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EMPIRICAL INVESTIGATION OF THE HUMAN DEVELOPMENT IMPLEMENTATIONS OF INTERNATIONAL FINANCIAL INSTITUTIONS LOANS IN NIGERIA

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ABSTRACT

This study offered empirical evidence on the contributions of foreign institutional loans to human development in Nigeria between 1981 and 2020. The specific objectives were to ascertain the effects of loans from International Finance Corporation (IFC), International Development Association (IDA), Paris Club, and African Development Bank on the Human Development Index (HDI). The data for the variables were obtained from the United Nations Development Programme Human Development Report, National Bureau of Statistics, World Development Indicators, and International Debt Statistics. The empirical investigation followed an ex post facto research design with the application of descriptive statistics, unit root and cointegration tests as well as error correction model and Granger causality tests as the data analysis techniques. The unit root test results revealed that all the variables are stationary at the first difference, which justifies the test for cointegration using the Johansen method. It was found from the cointegration test results that a long-run relationship exists among the variables in the model. The parsimonious ECM showed that IFC and African Development Bank loans have significant positive effects on HDI. This highlights the substantial contributions of the World Bank Group and African Development Bank to human capital development in Nigeria. Given the findings, this study recommends amongst others that policymakers should move towards mobilizing more loans from international finance cooperation and the African Development Bank when it comes to the issue of human development to create more opportunities for long-term improvement in HDI.

KEYWORDS

Human development, HDI, foreign institutional loans, International Finance Corporation, African Development Bank and Paris Club.

1. INTRODUCTION

Loans from international financial institutions have been recognized as a way to bridge the domestic savings gap, particularly when government revenues from internal sources are dropping. This is especially true in light of shifting primary commodity export prices and, as a result, diminishing foreign exchange profits. In addition to boosting economic growth, a foreign loan is seen as a way to help developing countries increase their rate of real investment. As a result, loans from international financial institutions operate as a source of capital formation and, by extension, as a way of increasing employment prospects through increased investment and job creation. The lending international financial loan donor institutions include the International Monetary Fund (IMF), International Finance Corporation Loans (IFCL), Paris Club Loans (PCL), International Development Association (IDA) Loans, and African Development Bank (ADB) Loans. According to Benedict, Rina, and Toan (2003), they give loans on both hard and soft terms, depending on the country's credit rating. This is what they do.

Nigeria has consistently run substantial budget deficits in recent decades as a result of a capital-deficient economy. These enormous and chronic budget deficits have sparked widespread alarm in Nigeria, with many believing that they will slow growth and eventually lead to a crisis if the deficit persists or grows too large (Okonjo-Iweala, 2005). Budget implementation has been at the center of Nigeria's macroeconomic issues, with capital and recurring expenditure targets hardly reached. This has exacerbated the economy's sub-optimal performance, posing more challenges to policymakers in terms of steering the economy along a path of long-term growth and development. The existence of a savings gap in a local economy is thus the fundamental idea that underpins foreign international financial institutions' lending.

Despite large loans from foreign financial institutions, health outcomes such as newborn mortality, morbidity rates, and life expectancy have not improved significantly. Furthermore, Nigeria currently faces enormous income disparities and low educational attainment, particularly among women and immigrants, as well as increased polarization. Longer-term outcomes that lead to broad-based increases in quality of life and widespread affluence remain elusive due to a lack of support for economic development. An examination of Nigeria's loan inclination in light of her infrastructural and human growth, as well as the overall standard of life of the Nigerian people, raises serious concerns about what the government has actually accomplished with the massive foreign loan inclination over the years. While many argue that IFI loans are important partners in the successful implementation of budgets as well as the growth and development of transiting economies, as evidenced by the Asian tiger countries, others argue that IFI loans are a major barrier to effective budget implementation and economic development in Nigeria. Based on the aforementioned, this research looked into the relationship between Nigeria's budget execution of IFI loans and its human capital development.

2. REVIEW OF THE RELATED LITERATURE

2.1 Keynesian Theory of Deficit Spending

This theory is closely associated with Keynes (1936). The Keynesian economists are of the viewpoint that budget deficits and macroeconomic variables are positively related, hence, justifying the rational for government borrowing domestically and internationally. They argue that ceteris paribus deficits usually results in an increase in domestic production, increases aggregate demand and savings as well as boosting private investment at any given level of interest rate (Ezema and Orji, 2015). Numerous traditional Keynesians posit that deficits seem not to crowd out private investment due to the net positive benefits it creates in the form of increased aggregate demand which enhances the profitability of private investments. This is often associated with higher level of investment at any given rate of interest. Therefore, Bernheim (1989) argues that deficits may actually stimulate aggregate saving and investment, despite the fact that they raise interest rates.

The Keynesians argue that budget deficit is growth-enhancing as it creates opportunities for boosting infrastructure and production in the borrowing country. Again, budget deficit has been identified as a key driver of inflationary pressures. Thus, the impact of budget deficit on economic growth and price stability has been a subject of interest to researchers and policy makers. Although deficit budgets seen to be inflationary and may raise interest rate, the net benefits it creates in terms of increased capital spending often outweighs its associated negative implications. The Keynesians see deficit financing as an important tool to achieve a level of aggregate demand consistent with full employment. According to the Keynesian theory of deficits, an increase in

government spending through the use of debt cause an upward shift on the aggregate demand curve. Keynes realizes the potential impact of crowding out. He believes that the economy will only experience partial crowding out. And secondly, investment is not just a function of interest rate but expectation of how future benefits are perceived. Thirdly, they argued that if the investment has a positive multiplier effects, then the interest rate will outweigh any loss in investment. For these reasons, Keynesians back deficit financing through debt (Perry, 2014).

2.2 Empirical Literature

Loans from international financial institutions have been recognized as a way to bridge the domestic savings gap, particularly when government revenues from internal sources are dropping. This is especially true in light of shifting primary commodity export prices and, as a result, diminishing foreign exchange profits. In addition to boosting economic growth, a foreign loan is seen as a way to help developing countries increase their rate of real investment. As a result, loans from international financial institutions operate as a source of capital formation and, by extension, as a way of increasing employment prospects through increased investment and job creation. The lending international financial loan donor institutions include the International Monetary Fund (IMF), International Finance Corporation Loans (IFCL), Paris Club Loans (PCL), International Development Association (IDA) Loans, and African Development Bank (ADB) Loans. According to Benedict, Rina, and Toan (2003), they give loans on both hard and soft terms, depending on the country's credit rating. This is what they do.

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Muhammad, Sallahuddin, and Nor (2016) provided some insight into the impact of external debt on Nigeria's capital formation, growth, and development. The Autoregressive Distributed Lag (ARDL) method was used to analyze time series data from 1980 to 2013. External debt has been shown to have a negative and statistically significant impact on capital creation, although savings is the only variable having a bidirectional causal relationship among the variables. Even though the interest rate was low, it was shown to be statistically significant.

Between 1975 and 2010, Akram (2016) examined the effects of foreign institutional loans on economic growth and poverty reduction in four South Asian countries: Bangladesh, India, Pakistan, and Sri Lanka. The study created an empirical model that integrates the function of public debt into growth equations and extends the model to include the debt's effects on poverty. Standard panel data-based estimation approaches were used in the estimating procedure. The findings show that the profile of foreign debt has a detrimental influence on economic growth and poverty. It was also discovered that the servicing of foreign institutional debt has a considerable impact on income disparity and poverty reduction. This shows that debt can be beneficial or destructive to the poor, just as it can be for the wealthy.

A multiple regression analysis was used. The factors of poverty in Sub-Saharan Africa were investigated by Adeyemi, Ijaiya, and Raheem (2009). A set of cross-country data from 48 nations was used in the study. The regression estimates demonstrate that, among other things, population growth, growing prices, and servicing foreign institutional loans are all factors impacting the rate of poverty in the sub-region. Based on the findings, the study proposed debt forgiveness, macroeconomic stability, and good governance as approaches for reducing the level and severity of poverty in the sub-region.

3. MATERIALS AND METHODS

3.1 Research Design

In this study, the quasi experimental research design was employed. This is because the data on each of the variables are already in existence. In other words, the choice of the quasi experimental research design is based on the fact that the study relied on historic data generated from relevant documentary sources(Dambo&Kayii, 2019).

3.2 Model Specification

In the model, loans from selected key International Financial Institutions comprising: Paris club loan, International Development Association loan, International finance cooperation loan and Loan from African development bank were utilized as the explanatory variables while human development index (HDI) is the dependent variable. The specification of the model in its functional form is as follows:

HDI = (IFCL, PCL, IDA, ADB) (3.1)

HDI = Human Development Index, IFCL = International financial corporation loan, PCL = Paris Club Loans,IDA = loans from International Development Association and ADB = African Development Bank Loan.

The formal specification of the ECM with the underlying notations for each of the variables is as follows:

$$\Delta InHDI = \alpha_0 + \sum_{i=1}^{a} m_1 \Delta InCGE_{t-i} + \sum_{i=1}^{a} m_2 \Delta InIFCL_{t-i} + \sum_{i=1}^{a} m_3 \Delta InPCL_{t-i} + \sum_{i=1}^{a} m_4 \Delta InIDA_{t-i}$$

$$+ \sum_{i=1}^{a} m_5 \Delta InIML_{t-i} + \sum_{i=1}^{a} m_6 \Delta InADB_{t-i} + \delta ECM_{t-1} + \mu_{1t} \quad (3.2)$$

Where: α_0 = constant parameter

$m_1 – m_6$ = short-run dynamic coefficients of the lagged explanatory variables

a = optimal lag length

Δ = first difference operator

δ = ECM parameter which captures the speed of adjustment μ_{1t} *and* u_{5t} = Stochastic term (error term)

3.2 Data Collection Procedure and Sources

The data sets for the underlying variables spanned from 1981 to 2020 and cover various aspects of budget implementations in Nigeria economy with a focus on the sources of foreign institutional loans and HDI.

Specifically, the data were obtained from the World Development Indicators (WDI) and UNDP Human Development Report.

3.4 Methods of Data Analysis

This study employed the error correction mechanism (ECM) to examine the dynamic relationship between the variables and estimate the speed of adjustment and the coefficients of each of the differenced lagged dependent and explanatory variables. Specifically, the ECM provides the empirical standpoint for gaining deeper insight into the speed at which each of the models returns to equilibrium after being influenced by an economic shock. In addition, the Augmented Dickey Fuller (ADF) by Dickey and Fuller (1981) approach to unit root was used to test for stationarity in each of the variables. The general expression of the unit root in an algebraic form is displayed as:

$$\Delta(X_t = m_0 + m_1(Y_{t-1}) + \sum_{i=1}^{q} \beta_i \Delta(X_{t-i}) + E_t \quad (3.3)$$

Where: X_t= variable being tested for unit root, m_1 and β_i= parameter estimates, q = maximum order of lag, Δ= notation for first difference and E_t = Error term

The Johansen and Juselius (1990)cointegration procedure, a multivariate-based methodology for differenced integrated variables was also employed in this study. The model for the cointegration test is specified as:

$$F_{trace}(r) = -N \sum_{i=r+1}^{n} \log\left(1-\hat{\lambda}_i\right) \quad (3.4)$$

$$F_{\max}(r, r+1) = -N \log\left(1-\hat{\lambda} r+1\right) \quad (3.5)$$

Where: $F_{trace}(r)$ and $F_{\max}(r, r+1)$ denote Trace and Max-Eigen statistics respectively, $\hat{\lambda}$ = coefficients of the characteristic roots, N = sample size, r = cointegrating vectors and n = lag length.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The descriptive statistics of each of the variables ranging from the mean distribution of the variables, standard deviation to normal distribution are presented in Table 1.

Table 1: Summary of the descriptive statistics

	HDI	IFCL	PCL	IDA	ADB
Mean	0.479	0.003	12.59	2.951	0.004
Median	0.462	0.000	9.109	1.967	0.0007
Maximum	0.540	0.051	35.69	11.907	0.043
Minimum	0.443	-0.030	0.000	0.580	0.00014
Std. Dev.	0.029	0.017	13.39	2.771	0.0082

Jarque-Bera	7.149	11.039	4.863	23.51	264.01
Probability	0.028	0.004	0.0879	0.000	0.000
Observations	39	39	39	39	39

Source: Researcher's computation using E-views 10

The descriptive statistics showed that the HDI score varied between a minimum value of 0.443 and a maximum value of 0.540 with an average value of 0.479. This suggests that Nigeria is the category of low human development. The loans from the International Finance Corporation, Paris Club, IDA and African Development Bank averaged 0.003, 12.59, 2.95 and 0.004 per cent of GDP respectively during the study period. This indicates that Nigeria has substantially borrowed from the Paris Club compared to other bilateral and multilateral sources. As observed from the standard deviations, the observations for all the HDI and IDA loans clustered around their respective mean values while the other variables do not. In addition, the probability values of the Jarque-Bera statistics for Paris Club loans indicate that it is normally distributed at 5 per cent level. However, the other variables for the investigation were not normally distributed given that the probability values of their respective Jarque-Bera statistics are above 0.05.

4.2 Unit Root Test

The ADF method of unit root test was applied in this study to determine if the variables are stationary or not and the order of integration of integration of each of the variables. The results of the tests are presented in Table 2.

Table 2: Unit root tests results based on ADF method

Variable	Levels test results		First difference test results		Order of integration
	t- statistic	5 % Critical value	t- statistic	5 % Critical value	
HDI	-2.355	-2.94	-7.341	-2.94	I(1)
IFCL	-0.911	-2.94	-7.511	-2.94	I(1)
IDA	-1.521	-2.94	-5.299	-2.94	I(1)
PCL	-1.442	-2.94	-4.837	-2.94	I(1)
ADB	-1.695	-2.94	-4.558	-2.94	I(1)

Source: Researcher's computation using E-views 10

The results of the ADF unit root test reported in Table 2 revealed that all the variables are not stationary at levels given that the computed t-statistics are less than the corresponding 5 per cent critical values. Thus, the null hypothesis of unit root cannot be rejected. The evidence of non-stationarity in the variables necessitated the differencing and they are found to be stationary at first difference. This implies that they attain stability by first differencing. In other words, all the variables are integrated of order one [I(1)], which is consistent with the findings of Sulaiman and Azeez (2012), Akram (2016) and Bamidele and Joseph (2013). With evidence of first difference stationarity in all the variables, the Johansen method was considered appropriate for the cointegration test to determine if the linear combination of the non-stationary variables will lead to long run relationship among them.

4.2.4 Cointegration Test Results

The cointegration test for the variables was conducted at 5 per cent level using the Johansen method. The results are presented in Table 3.

Table 3: Johansen cointegration test results

Series: HDI IFCL IDA ADB PCL				
Trace test results				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.903774	145.9474	69.81889	0.0000
At most 1 *	0.603678	66.35150	47.85613	0.0004
At most 2 *	0.516647	34.88358	29.79707	0.0119
At most 3	0.255804	10.16531	15.49471	0.2682
At most 4	0.003522	0.119967	3.841466	0.7291
Maximum Eigenvalue test results				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.903774	79.59587	33.87687	0.0000
At most 1 *	0.603678	31.46792	27.58434	0.0150
At most 2 *	0.516647	24.71827	21.13162	0.0149
At most 3	0.255804	10.04535	14.26460	0.2090
At most 4	0.003522	0.119967	3.841466	0.7291

Source: Researcher's computation using E-views 10

*** denotes rejection of the hypothesis at the 0.05 level**

As observed from Table 3, the trace test results showed evidence of three cointegrating equations given that the computed trace statistics are greater than the corresponding critical value at 5 per cent level. At the same time, the maximum eigenvalue test results revealed that three cointegrating equations exist in the HDI model. This implies that at least three variables can adjust to long run equilibrium position. In other words, HDI has long run relationship with the underlying international financial institution loans. This finding corroborates with the results of previous studies such as Victoria, Mbadike&Ikechi (2021); Mohammed, Sani &Adamu (2020) and Osoro (2020) while providing the precondition for fitting the dynamic parsimonious ECM.

4.5 Estimation of the Empirical Model

Following the evidence of cointegration, the ECM was estimated in accordance with the proposition of Engle and Granger (1987). Essentially, the general-to-specific approach was followed in transforming the over-parameterized ECM to parsimonious ECM and the results are presented in Table 4.

Table 4: Parsimonious ECM

Dependent Variable: D(HDI)				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(HDI(-1))	0.627045	0.179831	3.486850	0.0026
D(IFCL)	0.319488	0.076303	4.187091	0.0006
D(IFCL(-1))	0.205149	0.066797	3.071234	0.0066
D(IDA(-1))	0.000930	0.000652	1.425283	0.1712

D(IDA(-2))	0.001110	0.000682	1.626466	0.1212
D(PCL)	-0.000240	0.000140	-1.711700	0.1041
D(PCL(-1))	0.000220	0.000152	1.447591	0.1649
D(PCL(-2))	-0.000815	0.000155	-5.243703	0.0001
D(ADB)	0.202462	0.124203	1.630091	0.1205
D(ADB(-1))	0.487138	0.174220	2.796116	0.0119
D(ADB(-2))	0.445698	0.166232	2.681184	0.0152
ECM(-1)	-0.159821	0.050653	-3.155212	0.0030
C	0.000921	0.000872	1.056117	0.3049
R-squared	0.764649	Mean dependent var		0.002229
Adjusted R-squared	0.555449	S.D. dependent var		0.007034
S.E. of regression	0.004690	Akaike info criterion		-7.580391
Sum squared resid	0.000396	Schwarz criterion		-6.824936
F-statistic	3.655102	Durbin-Watson stat		2.124904
Prob(F-statistic)	0.004868			

Source: Researcher's computation using E-views 10

The parsimonious ECM revealed that HDI lagged for one period has a significant positive effect on its current value. This indicates that past innovations in human development initiatives are helpful in improving the future HDI score in score. The International Financial Corporation and African Development Bank loans contributed positively to HDI. The positive impact of International Financial Corporation loans on HDI is on accordance with the results of previous studies such as Okoloise (2020) andSoyemi, Olowofela and Yunusa (2020). It further explained the substantial role played by the corporation in promoting human and economic development in Nigeria through long term lending to the private sector. In addition the positive contribution of African Development Bank loans to HDI aligns with the findings of Signor and Vandernoot (2021) and underscored the bank's appreciable efforts in HDI improvements in Nigeria. Whilst Paris Club loans negatively impacted on HDI, IDA credit to Nigeria is not statistically significant in improving the HDI during the study period. This finding raises concern on the disbursement and management of IDA loans by various government agencies in Nigeria.

However, the negative implication of Paris Club loans agrees with the findings of Peter, Olohungbebe and Okoye (2021) and Osoro (2020) amongst others. The error correction coefficient (-0.159) is negative and statistically significant at 5 per cent level, which satisfies the sufficient condition for error correction term as well as authenticates the fact that there is long-run relationship among the variables. Its coefficient of -0.159 indicates that the model can adjust slowly to long run equilibrium position at a speed of 15.9 per cent. Furthermore, the R-squared (0.7646) implies that 89.9 per cent of the systematic variations in HDI are due to changes in the loans from the International Finance Corporation. The findings further reveal that the explanatory variables are jointly significant in explaining changes in HDI given that the probability value (0.0000) of the F-statistic less than 0.05. This provides the statistical condition for the reliability of the model.

Table 5: Post-estimation diagnostics test results

Test type	Test statistic	Probability	Decision
Breusch-Godfrey Serial Correlation LM Test	2.839	0.0920	Accept H_0
H_0: No serial correlation in the residuals			
Normality Test	0.462	0.7834	Accept H_0
H_0: Residuals are normally distributed			

White's Heteroscedasticity Test	20.444	0.2009	Accept H_0
H_0: No heteroscedasticity in the residuals			
Ramsey RESET Test	0.585	0.5660	Accept H_0
H_0: No misspecification in the model			

Source: Researcher's computation using E-views

The results showed that the residuals are serially independent and normally distributed at 5 per cent level. This is based on the fact the associated probability values of the Breusch-Godfrey serial correlation LM test and normality test results are greater than 0.05. Consequently, the null hypotheses of no serial correlation and normal distribution of the residuals were accepted. The results further showed that residuals are homoscedastic given that probability value of the White's heteroscedasticity test result is above 0.05. Thus, the null hypothesis of no evidence of heteroscedasticity in the residuals is accepted. In addition, the outcome of the Ramsey test indicates that there is no misspecification in the model. It, therefore, follows from the results that the estimated HDI model is reliable.

5. Conclusion and Recommendations

Borrowing from International Financial Institutions has remained an important source of public sector financing in Nigeria. It has also been identified as an important source of unlocking private investment and creating opportunities for long term growth and shared prosperity. Although Nigeria has remained a notable destination of International Financial Institutions loans, the country's economic development outcomes have continued to vary in the past three and half decades. Thus, this study examined how International Financial Institutions loans contributed to HDI improvement in Nigeria. The findings revealed that IFC and African Development Bank loans contributed positively to HDI improvement. However, contrary to expectations, Paris Club loans do not improve HDI. Based on the findings, this study concludes that funding from the World Bank Group, especially IFC and IDA as well as African Development Bank plays a substantial in improving HDI. It is, therefore, recommended as follows:

1. Policymakers should move towards mobilizing more loans from international finance cooperation and the African development Bank when it comes to the issue of improvement on human development index. This is because from the findings, loans from these sources have greater potentials in improving HDI.
2. Governments should prioritize the investment of loans from the HDI on human development. This will boost the potentials of the IDA loans, especially in boosting the Nigeria HDI rating.

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