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The impact and determinants of donor support in Cross River State - Nigeria

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ABSTRACT

This study examines the impact and determinants of donor support in Cross River State Nigeria by linking donor support program and economic growth in Cross River State, the impact of political, economic, corporate governance, and sound donor governance indicators on economic development indicator, and finally the impact economic governance indicators, corporate governance indicators, sound donor governance indicators, economic development indicator on flow of donor support indicator using a sample of 200 cross sectional respondents - government agencies, donor organizations, Non-Governmental Organizations (NGOs), and private individuals. I use a well validated structured questionnaire method for data collection and use Ordinary Least Squares (OLS) and the Pearson Product Moment Correlation for analysis. The results show among others a positive relationship between flow of donor support and indicators of quality of political and economic governance, and quality of the business environment, there existed a significant relationship between donor support and economic growth in Cross River State. Based on the result, it was recommended that maintaining a safe and attractive business environment is critical for sustained inflow of donor funds. Equally, channeling donor funds to agro-allied industrialization, manufacturing, health, and tourism would enhance economic development. Lastly mechanisms for conflict prevention, management, and resolution at both state and local government levels should be encouraged so as to influence more funding activities to the state.

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1.0 Introduction

The current Cross River State was reconfigured in 1987 when Akwa Ibom State was carved out of the former Cross River State. Like other States in Nigeria, there are three arms of government; the legislature, the executive and the judiciary. Agriculture and tourism are flagships of economic growth and development in Cross River State. Agriculture currently employs about 80 percent of the State's labour force, and contributes about 40 percent to the Gross State Products (GSP). The State has modern agricultural estates and several smallholder farms located in the various local government areas. The rich stock of arable land, forest, and mineral resources that abound in Cross River State offer opportunities for growth in agriculture, forestry, and eco-tourism. Tourism is relatively new and yet to be fully developed.

The State is strategically located, between Eastern and Northern parts of Nigeria, offering daily road trips to Cameroon and sea routes to Equatorial Guinea, Gabon etc. There is a Seaport and an international Airport in

Calabar. Calabar, the capital city of Cross River State, was the first capital of Nigeria from (1882-1906) and is also home to Nigeria's pioneer Free Trade Zone (FTZ) and Tinapa, Africa's premier leisure and commercial resort with all the trade incentives. One-third of the State is covered by a body of waters from the tributaries of the Cross River and the Atlantic Ocean; this renders the land very fertile and provides abundant aquatic resources for fisheries.

Successive governments since 1999 have developed strategies aimed at encouraging indigenous small and medium enterprises (SMEs), and making the State investors' and tourists' friendly. The tourism sector was identified since 1999 as holding great potentials for the State economy, and the sector began to receive unprecedented investments. Recently, the enormous cultural and historical antecedents as well as the outstanding reputation for hospitality of the people of Cross River State have transformed the State into tourists' delight both nationally and internationally. Some of the major tourism sites include; the Obudu Ranch Resort, Marina Resort, and the TINAPA business resort. The State also organizes annual Christmas festivals and Carnivals in Calabar, which usually attract many visitors and tourists. So far tourism has proven to be an effective sector that can complement the agricultural sector of the economy. Cross River State remains the cleanest, most peaceful and secured State in Nigeria.

The Department for International Donor Support (DIDS) was created in 2009 to coordinate all donor support programmes. However several donor programmes that are domiciled in a number of State MDAs and the LGCs still operate outside the ambit of the DIDS. Moreover, two other departments of the State Government, namely; the Department for Debt Management, and the Intergovernmental Affairs and Liaison Department tend to perform functions that are similar in some sense to that of the DIDS. This makes it difficult to obtain a comprehensive record of donor and development partnership programmes, the extent of funding, achievements against expected outcomes, promoting factors and deterrents, and prospects. This study attempts to gather key information on the sources and value of donor and development partnership programmes in the State; their funding structure, types of support/programmes, affiliated/domiciled MDAs, key success factors/enablers, and deterrent factors/de-enablers. Table 1 indicates the donor partners working in the State; the entry years, value of support, status, area of intervention, and time frame of intervention.

Table 01: Donor intervention in cross river state from 1999 – 2009.

S/N	Year	Name of donor/DP	Amount	Status	Area of intervention	Period
1	1999	EU	$761,101,123 00	C/funding	Water supply	5yrs
2	2000	UNICEF	$250,000,00	„	Child care/survival	8yrs
3	2005	W/Bank	$6.1m	„	State got & capacity building	1yr
4	2006	DFID/WORLD BANK	N78, 125 000	Grants	GEMS-Growth, Enterprise and Markets in States FADAMA iii	7yrs
5	2007	IFAD/FGN	$30m	Loan	Commty base resource mgt.	7yrs
6	2009	DFID/World Bank	N250,000,000	Grants	RAMP	5yrs
7	2009	CADP	$7.85m	C/Funding	Water supply	5yrs
8	2008	NPFS/ADB	$1.0,70.532.35	c/funding	Building of silos	2yrs
9	2007	USAID	N25,47,5,000	C/Funding	Development of vocational skills	4yrs
10	2009	EU/MPP6	N1,083,333,333	Grants	Health Education/Rural Transportation	5yrs
11	2009	EU- PRIME MPP9	N1,031,00,00	Grants	Health Immunization	5yrs
12	2009	EU – INFORM	N250,000,000	Grant	Road Project	4yrs

Source: Authors field survey, 2010

Generally, foreign aid refers to any money or resources that are transferred from one country to another without expecting full repayment. Oversea Development Assistance (ODA) includes all grants and concessional or soft loans that are intended to transfer resources from More Developed Countries (MDCs) to Less Developed Countries (LDCs) with the intention of fostering economic development. Most studies consider concessional loans as those that have a grant element at 25% or more. It does not include commercial or non-concessional loans, private foreign direct investment (such as inward investment by multilateral corporations), nor does it include preferential tariff reductions offered by MDCs to LDCs to enable easy access for their exports into international markets. To be considered as foreign aid therefore, a flow of funds should meet two simple criteria: first, it should

be non-commercial from donors' point of view; and second it should be concessional, so that the interest and repayment is less stringent or softer than commercial terms (Burnside and Dollar's, 1997).

Foreign aid include individual government assistance, known as bilateral aid, multilateral aid, offered by multilateral donor agencies such as the IMF and World Bank, and private development assistance, offered by Private non-governmental organizations (NGOs) such as the Red Cross, Oxfam, etc. A considerable amount of foreign aid is tied aid. Here the grants or concessionary loans have conditions laid down by the donor country about how the money should be used. Tied aid by source means that the recipient country receiving the aid must spend it on the exports of the donor country. Tied aid by project means that the donor country requires the recipient country to spend it on a specific project such a road or a dam. Often this might be to the commercial or economic benefit of the firms in the donor country. For example their engineers might be the designers of the project (Gong and Zou, 2001)

Economists have remained divided on what causes poverty in some countries. While one group emphasizes poor geographic endowments, as resulting in poor nutrition and diseases, low productivity and savings, and poverty generally; others emphasize weak institutions as the main inhibitor of growth and consequently cause of poverty. The first school of thought argues that the prevalence of disease, climate, the quality of soil, the abundance of natural resources, terrain ruggedness, and other geographic endowments directly impact income. Peasants in tropical areas are likely to be bed-ridden with malaria during harvest and have to spend much of their savings on the treatment of the disease. Agricultural yields are low in arid areas with nutrition-poor soils. While roads and railways have to be built everywhere, the cost of doing so varies greatly with the surrounding terrain. Following this line of reasoning, the "endowments" school of thought argues that most Sub-Saharan countries are among the poorest of the world due to their adverse climate, rugged terrain, and rampant disease (Morrisey, 2001)

The second school of thought disagrees, arguing that institutions are the basic force of development. Countries with rampant corruption and high risk of expropriation do not prosper because private effort and investment are not rewarded and, therefore, do not materialize. If checks and balances on politicians are absent, public goods are not provided efficiently or not at all. Where private contracts are not enforceable, valuable business partnerships are not formed in the first place (Roodman, 2003). An ingenious empirical literature has established the causal effect of institutions on income by utilizing the fact that European colonizers superimposed institutions that have remained generally unreconstructed years after independence. More donors now have organized their support and development partnership programmes under direct intervention programmes that directly confront poverty with basic needs like food, water supply, shelter, healthcare, clothing, etc; and institutional support/reform programmes that seek to enthrone good governance, sound service delivery, accountability, and transparency in the use of public funds. This study is therefore poised to investigate the impact and determinants of donor support in Cross River State –Nigeria.

In order to guide this study, three research hypotheses were formulated. The hypotheses were stated thus:

1. The is no significant impact of Political governance indicator, economic governance indicator, corporate governance indicator, sound donor support indicator on economic development indicator
2. The is no significant impact of political governance indicator, economic governance indicator, corporate governance indicator, sound donor support indicator, economic development indicator on flow of donor support indicator and,
3. There is no significant relationship between donor support programme and economic development in Cross River State

2.0 Literature review

Donor support is usually associated with official development assistance, which in turn is a subset of the official development finance, and normally targeted to the poorest countries (World Bank, 1998). How does donor support affect the economic growth of developing countries? Papanek (1973) finds a positive relation between aid and growth, and Fayissa and El-Kaissy (1999) show that aid positively affects economic growth in developing countries. Singh (1985) also finds evidence that donor support has positive and strong effects on growth. Snyder (1993) shows a positive relation between aid and growth when taking country size into account. Burnside and Dollar (1997) claim that aid works well in the good-policy environment, which has important policy implications for donors community, multilateral aid agencies and policymakers in recipient countries. Developing countries with sound policies and high-quality public institutions have grown faster than those without them.

By contrast, other people find donor support has negative impact on growth. Knack (2000) argues that high level of aid erodes institutional quality, increases rent-seeking and corruption, therefore, negatively affects growth. Easterly, Levine and Roodman (2003), using a larger sample size to re -examine the works of Burnside and Dollar,

find that the results are not as robust as before. Gong and Zou (2001) show a negative relation between aid and growth. Pedersen (1996) argues that it is not possible to conclude that the donor support has a positive impact on growth, and Morrisey (2001) claims that aid works well conditional on other variables in the growth regression. Many other authors find no evidence that aid affects growth in developing countries. By and large, the relation between donor support and economic growth remains inconclusive and is worth being studied further. In addition, geography is found to be influential on economic growth but so far this factor normally is neglected in the growth analysis (Gallup, Sachs and Mellinger, 1999).

Equally, a permanent rise in foreign aid reduces long-run labor supply and capital accumulation, increases long-run consumption and has no impact on long-run foreign borrowing. Using the optimal growth model (with foreign aid, foreign borrowing and endogenous leisure-and-consumption choices), Gong and Zou (2001) show that foreign aid depresses domestic saving, mostly channels into consumption, and has no relationship with investment and growth in developing countries. Pedersen (1996) asserts that it is still not possible to conclude that aid affects growth positively. Using game theory, he argues that the problems lie in the built-in incentive of the aid system itself. The aid conditionality is not sufficient and the penalties are not hard enough when recipient countries deviate from their commitments. In fact, there are incentives for aid donating agencies to disburse as much aid as possible. This hinders the motivation of recipient countries and raises the aid dependency, which in turn distorts their development.

Similarly, many authors find the positive impact of donor support on growth subject to certain factors. Burnside and Dollar (1997), in their well-known paper “Aid, Policies, and Growth”, find that aid has a positive impact on growth in developing countries with good fiscal, monetary and trade policies but has little impact on countries where such policies are poor. They use data from 56 countries for a six to four-year period from 1970-1973 until 1990-1993 and construct a growth convergence model, in which growth depends on the logarithm of real per capita GDP at the beginning of the period, incorporating the ratio of aid over GDP and an index measurement for macroeconomic policies in the right hand side of the equation. They explain that “aid can affect output only through its effect on the stock of capital, that is, to the extent that it is used for investment rather than consumption”. They argue that aid itself has small and insignificant impact but aid interacting with good policy has a significant positive impact on growth. In fact, policy seems more important for aid effectiveness in lower income countries. Moreover, they show that aid follows diminishing returns to scale. Another finding is that there is no tendency for total aid or bilateral aid to favor good policy, while multilateral aid is allocated in favor of good policy.

Clearly, donor assistance works better in a good policy environment, and a poor country with sound policies should get more aid. A well-designed aid plan can support effective institutions and governance by providing more knowledge and transferring technology and skills. Money aid is important but idea aid is even more important. In poor-policy countries, idea aid is especially more essential than money aid. This implies that in a good-policy environment, aid increases growth via the investment channel whereas in a poor-policy environment, it nurtures the reforms through policymakers training or knowledge and technology transfer. These non-money effects are believed even more important and viable than the money value of aid. Aid works much better where the reform is initiated or internalized by local government rather than when it is imposed by outsiders. Therefore, aid is normally more effective when it facilitates efficiently and timely reforms triggered by the local authority (World Bank, 1998).

Donor support might have different effects in different developing countries. Chenery and Carter (1973), following the previous two-gap derived model of Chenery and Strout (1966) and using data from 50 countries over the period 1960-1970, show that the effects of official development assistance (ODA) on the development performance of countries under study were different among certain groups of countries. In five countries, namely Taiwan, Korea, Iran, Thailand and Kenya, foreign assistance accelerated economic growth whereas in six cases it retarded growth, that is, India, Colombia, Ghana, Tunisia, Ceylon and Chile. In comparison to a no-aid pattern of growth, post-aid growth rates can be higher or lower depending upon three factors: initial poverty of country; additional rise of government consumption as percentage of aid received; and the term of aid. Nevertheless, a given amount of aid tends to increase post-aid growth if domestic savings ratio is higher, the percentage of aid fungible into government consumption is lower and the term of aid is longer. The critical assumptions are that government replaces portions of its savings with aid then allocates this freed money to other programs, which can not be cut back once started (Dacy, 1975)

Incorporating export price shocks into Burnside and Dollar’s (1997) analysis, Collier and Delh (2001) show a significant and negative relation between negative shocks and economic growth. They argue that “the adverse effects of negative shocks on growth can be mitigated by offsetting increases in aid”. Therefore, they suggest that targeting aid towards negative shock experiencing countries could be more effective than towards good-policy

countries. Using a 2.5% cut off in their sample size of 113 countries, they find 179 positive shocks and 99 negative shocks episodes. They indicate that the change in aid interacted with positive shocks is insignificant, while the interaction of negative shock with the change of aid is significant at the 1% level. Additionally, incorporating shocks into Alesina and Dollar's (1998) regression, they show that so far donors have not taken shocks into account in aid allocation. Finally, they claim that aid effectiveness might be increased significantly if both policy and adverse export price shocks are considered upon determining aid allocation. In a recent paper, Easterly, Levine and Roodman (2003) conduct a new test on the previous work of Burnside and Dollar (1997). With a larger sample size (1970 to 1997 compared to BD's 1970-1993), they find that the result is not as robust as before and therefore claim that the question of aid effectiveness is still inconclusive. In short, the results of research on the relation between aid and growth vary depending upon the models, data and countries of analysis. Therefore, the debate over the impact of aid on growth is on-going and left open for further study.

There are no clear-cut theories of foreign aid in the extant neoclassical economic theory, but there is agreement that poor countries need aid. However, It is widely agreed that donors sometimes use aid to promote their domestic and foreign policy interests, and long-term dependence on foreign aid may render the host economy vulnerable to external shocks. After World War II, the most cogent reason for aiding the underdeveloped countries was the Cold War, as the Soviet Bloc and the West tried to enlist the support and loyalty of underdeveloped countries by promoting larger aid than the other (Konstandinova, 2009). But more recently, donor funding is motivated largely by the need to reduce global poverty and eliminate safe havens for terror groups and fundamentalism.

The received literature on donor support focuses on the macroeconomic impact of ODA, measuring its effect on economic growth, savings, and investment. More specifically, treatment of foreign aid as an essential tool for improvement in growth is traceable to the two-gap model (Chenery and Strout 1966). The model depicts developing countries as facing the constraints of savings and export earnings that makes investment and economic growth difficult. Foreign aid can thus help to fill the gap between investment need and domestic savings. Using the logic of the Harrod-Domar model, an increase in aid flow can propel an increase in the investment of a recipient country by the same amount (the incremental capital output ratio ICOR). There is however the Donor interests' model which has roots in both realist and Marxist traditions. Realists and Marxists argue strongly that the recipient's economic potential for the donor country and perpetuation of the disparities between the donor and the recipients, matter.

There is however the recipient needs' model that in deciding to which countries to give financial assistance and how much, donors are assumed to follow the economic, political and social needs of the recipient countries. Needs could be expressed in a variety of ways, e.g. income and poverty levels, infant mortality, population, and levels of human and political development. The basic proposition stemming from the 'recipient characteristics' model is that countries that are lacking in the areas supported by foreign aid would receive more assistance than countries that are better off in these areas. Several studies support this model, especially when recipients' characteristics are defined in economic terms. Overall, higher infant mortality levels (Trumbull and Wall, 1994), lower incomes (Alesina and Dollar 1998; Maizels and Nissanke, 1984), lower Physical Quality of Life Index (Maizels and Nissanke, 1984) and lower life expectancy (Schraeder, Hook, and Taylor, 1998) are positively associated with levels of financial assistance.

Interestingly, however, when researchers account for the economic needs of the recipient country's government, expressed as the proportion of government consumption of the nation's gross domestic product, there is no evidence that recipients with bigger governments receive more aid than countries with smaller ones (Ali and Isse, 2006). This last finding confirms the notion that the plight of the recipient countries' citizens rather than the financial needs of their governments are what drive foreign development assistance at least partially. Ali and Isse (2006) also do not find support for the argument that "countries that depend on private capital [measured both at FDI and private lending credits] tend to attract less foreign aid" because countries that attract more foreign investment are perceived as needing less foreign aid.

International aid in the 1990s faced a new paradigm shift, as aid agencies understood and shared a concept of equal partnerships with recipient governments and respect for coordination among aid agencies to avoid redundancy and inefficiency, partnerships among donor agencies, governments, NGOs, and civil society became a norm. In the 1990s aid agencies began to refer to the necessity to pursue partnerships in various policy documents (WCEFA Secretariat, 1990; DAC/OECD, 1996; World Bank, 2000; Eriksson, 2001; DFID, 2003). In recent years the concepts of ownership and partnership have become very important in development assistance. But in the international aid community, the actual functions of partnerships have not been analyzed carefully, questioning their significance and effectiveness in the context of comprehensive policies and their implementation. Partnerships share more political pain and gain and require strong commitments and investments (Balloch and

Taylor, 2001). The interdisciplinary literature has only a limited number of definitions in the context of international development/cooperation. Bray (1999) defined partnership simply as "persons (or organizations) who share (similar actions)" and pointed out that while the term generally implies equal appropriations, in reality there is often a dominant partner and its characteristics change significantly under different settings and over time.

It is important note that the extant literature on foreign aid/donor support sees aid largely as a source of financial and material support that targets the poor. This understandably is linked to the thinking that external resources are required to fill the created by low domestic savings. It is rare to expect that donor funds would be used to fund core capital projects like road construction, urban beautification or maintaining tourism capital assets. Equally, an 'economy' in the development literature is generally associated with nation-state; sub-national development studies are still rare, and modeling foreign aid flowing to a sub-national government thus presents need further research.

3.0 Methodology

Ex-post facto research design was used for this study. A sample of 200 respondents were purposively selected from the donor programmes, CSOs, and MDAs. The main instrument for data collection was the structured questionnaire which aimed at eliciting information from the respondents on the dependent in independent variables of the study. Data collected for the study was analyzed using ordinary least square multiple regression and Pearson product moment correlation coefficient.

In order to guide the study models were formulated. The models were thus state: Beginning with the production function, which expresses a relationship between output (Q), Labour Force (L), Capital (K), and Land (N):

Q = f (L, K N)…………………… (1)

All things being equal, if L and N are held constant, equation (1) will be rewritten thus as

Q = f(K) -------------------- (2)

And K can be expressed as a function of Savings (S), foreign direct investment (FDI), donor support (DS), and external borrowing (EB)

K = f(S, FDI, DS, EB)…………………. (3)

FDI is often tied to certain conditionality, saving is very low in LDCs due to low income, and external debt is generally associated with huge debt servicing/payment burden. Thus for our purpose, we express K and Q as function of DS:

Q = f(DS) ………………………… (4)

Equation 4 can be expressed as a development equation by assuming that change in Q leads to development. Thus, we make economic development (EDV) as a function of donor support (DS):

EDV = f(DS) -------------------- (5)

Lessons from experiences of countries that are successful with donor support, and the literature on foreign aid generally indicate that inflow of aid to an LDC depends on the following:

- ✓ Political governance – a politically stable and predictable environment is more conducive for donor support to locate.
- ✓ Economic governance – donors prefer economies that have favorable conditions for the businesses.
- ✓ Corporate governance – donors prefer an environment that is reforming with respect for accountability, transparency, and respect for economic plans and the budget process.
- ✓ Deliberate support and respect for partnerships/agreements – states that specifically make things easy for donors, and respect agreements tend to attract more donor funds.

Making DS a stable function of political governance, economic governance, corporate governance, and support for donors, we restate the development equation 5 as follows:

FDS = f (POL, ECN, CORP, SDS)……………………………… (6) .

EDV = f (POL, ECN, CORP, SDS)……………………………… (7)

Where
POL = Political governance indicator
ECN = Economic governance indicator
CORP =Corporate governance indicator
SDS = Sound donor support indicator
FDS = Flow of donor support indicator
EDV = Economic development indicator

4.0 Results and discussions

Key highlighted bellow indicates that the constant term had positive sign and was significant at 95% confidence interval. This indicates that factors other than donor support cause development to take place. The coefficient for political governance was also positive and significant, indicating a positive relationship between political governance and economic development.

EDV = 8.766 + 0.257POL + 0.093ECN + 0.095COP + 0.216SDS
(4.413)** (3.569)** (2.214)** (2.879)** (7.448)**
Adjusted R^2 = 0.713 F-statistics (3, 193) = 10.5431 DW = 1.90
* = Not significant at 5%
** = Significant at 5%

FDS = 8.408 + 0.036POL + 0.247ECN + 0.0497COP - 0.0319SDS – 0.042EDV
(2.516)** (4.000)** (2.266)** (3.017)** (-2.681)** (-3.818)**
Adjusted R^2 = 0.746 F-statistics (3, 193) = 10.660 DW = 1.764
* = Not significant at 5%
** = Significant at 5%
Note: The numbers in parenthesis directly below each co-efficient denotes the "t"-values.

The coefficient for economic governance was positive and significant; indicating also positive relationship between economic governance and economic development. Various development programmes like, development of vocational skills, health education, rural roads and urban water supply projects which have impacted positively on the lives of the citizens, which attracted donor support. The indicator for corporate governance and support for donor programmes were also positive and significant, indicating that reform programmes initiated in the State and initiation of programmes that specifically made things easier for donors impacted positively of development, and attracted donor support alongside. R-squared equal to 0.713, F-statistics (3.193) = 10.5431, and DW = 190 indicate that the independent variables adequately described the dependent variables, the model was well fitted, and autocorrelation was minimal.

Chart 01: Donor support by sectors (Cross River State)

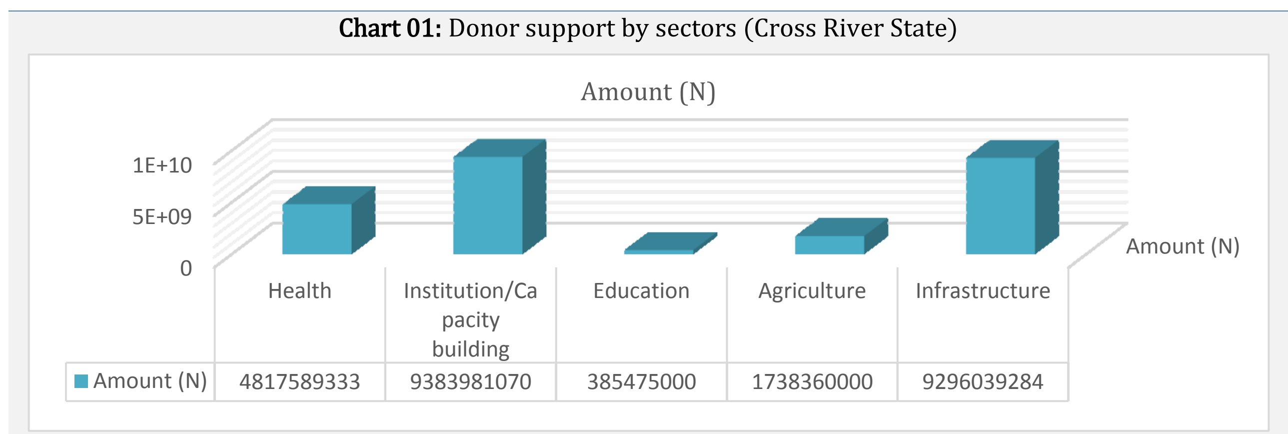

Chart 1 shows how donor support was distributed to the infrastructures, health, institutional/capacity building, education, and agriculture. Institution/capacity building took the lead with N9.38 billion, followed by

infrastructure N9.29 billion, health N4.82 billion, agriculture N1.74 billion, and education had N385.5 million respectively.

Table 2 shows result of the Pearson Product Moment correlation analysis, testing the relationship between donor support and economic development in Cross River State. The calculated r- value of 0.427 was found to be greater than the critical r-value of 0.196, indicating that the relationship was significant at 0.05 alpha level with 198 degrees of freedom. With this result the null hypothesis is rejected. It, therefore, implies that there exist a significant relationship between donor support and economic development in Cross River States.

Table 2: Pearson product moment correlation analysis: Relationship between donor support programme and economic development in Cross River State

Variables	Mean	Standard deviation	r-cal
Donor support program	27.45	3.64	0.427
Economic development	22.47	2.06	

*P<0.0, d.f = 198 critical- r= 0.196

5.0 Conclusion & policy implications

This study investigated the impact and determinants of donor support programmes in Cross River State using the method of OLS. The findings show generally that good governance was key to promoting steady and sustained inflow of donor funds to the State. On the basis of these findings, it was recommended that the State government should among other things intensify efforts towards enshrining good governance and accountability in the State. This calls for strong commitment to legislative oversight and value for money auditing, and a political system that accommodates the roles and views of CSOs and representatives of the people. In a nutshell, with transparency, accountability, good political governance devoid of corruption, the State will be able to attract more donor funds and thereby reduce dependence on allocation from the Federation Account. More donor funds and sound management of resources will enable the State attain its vision of being the preferred destination for leisure and business by 2020.

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