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Transforming Horizons: The Multifaceted Impact of Foreign Aid on Nigeria and Ghana's Fiscal Landscape

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ABSTRACT: This retrospective study explored the multifaceted impact of foreign aid on the fiscal landscapes of Nigeria and Ghana. Through an exhaustive analysis of bilateral and multilateral aid flows, including grants, technical assistance, and loans, this research aimed to unveil how foreign aid influenced economic performance, addressing issues like poverty eradication, income inequality, and unemployment in both countries. Utilizing an ex-post facto research design, the study analyzed data spanning from 1981 to 2021, employing ARDL bounds tests and error correction models. The findings revealed distinct impacts of various types of aid on government expenditure and economic growth, demonstrating the complexity and nuanced effects of foreign assistance on the recipient countries' fiscal policies and economic outcomes.

GENERAL INTRODUCTION

Foreign aid is a multifaceted concept encompassing various modalities, including bilateral and multilateral assistance, nonprofit contributions, humanitarian relief, emergency relief, food aid, and technical support. Within the context of this study, foreign aid is characterized as the international transfer of resources from one nation to another, often in the form of loans or grants (Asongu and Jellal, 2015).

Foreign aid plays a crucial role in supporting economies like Nigeria and Ghana, enabling them to embark on a path of growth and fostering a multitude of activities that enhance economic performance while addressing specific issues such as job creation, income inequality reduction, poverty eradication, and the promotion of social harmony and progress Adom, (2016). According to recent research, foreign aid is particularly valuable for addressing financial constraints, facilitating trade, and tackling strategic challenges that arise due to limited local resources (Todaro, 2019).

The need for foreign aid becomes evident when examining the economic challenges faced by developing nations like Nigeria and Ghana. As of 2023, Ghana grappled with a substantial debt burden of $29.2 billion USD, accompanied by an average youth unemployment rate of 10.4%. Meanwhile, Nigeria faced an even more staggering youth unemployment rate of 41% World Bank. (2023). These alarming statistics can be attributed to various factors, including government mismanagement, a culture of embezzlement within the political class, severe mismanagement in the industrial sector, and insufficient productivity in agriculture (World Bank, 2023).

In light of these circumstances, both Nigeria and Ghana find themselves heavily reliant on Western aid to sustain their fiscal policy landscape. Nigeria and Ghana have both been recipients of foreign aid through a series of multilateral and bilateral agreements (Shahzad et L (2018).

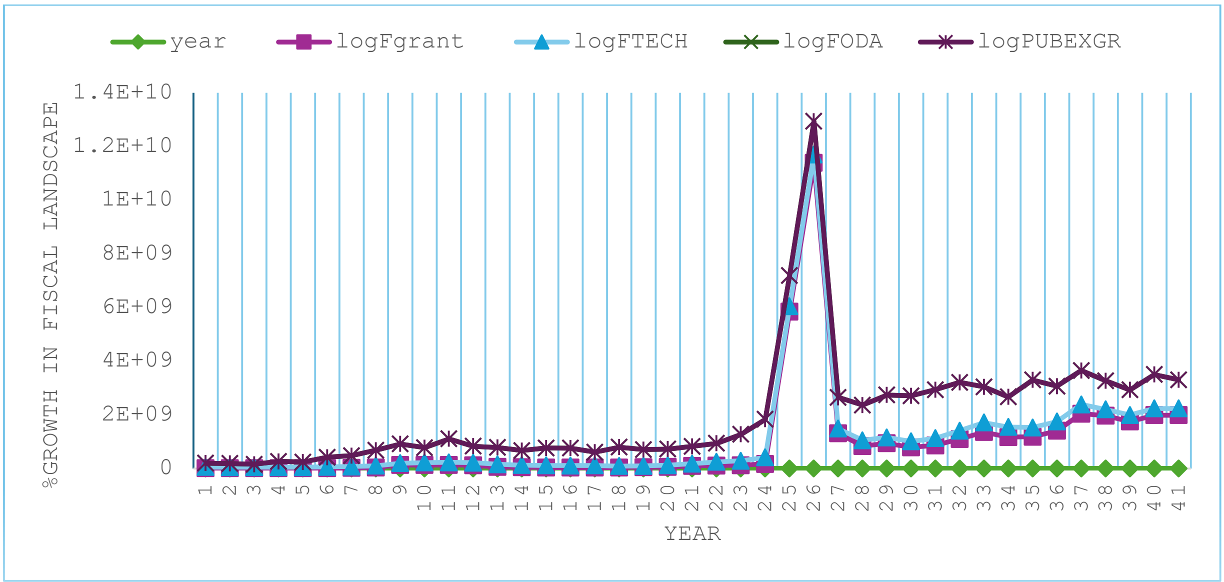

Figure 1: Flows of International Aids and Fiscal Landscape in Ghana
Source; Researchers Desk, 2024 with data obtained from WDI 2023

Scholarly debates on the fiscal impact of foreign aid have yielded mixed opinions. Research, such as Shahzad, Ahmed, Khiliji, and Ahmed's (2020) study on Pakistan (1990-2008), found a positive link between foreign aid and government spending. Similar studies in Nigeria and Ghana by Afolabi and Adefope (2020), and Agyei-Boapeah and Kusi (2019), respectively, also reported beneficial effects of aid, particularly in education and government expenditure. However, these studies also highlighted the variability and impermanence of aid inflows, with technical assistance being singled out for its pivotal role in bolstering Ghana's government expenditure and overall economic growth.

The consensus emerging from these analyses is that technical aid, more so than other aid forms, directly contributes to enhancing productive capacities and, by extension, boosts productivity, job creation, and government revenues. This trend underscores the transformative potential of aid focused on skill and knowledge transfer over mere financial support, fostering a more sustainable fiscal environment (Ejelonu et al., 2023).

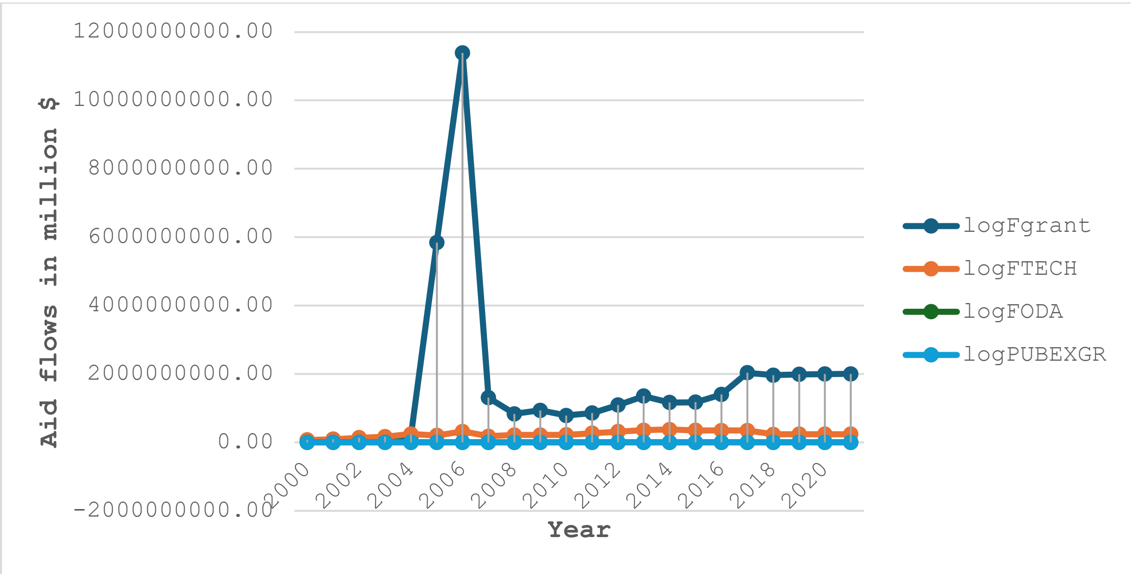

Figure 2: Flows of International Aids and Fiscal Landscape in Nigeria
Source; Researchers Desk, 2024 with data obtained from WDI 2023

Despite Nigeria's substantial annual foreign aid, including multilateral and bilateral inflows, the nation faces stark challenges: it's dubbed the poverty capital of the world with youth unemployment exceeding 30%, and socio-economic issues prompting a shift of manufacturing industries to Ghana. This migration is partly due to the differing nature of aid received by the two countries, with Ghana benefiting more from technical assistance compared to Nigeria's reliance on grants. This discrepancy may explain why industries prefer Ghana's more efficient production environment (Alamba & Ejelonu, 2022).

While Nigeria benefits from greater grant aid compared to Ghana, this advantage hasn't translated into significant fiscal or economic growth. Against a backdrop of widespread poverty and instability, this study explores the complex impact of foreign aid on the fiscal landscapes of Nigeria and Ghana, aiming to understand how aid influences economic sustainability and growth in these nations.

LITERATURE REVIEW

Foreign Aid

The concept of aid, also referred to as Official Development Assistance (ODA), has its roots in the Charter of the United Nations, established during the San Francisco Conference on June 26, 1945. Member nations committed to "promote social progress and enhance living standards in a spirit of freedom and utilize international mechanisms to advance the economic and social well-being of all peoples." Since the 1950s, rebuilding the global economy post-World War II and fostering worldwide economic development have been paramount goals for global leaders. However, there exist diverse perspectives among scholars regarding the principles underpinning foreign aid.

Ukpong (2017) defines foreign aid as the provision of financial resources, goods, or services from one nation to another, serving humanitarian, altruistic purposes, or driven by the national interests of the donor country. These contributions can materialize through bilateral agreements between two countries or multilateral arrangements involving multiple countries or institutions. Bilateral aid often involves tied aid, imposing conditions that necessitate the recipient to source products or services from the donor nation.

Contrastingly, Prateek (2019) argues that foreign aid signifies the voluntary transfer of resources from one country to another, encompassing various forms of capital flow directed towards developing nations. Typically, a developing country lacks a robust industrial base and exhibits a low Human Development Index (HDI).

The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) stipulates that aid qualifies as Official Development Assistance (ODA) when it meets three essential criteria: it is conducted by official agencies, aims primarily to promote economic development and welfare, and includes a grant component of twenty-five percent or more. In its broadest sense, aid encompasses all resources, such as physical goods, skills, technical expertise, financial grants (gifts), concessional-rate loans, and support in international negotiations, transferred by donors to recipients.

Foreign Aid and Nigeria’s Fiscal Standard

While foreign aid serves as a crucial source of funding for enhancing economic growth in developing nations like Nigeria, there exists a lack of consensus among various studies regarding its effectiveness in promoting the development of recipient countries. Some studies suggest that foreign aid has a negative impact on the mobilization of domestic resources, while others assert that it has a positive influence on the economic growth of these nations. The central question revolves around the extent to which foreign aid affects the economic growth of developing countries.

There is a divergence of opinions among researchers concerning the prerequisites for aid effectiveness. Some argue that sound economic policies are essential for aid to be effective, while others contend that aid can positively impact less developed countries even in the absence of sound policies. Generally, foreign aid is recognized to have a favorable impact on recipient countries' economies through several mechanisms. These mechanisms include an increase in the rate of investment, the enhancement of technological capacity, encouragement of savings and investments, and the improvement of capital productivity, along with the promotion of endogenous technical advancements (Murshed and Khanaum, 2018).

According to Murshed and Khanaum (2018), foreign aid is deemed successful in reducing poverty levels and fostering economic growth in many developing countries. While aid may not consistently stimulate growth in all conditions, it has, on average, positively influenced these countries.

Peter Bauer argues that foreign aid has distorting costs in the political life of recipient countries. It tends to empower governments at the expense of the rest of society, diverting resources and attention away from more productive economic activities. This can heighten tensions and lead to civil armed conflicts (ACBO, 2018).

In summary, foreign aid's impact on economic growth in developing countries is a complex issue with varying perspectives. While some argue that aid can be effective in promoting growth under the right conditions, others highlight its potential negative consequences, such as undermining local cultures, perpetuating dependence, and enabling unproductive policies. The effectiveness of aid ultimately depends on the specific context in which it is provided and how it is utilized by both donor and recipient countries.

Foreign Aid and Ghana’s Fiscal Landscape

Since its independence, Ghana has received significant Official Development Assistance (ODA), averaging US$500 million annually from 1960 to 2013, with a notable increase to US$873 million annually between 1984 and 2013. Initially skeptical of aid, Ghana's engagement with international donors like the IMF began in the mid-1960s due to a balance of payments crisis. Although aid increased Ghana's GDP share in the early years, it mainly served to clear commercial debts. The late 1980s saw a shift with the introduction of economic reforms, leading to an increase in aid, particularly in the form of loans, which subsequently raised Ghana's foreign debt.

By 2002, Ghana qualified for debt relief, thanks to a public debt-to-GDP ratio of 142.6%, boosting donor confidence and aid inflows, which peaked at US$2.1 billion in 2009. Despite fluctuations, these funds were strategically invested in high-return projects, significantly improving market functionality. However, such inflows also restricted private sector credit, leading to economic imbalances. Ghana's ODA has been categorized into debt relief, project support, programme aid, and balance of payments support, reflecting a diverse approach to leveraging foreign assistance for development (Ashong and Gerster, 2020; Quartey, 2014; WDI, 2014).

Underpinning Theory and Empirical Studies

The dependency theory posits that the underdevelopment of less developed countries (LDCs) results primarily from their dependency on developed countries (DCs). This theory of underdevelopment traces its origins to the writings of several Latin American Economists, including notable figures like Frank, Sunkel, Furtardo, Santos, Emmanuel, and Amin (Frank, A.G. 1976). While these scholars present varying degrees of explanation, they each endeavor to identify specific factors contributing to the underdevelopment of LDCs by DCs.

Consequently, there exists a variety of perspectives within the dependency theory framework, with distinct interpretations of the concept of dependency and diverse analyses explaining underdevelopment in the context of interactions between internal and external structures. In this context, let us briefly discuss the perspective that aligns most closely with the focus of this work. According to Dos Santos (1964), Frank (1976), and Sunkel (1969), dependency characterizes a situation where one country's economy is conditioned by the development and expansion of another economy to which it is subordinated. This results in a dependent relationship between multiple economies, wherein some countries (the dominant ones) can grow and sustain themselves independently, while others (the dependent ones) can only progress as a reflection of the dominant ones' expansion, with either positive or negative consequences for their immediate development.

In light of this perspective, this paper contends that the dependency theory more accurately describes the adverse impact of foreign aid on fiscal landscape in Nigeria. It seeks to address the issue of dependency on foreign aid that prevails in LDCs. For example, the theory posits that as long as an LDC continues to rely on DCs for its sustenance, poverty levels and economic inertia will persist, with a large portion of human resources remaining untapped and unproductive in both the short and long term. This theoretical assertation was empirically confirmed by Tracy (2021) who investigated the influence of foreign aid on investment and economic growth in Nigeria spanning from 1970 to 2009 and found long run positive impact of foreign aid on investment, while asserting that aids flow volatility and uncertainty had negative impact on domestic capital formation in Nigeria for the same period.

Ejelonu et al. (2022) examined the implications of foreign capital inflows on the manufacturing sector in third-world countries, focusing on Nigeria from 1981 to 2019. The study employed statistical tests to analyze the data, including the Augmented Dickey-Fuller test for stationarity and the Johansen test for cointegration. The findings indicated a short-run relationship among the variables and that foreign direct investment (FDI) and exchange rate (EXCHR) were additively related to manufacturing sector productivity in Nigeria. The study recommended the adoption of an endogenous growth model in Nigeria, emphasizing the role of domestic factors in driving economic growth.

Ojiambo (2020) employed the ARDL estimation method to investigate the impacts of foreign aid predictability on investment and economic growth in Kenya during the period 1966-2010. The study revealed a long-term relationship among the variables. Foreign aid was found to have a positive impact on economic growth and public investment in Kenya. Afolabi and Olanipekun (2022). Examined the impact of Foreign Aid on Public Expenditure in Nigeria" the study aimed to establish the impact of foreign aid on public expenditure in Nigeria from 1970 to 2020. Their findings revealed that foreign aid has a positive and significant impact on public expenditure, suggesting that foreign aid can contribute to the improvement of public services and infrastructure in Nigeria

Although, several empirical studies reviewed asserted a positive relationship between foreign aids flows and public expenditure growth in various economies of the globe, thus less substantiating the theoretical principles of the dependency theory, however in reality, the collectivity of multifaceted bilateral and multilateral aids has less or little significance on expenditure growth as proven graphically above. Furthermore, this empirical study details multifaceted impact of foreign aid on fiscal landscape or government expenditure in Ghana and Nigeria, by revealing the most economic growth friendly aid flows.

Methodological Approach and Empirical Results

The research design is a guide showing how the data or information regarding a research problem is to be collected and analyzed within the research setting and economy of time and materials, (Anyiwe, Idahosa and Ibeh, 2013; Agbonifoh and Yomere (2013); Nkonyeasua (2013) and Olannye (2013). In view of the above expert positions and in order to achieve the objectives of the study, a number of design options were considered. At the end of it all the ex-post facto research design was employed. The justification for the use of ex-post-facto research design is the fact that the design is suitable for variables that inherently cannot be manipulated or because its manifestation has already occurred; Agbonifoh and Yomere (2013); Newbold (2012) and Anyiwe, Idahosa Ibeh (2013) and Emanakuku (2012).

PUBEXGR = F (FTECH, FGRANT, FODA, MFAID, EXR)………………………..(i)

Definition of Variables: Public Expenditure growth (PUBEXGR), foreign technical cooperation aids (FTECH)**,** foreign grants (FGRANT)**,** official development assistance (FODA)**,** multilateral foreign aids (MFAID)**,** exchange rate (EXR).

$$\Delta PUBEXGR_{t,j} = C_0 + C_1 FTECH_{t-1,j} + C_2 FGRANT_{t-1,j} + C_3 FODA_{t-1,j} + C_4 MFAID_{t-1,j} + C_5 EXR_{t-1,j} + \sum_{i=1}^{n1} a_{1i,j} \Delta\, PUBEXGR_{t-1,j} + \sum_{i=0}^{n2} a_{2i,j} \Delta\, FTECH_{t-1,j} + \sum_{i=0}^{n3} a_{3i,j} \Delta\, FGRANT_{t-1,j} + \sum_{i=0}^{n4} a_{4i,j} \Delta\, FODA_{t-1,j} + \sum_{i=0}^{n5} a_{5i,j} \Delta\, MFAID_{t-1,j} + \sum_{i=0}^{n6} a_{6i,j} \Delta\, EXR_{t-1,j}\, \mu_t \text{ ------------------(14)}$$

UNIT ROOT TEST

In statistics, a unit root (also known as a unit root process or a difference stationary process) is a trend in a time series that can be thought of as a "random walk with drift" (Everit & Skromdal, 2010). If a time series has a unit root, it displays a predictable but systematic pattern. Consequently, tests for stationarity in a time series are unit root tests. Specifically, stationarity is present in a time series if a change in time does not alter the distribution's structure (Vogt, 2015). Unit roots are one reason why a time series might not be stationary.

ADF Unit Root {Nigeria & Ghana}

	NIGERIA				**GHANA**			
VARIABLES	ADF		Prob**		ADF		Prob**	
	Trace Statistics	Critical Val@ 5%		Decision	Trace Statistics	Critical Val@ 5%		Decision
LOGEXR	-9.355803	-4.859812	<0.01	1(0)	-4.167377	-1.949609	<0.01	1(0)
LOGFGRANT	-10.22470	-4.859812	<0.01	1(0)	-9.764512	-4.443649	<0.01	1(0)
LOGFODA	-7.189666	-4.859812	0.0003	1(0)	-3.580943	-4.859812	<0.01	1(0)
LOGMFAID	-4.864963	-4.443649	0.0144	1(0)	-4.869883	-4.443649	<0.01	1(0)
LOGPUBEXGR	-3.912188	-3.529758	0.0209	1(0)	-12.23204	-4.859812	<0.01	1(0)
LOGFTECH	-5.776574	-4.859812	0.0000	1(0)	-9.143848	-4.443649	<0.01	1(1)

A structural break unit root test was conducted to analyze the statistical features of variables in the regression, aiming for data-driven insights to enhance economic productivity and develop diverse strategies for Nigeria and Ghana. The test's outcomes hinge on probability values: below 0.05% indicates no unit root (null hypothesis accepted), while above 5% suggests rejection. Typically, trace statistics surpass critical values at 5%, affirming no unit root presence.

The analysis revealed that foreign aid's impact, especially influenced by exchange rates, varies between Ghana and Nigeria. In Nigeria, stationary exchange rates showed trace statistics exceeding critical values, indicating stability. Ghana exhibited similar trends, confirming the absence of unit roots at comparable levels. Significantly, both countries showed statistical stability in foreign grant inflows, with trace statistics and probability values affirming the grants' consistent and impactful role in economic development from 1981 to 2021. This underscores the substantial and steady contribution of foreign grants to both economies.

Auto Regressive Distributed Lag Model Bound Test

Nigeria

ARDL Bounds Test
Date: 05/28/23 Time: 16:38
Sample: 1983 2021
Included observations: 39
Null Hypothesis: No long-run relationships exist

Test Statistic	Value	k
F-statistic	1.811655	5

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.75	3.79
5%	3.12	4.25
2.5%	3.49	4.67
1%	3.93	5.23

Ghana

ARDL Bounds Test
Date: 05/28/23 Time: 20:10
Sample: 1985 2021
Included observations: 37
Null Hypothesis: No long-run relationships exist

Test Statistic	Value	k
F-statistic	11.68978	5

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

To establish the nature of the inherent relationship between the variables in the model, the researcher conducted an ARDL (Autoregressive Distributed Lag) bound test to examine the long-run relationship. The results of the ARDL bound test for Nigeria reveal that the F-statistic value is 1.811655 with 5 degrees of freedom, which falls within the lower bound of the critical values at the 10%, 5%, 2.5%, and 1% significance levels. This outcome suggests that there is no sustainable long-run relationship between foreign official development assistance, foreign grants, multilateral aids, foreign technical assistance, and public expenditure growth in Nigeria during the study period.
In contrast, the ARDL bound test results for Ghana show a coefficient of 11.68978 with 5 degrees of freedom. This value exceeds the lower and upper limits of the critical bounds, providing strong evidence of a long-run relationship between the components of foreign aid used in the regression model. Based on these statistical findings, the study proceeded to estimate an Error Correction Model (ECM) for Ghana to determine the speed and direction of adjustment from the long-run equilibrium to the short-run dynamics.

ARDL ERROR CORRECTION

Following the identification of a sustained long-term connection via the ARDL bound test, the research proceeded to calculate the short-term dynamic coefficients using an error correction model (ECM). For the ECM to validate the model's return to long-term equilibrium, its coefficient (ECM (-1)) must present a negative and statistically significant figure. The coefficient's value indicates the speed at which equilibrium is restored, ranging from -1 for immediate adjustment to 0 for no adjustment post-disturbance. Pesaran and Pesaran (1997) emphasized the critical need to verify the long-run multipliers' stability within the ECM to ensure accurate parameter stability assessment.

Variable	Coefficient	Std. Error	t-Statistics	Prob*
*CointeEq ECM (-1)**	-1.674385	0.291004	-8.033280	0.0000

The ECM's outcome, showing a coefficient of -1.674385 with a standard error of 0.291004 and a t-statistic of -8.033280, underscores its statistical significance with a probability value of essentially 0%, covering the years 1981-2021. This significant negative coefficient demonstrates the model's efficacy in predicting swift adjustments back to equilibrium after any deviations, implying an adjustment speed of 167.43% annually from any long-term disequilibrium to its original state in the short run

ARDL LONG RUN FOR GHANA

Utilizing an auto-regressive distributed lag (ARDL) model, this study examined the dynamic between foreign technical assistance and public expenditure growth in Ghana from 1981 to 2021. The findings reveal varied impacts across different aid types on public spending growth.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGEXR	-0.018629	0.094917	-0.196262	0.8483
LOGFGRANT	0.000000	0.000000	7.687485	0.0000
LOGFODA	0.000000	0.000000	2.012891	0.0718
LOGFTECH	-0.000001	0.000000	-2.189721	0.0534
LOGMFAID	0.000000	0.000000	0.923771	0.3774
C	21.866313	9.005290	2.428163	0.0356

Analysis highlights include:

- A marginal negative impact of exchange rate fluctuations on public expenditure growth, contrary to short-term positive expectations.
- Foreign grants, surprisingly, had a significant positive long-term effect on expenditure growth, contrary to short-term analyses, with a one percent increase correlating with a notable impact despite its statistical insignificance.
- Foreign official development assistance (ODA) positively correlated with public spending growth, suggesting enhanced economic productivity and government revenue, in line with expectations.
- Conversely, foreign technical cooperation showed a short-term positive but long-term negative impact on public expenditure growth, challenging the expectation that such aid would significantly boost technological progress and economic productivity.

ARDL LONG RUN FOR NIGERIA

VARIABLE	Coefficient	Std. Error	t-Statistic	Prob.
LOGEXR	0.066357	0.148630	0.446458	0.6583
LOGFGRANT	-0.000000	0.000000	-1.148728	0.2592
LOGFODA	63.202336	58.979131	1.071605	0.2919
LOGFTECH	0.000000	0.000000	1.252755	0.2194
LOGMFAID	-0.000000	0.000000	-1.468294	0.1518
C	-43.523580	58.445478	-0.744687	0.4619
@TREND	0.156457	2.402181	0.065131	0.9485

Analyzing Nigeria from 1981 to 2021, the study highlights the nuanced effects of different aid types on public expenditure growth:

- Exchange Rate (LOGEXR): The exchange rate's stability boosts economic activity and aid inflow, positively correlating with a 66.3% increase in public expenditure growth for every 1% improvement in the exchange rate, underscoring the critical role of a stable naira.
- Foreign Grant (LOGFGRANT): Contrary to expectations, a 1% increase in foreign grants predicted a negligible drop in public expenditure growth, challenging the assumption that such grants directly foster fiscal expansion and welfare improvements.
- Foreign Official Development Assistance (LOGFODA): Significantly, a 1% hike in ODA corresponded with a 63.20% surge in public expenditure growth, affirming its pivotal role in boosting economic productivity and fiscal health.
- Foreign Technical Assistance (LOGFTECH): In line with forecasts, technical aid showed an anticipated positive but statistically insignificant impact on expenditure growth, highlighting its potential to enhance Nigeria's technical capabilities and economic output.
- Foreign Multilateral Aid (LOGMFAID): Diverging from economic predictions, an increase in multilateral aid did not translate into public expenditure growth, suggesting a complex interaction between such aid and fiscal dynamics.

AID Flow Comparative Analysis: Nigeria and Ghana

In order to further buttress the impact of foreign aid on public expenditure growth in Nigeria and Ghana respectively. The need to carry out a comparative analysis of both economies remains sacrosanct to the broad objective of this study.

NIGERIA

	LOGEXR	*LOGFGRANT*	*LOGFODA*	*LOGFTECH*	*LOGMFAID*	*LOGPUBEXGR*
Mean	147.3719	9.6308	0.661170	1.608	3.4808	18.18880

GHANA

	LOGEXR	*LOGFGRANT*	*LOGFODA*	*LOGFTECH*	*LOGMFAID*	*LOGPUBEXGR*
Mean	107.0541	9.5608	8.8808	1.6208	3.4408	18.18880

The flows of foreign aid in Nigeria and Ghana have been unstable, particularly in the aftermath of the COVID-19 pandemic. To analyze the performance of foreign aid between both economies, the mean values were used to compare differences. The mean exchange rate in Nigeria showed a significant value of 147.3719 against Ghana's 107.0541, indicating that Nigeria's economy performed better in terms of exchange rate stability during the period under review.

The mean foreign grant inflows in Nigeria indicated a slight better performance with 9.6308% against Ghana's 9.5608%. This suggests that foreign grants in Nigeria contributed approximately 9.6308% to public expenditure growth, compared to Ghana's 9.5608%. This result implies that foreign grants in Nigeria exerted more control over public expenditure growth than in Ghana.

In contrast, Ghana outperformed Nigeria in terms of foreign official development assistance to public expenditure growth. Ghana's mean value was 8.88% against Nigeria's 0.66%. This result suggests that official development assistance in Ghana was used for development-oriented projects and programs, which could engender greater revenue for the government and promote public expenditure growth. In Nigeria, the short fall in utilization of foreign development assistance funds could be attributed to political embezzlement and personal profiteering.

Foreign technical assistance in Ghana also performed relatively better than in Nigeria, with a mean of 1.62% against 1.60%. This indicates that technological advancement is taking place at a faster pace in Ghana than in Nigeria, which is justifiable given the number of companies that have left Nigeria for Ghana in recent years.

In conclusion, the coefficient of public expenditure growth for both economies displayed similar growth patterns and approaches. Although Nigeria is known for its high spending despite adverse public debt and foreign reserve depletion, both economies operate on a scale of progressive public expenditure growth with a growth rate of 18.18% for both countries.

CONCLUSION AND RECOMMENDATIONS

Our comprehensive analysis revealed that foreign aid has played a critical role in shaping the fiscal landscapes of Nigeria and Ghana, albeit with varied outcomes. In Ghana, foreign aid, particularly in the form of technical assistance and grants, positively influenced government expenditure and economic growth. Conversely, Nigeria's experience highlighted the complexities and challenges associated with foreign aid, where despite significant inflows, the expected fiscal expansion and economic growth were not uniformly realized. The contrasting outcomes in Nigeria and Ghana underscore the importance of the nature of aid, the sectors targeted, and the absorption capacity of the recipient country. The study confirms that while foreign aid has the potential to contribute positively to economic development, its impact is mediated by local conditions and the specificities of aid implementation.

RECOMMENDATIONS

- **Targeted Assistance**: Both Nigeria and Ghana should advocate for more targeted aid, especially technical assistance that builds long-term capacities in critical sectors such as education, healthcare, and infrastructure. This focus promises to yield more sustainable impacts on economic growth and development.
- **Enhanced Accountability**: To maximize the benefits of foreign aid, it is crucial for recipient governments to enhance transparency and accountability in the utilization of aid funds. Implementing stringent measures to curb corruption and ensure that aid reaches intended projects will be vital.

- **Policy Reforms**: Encouraging policy reforms that align with sustainable development goals can enhance the effectiveness of foreign aid. Recipient countries should prioritize reforms that improve governance, foster a conducive business environment, and enhance the efficiency of public sector spending.

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