countries to carry out specific programmes usually for infrastructural and social service development. The donor countries often supervise the implementation of such projects and programmes in order to ensure accountability and compliance with set standards. Multilateral aid in the other hand is seen as capital outflow international financial bodies rather than from government to government. It accounts for about 40 % of the global aid assistance to developing countries. Private capital outflow covers; according to Todaro [2] all direct investment input credits and

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portfolio investment by trans-national corporations and commercial banks. Private foreign capital outflow to the developing world grew tremendously from S4.6 in the 1980s by declined through the late 1980s to the 1990 input outflow due to endemic political instability occasioned in Africa, for instance by the political turmoil and civil wars which invariably triggered capital flight.

Multilateral aid is preferred to bilateral aid. The latter is more often than not, tied to specific conditions, which invariably result in dependent relationship by the receiving country. However, multilateral aid may not be either in terms of meeting certain conditions of those recipient countries. For example, the IMF and World Bank have very stiff conditions those borrower countries must satisfy to be able to enjoy their credit facilities. The conditions which are, more often than not, stiff and uncompromising in nature include, privatization, devaluation of national currency, democratization, liberalization, etc.

Theoretical Analysis

A plethora of approaches and theories have been developed to explain the reasons behind the granting of foreign aid to economically weak countries by developed countries. This is to arrive at a more scientifically and valid explanation for granting foreign aid to developing countries. This research adopts Dependency theory in explaining the nature of the relationship between the countries of the world and the factors that facilitated dependency of one group of countries on the other. Countries of the world are sharply separated along the line of economic prosperity. Countries that are economically buoyant and politically stable are termed Developed Countries and on the other hand, countries that are economically backward are referred as Developing Countries or commonly tagged as Third World Countries. The former are in the centre (Western Europe, Britain and United States) and the latter are in the periphery (backward countries of Asia, Africa and Latin America). Dependency theory seeks to pinpoint and specifically explain the factors responsible for this sharp difference in the level of development between the developed countries and the developing countries. According to Jhingan [4], there are unequal centre-periphery relationships whereby the developing countries are dependent on the developed/advanced countries in trade, investment, technology, etc. The dependence results in the underdevelopment of the periphery because the centre is dominated by powerful capitalist countries that exploit the latter for their benefits and advantage. This theory assumes that it is the flow of resources from a periphery of poor countries and underdeveloped countries to the core of rich and wealthy, enriching the latter at the expenses of the former. The theoretical premises of dependency theory are that:

1. Poor countries provide natural resources, cheap labour, and a destination for obsolete technology and market the wealthy nations, without which the latter could not have the standard of living they are enjoying today.
2. Wealthy nations actively perpetuate a state of dependence by various means. The development of the centre causes the underdevelopment of the periphery and its dependence on the centre. These influences include; economics, media control, politics, banking and finance, education, culture, sports, and all other spheres of human development.
3. Wealthy nations vehemently counter the attempts and efforts by dependent countries to resist their influences by means of economic sanctions and the use of military force [5].

Socio-economic Impact of Foreign Aid

Dependence theory states that the poverty of the countries in the periphery is not because they are not integrated or fully integrated into the world system as is often contended by free market economists, but because of how they are integrated into the system. Dependent theorists like Frank, Santos, Amin and Furtardo hold that the present economic and socio-political conditions prevailing in the periphery are that of historical international process [4]. The global system is such that the development of the centre occurs at the expenses of the periphery. At first, many countries of in the periphery have been incorporated into the world economic since the early days of colonialism. At the second level, such peripheral countries have become capitalist economies through incorporation into the world economic system. At the third level, the incorporation of peripheral countries into the world economy has led to ‘'metropolis-satellite chain in which the surplus generated at each level of in the periphery is successively drawn off the centre. As a result, the periphery is impoverished and the centre is enriched [4].

Conclusion

This article noted the importance of foreign aid to the socio-economic development of any country. It however, observed that the misuse of foreign loans has grievous effects on the economy of the recipient countries. Foreign aid is not and must not be seen as a mere demonstration of benevolence between two countries, rather, it should be considered a business affair in its intent and content. Its nature, dealings and manner must be business-like [6]. The recipient countries must design and structure a mechanism for coping with the conditional ties attached to aid rather than complaining of its aftermath which they were of course, aware of before taking such loans. More so, foreign loan is not a free gift of nature. As expected, it is interest-yielding, with a lot of ideological underpinnings intended to impose one country's ideology on the other in order to have dominion and external control on the recipient country.

Obviously observable, is the absence of the culture of financial transparency and accountability in developing countries. Corruption has become a national virtue among government officials to the extent that public funds are diverted to private uses. In Nigeria, government officials transfer public funds to their private bank accounts. Corruption and official leakages are the major limitations to economic development in the developing world, a condition that retard national growth and economic development.

To remedy this situation, it is desirous for African countries to diversify restructure their economy and boost agricultural production and increase output as a veritable approach to economic restructuring [7]. African governments should place more emphasis on technology development in an effort to widen, deepen and strengthen the manufacturing sector and human capacity development. Also, foreign aid/loans should be taken when seriously and genuinely needed and must be used to fund projects/programmes that facilitate economic growth and development that will engender national prosperity.

Most importantly, leadership is critical and central to national development both in terms of political will and ability to mobilize and harness resources for the attainment of national objectives. It is pertinent to adopt leadership and management styles inspire confidence in all who involved in the restructuring of the economy. Restructuring of the economy also involves restructuring of interests which are invariably conflicting and need to be balanced. The essence of this, however, is that leadership has inescapable crucial roles to play in the overall development of any economy. Thus, leaders in developing countries must transit from corruption to moral decency, inefficiency to competence, parochialism to purposeful leadership that serves to promote, protect and attain the interests of the nation and its people.

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