FOREIGN AID EFFECTIVENESS IN POVERTY REDUCTION IN NIGERIA: THE ROLE OF INSTITUTIONAL QUALITY

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ABSTRACT

This study examines the effectiveness of foreign aid in reducing poverty in Nigeria, with a particular focus on the moderating role of institutional quality. The study used Two-Stage Least Squares (TSLS) estimation method and covered the period 1990 to 2023. The results show that foreign aid does not have a significant impact on poverty in Nigeria and none of the institutional quality indicators significantly affects poverty. However, the results showed that foreign direct investment has a significant positive impact on poverty rate, while inflation has a negative significant relationship with poverty; and exchange rate also showed a positive significant relationship with poverty. The study concludes that institutional quality is not too relevant when it comes to the effectiveness of foreign aid in reducing poverty. Furthermore, foreign aid has no significant relationship with poverty, while foreign direct investment is the most effective in reducing poverty. To reduce poverty in Nigeria, the study recommends that government should reduce its reliance on foreign aid as a means of poverty alleviation; rather than seeking aid, policymakers should develop strategies to attract more foreign investors into the country, and the government should work on the macroeconomic objectives of price stability and exchange rate stability.

Keywords: Foreign aid, Poverty, Institutional quality, Two-stage least square
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INTRODUCTION

Globally, empirical evidence highlights the critical role of institutional quality in shaping foreign aid and poverty reduction (Burnside & Dollar, 2000; Easterly &

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Roodman, 2004; Svensson, 2000). Countries with transparent and accountable governance systems, such as Rwanda and Vietnam, have been highly successful in effectively leveraging aid to promote socio-economic development. On the other hand, in regions plagued by corruption and weak institutions, such as sub-Saharan Africa and conflict-affected countries, aid often does not produce the expected results, leading to a vicious cycle of dependency and limited progress in poverty reduction.

Foreign aid is a tool used to address development challenges like poverty and inequality by providing financial resources, technical assistance and capacity building which complements domestic poverty reduction efforts (Iwegbu & Dauda, 2022). It often targets areas such as health, education and infrastructure, and aims to alleviate poverty by improving access to essential services and promoting economic opportunities. Nigeria has received billions of dollars in development assistance over the years, yet it still faces significant development challenges. This discrepancy raises questions about factors that influence the success of development assistance programmes in achieving their intended outcomes (Fayissa & El-Kaissy, 1999; Iwegbu & Dauda, 2022).

Aids and other assistance could be in the method of payment of funds generated from authorised agencies and donors, regions of developed states (World Bank, 2019), and the different components of foreign capital inflow; foreign direct investment, remittances, foreign portfolio investment and foreign aid to supplement the local capitals of less developed nations. The purpose is to improve human welfare through various investments such as education, health, agriculture, and so on, though, such

assistance may not efficiently lessen poverty without strong and quality institutions. Therefore, an important factor to be considered for the effectiveness of aid assistance is the quality of institutions. Strong institutions characterised by transparency, accountability and efficient management are essential to ensure that development assistance is appropriately allocated, managed and used. Conversely, weak institutions characterised by corruption, inefficiency and lack of accountability can undermine the effectiveness of aid by diverting resources from poverty reduction efforts and exacerbating existing inequalities (Abate, 2022).

However, the effectiveness of foreign aid in achieving its objectives has been a subject of debate, especially in developing countries like Nigeria, where governance and institutional quality play a key role. As Africa's most populous country, Nigeria though vast in natural and human resources, suffers from high levels of poverty, inequality, underdevelopment, corruption and weak institutions that impede progress towards sustainable economic growth.

The effort of developing nations including Nigeria to eradicate poverty through the implementation of various policies has caught the attention of the United Nations to include the eradication of poverty in the Sustainable Development Goal (SDG 1) agenda by 2030 (Fagbemi, Oladejo, & Adeosun; 2020; Alkire, Oldiges, & Kanagaratnam, 2021), and the developed economies have intervened through aids to assist in eradicating the persistent growth in the poverty rate of developing nations (Veiderpass & Andersson, 2007). Examples of such policies implemented in Nigeria are; Operation Feed the Nation (OFN), Directorate of Food, Roads and Rural

Infrastructure (DFRRI), National Directorate of Employment (NDE), and National Poverty Eradication Programme (NAPEP) (Leke & Oluwaleye, 2015),

However, these policies and aids could not produce so much impactful improvement not only because of financial limitations caused by low domestic investment and savings but also as a result of weedy rule of law, poor accountability, low quality institutions, and high level of fraud (Brautigam & Knack, 2004). Also, aid may become detrimental as the government of the recipient country becomes over-reliant on aid rather than internally generated revenues. This makes the government less responsive and accountable to its citizens (Young & Sheehan, 2014).

Worthy to mention are variants of opinion in literature as regards effectiveness of aid in reducing poverty in less developed countries. While some literature (Jones & Tarp, 2015; Faria, Farah, Önder & Ayhan,2016; Nawaz and Khawaja, 2018; Williams, 2015; Eslamloueyan & Jafari, 2019; Slesman, Esfahani, & Haghighi, 2015a, 2015b) discoursed that foreign assistance can be engaged as a means to eradicate the incidence of poverty because it enhances insufficient resources, mostly in health and education areas through quality institutions, other thread of literature claimed that foreign aid has brought nothing other than wretchedness and extreme poverty in many African countries (Young & Sheehan, 2014; Kathavate & Mallik, 2012; Magnon, 2012). Such indecisive outcomes can be ascribed to the quality of governance in the country coupled with the existing fiscal policy measures.

Thus, this study examines the importance of institutional quality as a major determinant of the effectiveness of foreign aid in reducing poverty in Nigeria, from 1990 to 2023 via the Two-Stage Least Squares (TSLS) estimation method. The remaining sections are; review of the literature, data and methodology, discussion of results, conclusion and recommendation of policy.

REVIEW OF LITERATURE

Conceptual Review

Concept of Foreign Aid

By definition, foreign aid is the transfer of resources or capital flows from one country to another, usually voluntary assistance from developed countries to developing countries. This is because developing countries are small, have a strong industrial base, and have a low Human Development Index (HDI). Under normal circumstances, foreign aid takes the form of grants, low-interest loans, or technical assistance. If foreign aid must be repaid in foreign currency, the foreign aid is considered a hard loan, and if the repayment must be made in local or domestic currency, the foreign aid is considered a soft loan. The World Bank (WB) usually provides foreign aid in the form of soft loans, and other international organisations may also provide soft loans (Thapa, 2020). The distribution of official development assistance, commonly known as foreign aid, began after the Second World War (Feeny, 2007). The primary motivations of donors and providers of development assistance include meeting humanitarian needs, supporting economic growth and poverty reduction in poor countries, promoting unity and solidarity, pursuing

political, economic, and strategic interests of countries, achieving long-term and short-term interests, promoting long-term trade and economic interests, strengthening historical context, and promoting and protecting human rights (Riddell, 2014).

Concept of Institutions

In recent years, the role of institutions in economic development has received steadily increasing attention from researchers, policy makers and development practitioners. Institutions are generally defined as "constraints that human beings impose on themselves" (North, 1990). Following this definition, institutions prohibit, permit or require specific type of behaviour, i.e. political, economic or social, that are important for reducing transaction costs, for improving information flows and for defining and enforcing property rights. However, this definition does not have universal acceptance. Other scholars include in their definition of institutions organisational entities, procedural devices, and regulatory frameworks (Williamson, 2000). In most of the recent articles, institutions are defined in a broader sense, linking various measures of institutional quality to development outcomes from various angles and disciplines (Johannes Jütting, 2003).

Oliver Williamson emphasises the role of institutions in reducing transaction costs, the set of fundamental political, social, and legal ground rules that establish the basis for production, exchange, and distribution. In this sense, institutions are essential for reducing uncertainty and facilitating economic transactions (Williamson, 2000). Institutions are the humanly devised constraints that structure political, economic,

and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct) and formal rules (constitutions, laws, property rights). This definition highlights how institutions shape economic performance by influencing incentives and behaviours (North,1990).

Concept of Poverty

The term 'poverty' is described by Emma et al. (2017) as the state of general lack which has to do with the deprivation, being insecure, humiliation, degradation, the sense of being dependent and of being forced to accept rudeness, insults and indifference when one seeks help. In other words, it can also be seen as the state of a person not having enough to eat or not having the privilege to possess the basic necessities of life or when such a person lacks the command over basic consumption needs such as food, clothing and/or shelter. Poverty is also defined by Adebukola (2014) as the lack, want and deprivation of an individual without bias for race, ethnicity, religion with extensive global reach. In the work of Leke and Oluwaleye (2015), poverty was also described from an economic perspective as a situation whereby an individual experiences low income and/or low consumption of what is required or perceived as the minimum standard of nutrition and other necessities of life. Furthermore, poverty can be seen as the prevailing condition whereby people lack basic needs and services or lack of minimum standard of living (Ajodo-Adebanjoko & Walter, 2014). These basic needs are put forward to encompass food, water, shelter, and clothing, access to other assets such as education, basic healthcare, credit, participation in the political process, security and dignity.

Theoretical Review

Threads of theories by various studies that ascertain the reason for poverty in emerging countries exist. Also, literature on theories on foreign aid effectiveness in less developed countries exists. The cultural theory of poverty explains the reason for poverty, which is the cultural beliefs, norms, and practices that cause imbalance in the society. This by implication makes poverty trans-generational by accepting the belief system in the society (Bradshaw, 2006).

The Neoclassical economist restates in the individual theory of poverty that the individual is the main cause of the insistent incidence of poverty especially in their neighborhood (Bradshaw, 2006). The theory believes an individual remains in poverty because of unproductivity. This was supported by renowned neoclassical economists such as Kaldor-Hicks and Alfred Marshal who laid emphasis on the individual's choice in investment, choice in the market, and education, can lead to wealth or poverty. Spencer (2014) opines that poverty is majorly caused by the laziness of the individual. Wilson (1987) in the structural theory of poverty opines that poverty is caused as a result of the structural imbalance caused either by economic, political, or social factors in their region (Makhalane, 2009; Sameti, Esfahani & Haghighi, 2012).

Another theory of poverty known as the geographical theory of poverty states that geographical variances in resource distribution are primary determinants in the predominance of poverty in a state. This implies that individuals, resources, and institutions are the major sources of poverty. This makes poverty differ from one place to another, as the rationale behind some regions' poverty could be deduced

from the lack of resources to generate revenue for a means of livelihood and investment. Therefore, these regions should not be responsible for their penury because they lack an enabling environment and the endowment to escape from poverty. However, this theory does not suggest alternative means for these regions mostly in the Asian continent to reduce poverty (Addae-Korankye, 2019; Bradshaw, 2006).

On the other hand, the dual gap theory according to Chenery and Strout (1966), is one of the models that explain the process of poverty reduction through the use of foreign aid to initiate growth, though it contains controversial hypothetical fundamentals (Mbah & Amassoma, 2014). It augments the gap that exists in import-export and investment-savings connection. However, Todaro and Smith (2015) believe that financial aid must be accompanied by technical aid (high labor transfers) to spur economic growth in the receiving country. An extension of the two-gap model is the three-gap model developed by Bacha (1990) and Taylor (1991). The three-gap model assumes that the utilisation and growth of productive capacity is not only constrained by the availability of domestic and foreign savings resources as suggested by Chenery and Strout (1966), but also by the extent of those available public resources. According to this model, there are fiscal constraints that determine the economy's ability to grow. The level of public sector savings (revenues and taxes) and its investments (spending on infrastructure and key sectors of the economy) determine the productive capacity of the economy directly through the level of commitment of public sector enterprises and indirectly through the public sector's provision of human, physical and social infrastructure (Sepehri & Akram-Lodhi, 1999). Iqbal

(1995) finds that an increase in foreign exchange reserves, which are used to finance imports and devaluation of the local currency can lead to increased production due to increased foreign exchange earnings. However, currency devaluation may have a negative impact on potential output growth if the resulting decline in foreign savings is not offset by an increase in national savings (Ijirshar et al., 2019). This theory substantiates the mediating role of institutional quality in making relevant policies which will attract foreign aid, foreign investment, and the use of domestic resources all geared toward reducing poverty and spurring economic growth and development.

Empirical Review

Khan Zeeshan Haque, Gupta, Tausif, and Kaushik (2022) examined the interconnectedness in poverty, growth, inequality and foreign aid in Middle East and North Africa (MENA), using secondary data covering the periods of 1991 to 2019. The study employed the Ordinary Least Squares regression, System Generalised Method of Moments, and Panel Random effect. Results from the study depicted foreign aid as having a significant effect in reducing poverty in the MENA. Similarly, the study of Tsaurai (2021) which assessed the nexus between foreign aid and human capital advancement in MENA using the Generalised Method of Moments (GMM) revealed that foreign aid is significant to reduction in poverty.

Using a dynamic panel estimation technique, Mahembe and Odhiambo (2021) assessed the effect of foreign aid on poverty. Findings revealed the existence of a significant association between foreign aid and poverty reduction in sub-Saharan Africa. The study emphasised that foreign aid has helped reduce poverty. This is not

different from the study of Akobeng (2020), who investigated the nexus between foreign assistance, institutional democracy and poverty level in sub-Saharan Africa. Using the 2SLS, findings exposed that foreign assistance reduces the level of poverty. However, the different aid has different effect on poverty reduction, therefore a multilateral kind of foreign aid has more effect in reducing poverty than a bilateral foreign aid. Another study from Edmore and Odhiambo (2018) that investigated the influence of foreign aid on reduction of poverty using a panel estimation technique also revealed that foreign aid has significantly reduced poverty in sub-Saharan Africa.

In determining the effectiveness of foreign aid on poverty alleviation in Ghana from 2008 to 2018, Boye (2019) employed the use of ARDL to find the long run effect of the variables in the study. Results indicated that foreign assistance to Ghana has no significant effect on reducing the level of poverty. Instead, the country should pay more attention to trades and foreign investment to alleviate poverty. This finding is not different from that of Shitile & Sule (2019) who explored the effectiveness of foreign assistance on reducing poverty in Nigeria over the periods of 1999 to 2017. Using the Autoregressive Distributive Lag, findings revealed foreign aid had no significant influence in decreasing poverty in Nigeria.

Seedee (2018) explored how dependency on foreign aid has increased poverty rather than reduced poverty in Liberia. Using an interdisciplinary method of research, the

outcome from the study showed that foreign aid does not alleviate poverty. This finding is similar to Farah et al. (2018) in Ethiopia that foreign aid has not in any way reduced poverty. In Somalia, findings by Wrangberg (2018) in 31 countries covering the periods of 1987 to 2010 using a fuzzy regression and that of Nur (2015) on Somalia revealed that foreign aid has no significant influence on poverty decline.

On the contrary, some other study has found a significant relationship between foreign aid and poverty reduction. Kabir (2020) analysed the effectiveness of foreign aid and income inequality using a panel data from selected countries in Africa, South Asia, and America. The study employed the fixed and random effect estimation. The findings from the study revealed that foreign aid has a positive and significant impact on income inequality. In Nigeria, Attamah (2019) analysed the impact of foreign aid on poverty alleviation. The study employed the Autoregressive Distributive Lag model and the finding revealed that foreign aid had a significant impact on poverty alleviation. This is similar to the findings or Farahmand (2021) whose study on Afghanistan using the Error Correction Model, also revealed a significant effect.

This study will therefore contribute to existing literature by considering the role of institutional quality as a determining factor for the effectiveness of foreign aid in the poverty alleviation relationship. Also, the nexus between the three variables (foreign aid, poverty, and institutional quality) separates the study from previous studies that

have only researched foreign aid and poverty reduction relationship (Kassim & Beceren, 2022) and foreign aid and economic growth nexus (Arndt & Jones, 2014; Young and Sheehan, 2014; Maruta, Banerjee, & Cavoli, 2019). In addition, differently from the above previous studies which engaged a single model for their studies, two different models are built in this study to test for the effectiveness of foreign aid on poverty and the effectiveness of institutional quality on foreign aid. Lastly, other control variables such as inflation and exchange rate are included in this study.

METHODOLOGY

Type and Sources of Data

The data used in this study are per capita income (current international $) used to proxy poverty, net official development assistance (current USD), net foreign direct investment, domestic credit to private sector, real exchange rate (2010=100), inflation rate, political stability and absence of terrorism and violence, corruption, regulatory quality, and government effectiveness. Data used were got from the World Bank Development Indicators database (World Bank, 2023).

Model of Specification

This study is built on the model of Akobeng (2020), which examined the impact of foreign aid on economic growth. However, modifications made to the model include poverty as the dependent variable in this study and also the inclusion of four institutional variables with data spanning 1990 to 2023. The model is thus specified:

$$POV_t = \beta_0 + \beta_1 FA_t + \beta_2 DCP_t + \beta_3 FDI_t + \beta_4 PSTAB_t + \beta_5 CCOR_t + \beta_6 RQUAL_t + \beta_7 GOEF_t + \beta_8 M_t + \epsilon_t$$

Where:

POV = Poverty

FA= Foreign Aid

DCP = Domestic Credit to Private Sector

FDI = Foreign Direct Investment

PSTAB = Political Stability

CCOR = Control of Corruption

RQUAL = Regulatory Quality

GOEF = Government Effectiveness

M_t = Macroeconomic variables in the equation (inflation and exchange rate)

e_t = error term

The estimated parameters $\beta_1, \beta_2 \ldots \ldots \ldots \beta_8$ are constant but changes based on the study's priori expectation.

Table 1: Variables, Measures and a priori expectations

Code	Variables	Description	A priori expectation
POV	Poverty	Measured by per capital income	Dependent variable
FA	Foreign aid	Net official development assistance and official aid (Current US $)	(+) sign
DCP	Domestic credit to private sector	Domestic credit to private sector (% GDP)	(+) sign
FDI	Foreign direct investment	Foreign direct investment net inflows (% GDP)	(+) sign
InstitutionalQuality (Index)			
PSTAB	Political Stability	Political stability (Estimate)	(+)
CCOR	Control of Corruption	Control of Corruption (Estimate)	(-)
RQUAL	Regulatory Quality	Regulatory Quality (Estimate)	(+)
GOEF	Government Effectiveness	Government Effectiveness (Estimate)	(+)
INFL	Inflation	Inflation rate	(-)
RXCHR	Real Exchange Rate	Official exchange rate (2010=100)	(-)

Estimation Process

The endogeneity problem is a major hindrance in analysing influence of foreign aid on poverty because of the possibility that poverty can also affect foreign aid (Olofin, 2013; Rajan & Subramanian, 2008). To correct for this bias, the two-stage least squares (TSLS) is used for estimation. TSLS incorporates lags and leads of

explanatory variables, which eliminates possible inconsistencies associated with such regression results

To certify that variables are stable over time, stationarity test is conducted, to ascertain if the variables have a constant mean and variance over time, which contributes to the stability of the model. To examine the stationarity properties of the variables, this study uses the Augmented Dickey-Fuller (ADF) test.

RESULTS AND DISCUSSION

Table 2: Descriptive Statistics of Variables

	POV	FA	DCP	FDI	PSTAB	CCOR	RQUAL	GOEF	INFL	REXCHR
Mean	6.300811	1.895209	10.35235	1.295131	-1.912017	-1.162005	-0.919669	-1.039060	16.49470	109.5051
Median	5.527611	1.163209	9.880807	1.288550	-1.927430	-1.126394	-0.917148	-1.026958	10.30663	100.5680
Maximum	1.965611	1.528708	19.62560	2.900249	-2.211123	-1.502068	-1.292818	-1.213150	75.40165	273.0129
Minimum	1.413412	1.145610	4.957522	0.039522	-1.626329	-0.900949	-0.681769	-0.847907	0.686099	49.77690
Std. Dev.	3.824211	2.322309	3.512237	0.842929	0.163719	0.134527	0.159910	0.100646	15.27852	48.08918
Skewness	0.422611	2.354290	0.758088	0.168663	0.169068	-0.815938	-0.713602	-0.104461	2.167068	1.833057
Kurtosis	1.828281	9.879741	3.284840	1.887485	2.144599	3.520547	3.021267	2.095071	8.032426	6.486050
Jarque-Bera	2.957042	95.56464	3.272399	1.914594	0.775542	3.056238	2.122252	0.898484	62.48924	36.25666
Probability	0.227975	0.000000	0.194719	0.383929	0.678568	0.216943	0.346066	0.638112	0.000000	0.000000
Sum	2.146513	6.234510	341.6275	44.03444	-42.06437	-29.05012	-22.99172	-25.97650	560.8199	3723.174
Sum Sq. Dev.	4.824224	1.729820	394.7459	23.44744	0.562883	0.434341	0.613711	0.243112	7703.297	76314.78

Authors' computation, 2024. Source: World Bank, 2023

Table 2 presents the summary statistics for this study. From the summary, poverty which is proxy by per capita income of an individual on the average is $5.5 with a minimum of 1.413412 and a maximum of 1.965611. This implies that some Nigerians live below the poverty line, depicting an increasing number of the poor. Also, Table 2 showed that foreign aid received in Nigeria on the average is $1.16 billion with a minimum of aid received by the country at $1.14 billion and a maximum of $1.15 billion. Domestic credit to private sector on the average is 9.8%

of the gross domestic product, with a minimum of 4.9% and a maximum of 19.6% of total gross domestic product. On the average, foreign direct investment into the country is $1.288 billion while political stability and absence of violence and terrorism is estimated at -1.927 on average, with a minimum value of- 1.626 and a maximum value of -2.211. Control of corruption on the average in Nigeria is at -1.126, the minimum and maximum values are -0.900 and -1.502 respectively. Regulatory quality is averagely on -0.9171, with a minimum and maximum value of -0.681 and -1.292 respectively. The value of average exchange rate is 100.5 of local currency to dollar with a maximum of 273.01 and a minimum of 49.776.

Skewness measures asymmetry of a probability distribution, indicating how data is distributed around the mean. Majority of the variables are positively skewed; this means that the tail on the right side of the distribution is fatter or longer than the left side. Furthermore, CCOR, RQUAL and GOEF are negatively skewed, implying that the tail on the left side of the distribution is fatter or longer than the right side. However, more variables indicate mild skewness, implying that the distribution is relatively symmetrical. This infers that analysis made in this study is reliable and robust.

Kurtosis is a measure of the "tailedness" or "peakedness" of a distribution. The results indicate that the values for POV, FDI, PSTAB and GOEF are platykurtic since they are less than 3 indicting a flatter distribution with fewer extreme values. This implies that the data is more spread out and tails are shorter, while DCP and RQUAL are approximately 3, that is, they are mesokurtic, indicating that most values of the data are clustered around the mean, that is, it follows a bell curve shape. However, FA, CCOR and INFL are greater than 3 and are leptokurtic, this indicates a more peaked distribution with longer tails.

The Jarque-Bera test is required to determine if data is normally distributed or not depending on their probability values. From the data used in the study, most of the variables are normally distributed because they have large P- values greater than 0.05, except for FA and INFL.

Table 3: Unit root test result

ADF VARIABLE	Level		First Difference		Order of Integration	Remarks
	t statistic	Critical value (	t statistic	Critical Value (10%)		
POV	4.0246 (0.0001)	-2.9540**	-2.5359 (0.0168)	-2.4571**	I(0) I(1)	Stationary
FA	-2.9646 (0.0492)	-2.9571**	-5.8349 (0.0000)	-2.9639**	I(0) I(1)	Stationary
DCP	-2.6674 (0.0911)	-2.9604**	-5.2231 (0.0002)	-2.9677**	I(1)	Stationary
FDI	-2.3918 (0.1516)	-2.9540**	-6.9674 (0.0000)	-2.9571**	I(1)	Stationary
PSTAB	-2.6027 (0.1081)	-3.0123**	-4.6878 (0.0017)	-3.0299**	I(1)	Stationary
CCOR	-4.4589 (0.0036)	-3.0655**	-5.2030 (0.0010)	-3.0810**	I(0) I(1)	Stationary
RQUAL	-2.458759 (0.1391)	-3.0123**	-3.6311 (0.0151)	-3.0299**	I(1)	Stationary
GOEF	-2.5075 (0.1279)	-3.0123**	-6.0304 (0.0001)	-3.0206**	I(1)	Stationary
INFL	-2.384342 (0.1544)	-2.9639**	-4.1250 (0.0032)	-2.9639**	I(I)	Stationary
REXCHR	-2.6552 (0.0926)	-2.9540**	-5.4408 (0.0001)	-2.9571**	I(1)	Stationary

***, **, * denotes statistical significance at 1%, 5% and 10% respectively

The results show that all the variables are stationary at first difference. This means the time series data is integrated of order one. Thus, it will be easy to model and forecast changes in the variables and can assist policy makers anticipate and prepare

Regression Results

Table 4: Foreign aid interaction with poverty and other variables

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FA	28.39269	15.26848	1.859562	0.0959
DCP	1.567610	3.010910	0.519938	0.6157
FDI	-2.480911	5.544510	-4.472936	0.0015
PSTAB	1.132311	2.732311	0.412123	0.6899
CCOR	1.058910	5.585411	0.018864	0.9854
GOEF	-2.383411	5.049711	-0.471847	0.6483
RQUAL	4.986711	2.453411	2.027936	0.0732
INFL	-1.324510	6.944509	-1.905957	0.0890
REXCHR	4.113209	1.363409	3.020402	0.0145
C	1.836712	1.175412	1.567437	0.1515
R-squared	0.897059	Mean dependent var		6.366511
Adjusted R-squared	0.794118	S.D. dependent var		2.687611
S.E. of regression	1.214511	Sum squared resid		1.335423
F-statistic	8.714283	Durbin-Watson stat		1.607004
Prob(F-statistic)	0.001756	Second-Stage SSR		1.334323
J-statistic	0.000000	Instrument rank		10

Authors' computation, 2024. Source: World Bank, 2023

The study investigated the efficacy of foreign aid and its interaction with poverty and institutional quality and other macroeconomic variables. From the result of the two stage least squares, the findings showed that foreign aid though has a positive coefficient but is not significantly related to poverty. This implies that increases in foreign aid would not necessarily alleviate poverty especially with weak institutional quality. This is not different from the findings of the study by Seedee (2018), whose results showed that foreign assistance had not eased poverty in Liberia. The findings from this study are also supported with empirical evidence from Ghana, by Boye (2019) which revealed that foreign aid does not reduce inequality and poverty in Ghana. Also, Shitile and Sule (2019) explored the efficacy of foreign assistance on poverty reduction in Nigeria. The findings from the study revealed that foreign aid

does not have any significant impact in reducing poverty in Nigeria. This also aligns with the findings of Nur (2015) in Somalia that foreign aid does not alleviate poverty. One major reason why foreign aid has not been effective in the reduction of poverty can sometimes be tied to the donor's priority over local needs. That is, in most cases aids are tied to the interest of the donor countries such as economic interest, geopolitical goals, and resource access. Also, the project to be done with the aid might not align with the most pressing needs of the recipient communities, therefore limiting the aid effectiveness in reducing poverty.

The findings from this study also showed an inverse and significant relationship with foreign direct investment. That is an increase in foreign investment will reduce poverty. This implies that all hands must be on deck to attract foreign investment as it will generate income, increase output and create employment which will definitely reduce poverty. This also aligns with the results of Boye (2019) that countries should pay more attention to trade and foreign investment to alleviate poverty.

The findings also revealed that three out of the four institutional quality variables in Nigeria are not the causes of poverty, however, regulatory qualityhas a positive and significant effect on poverty at 10% significance level. This implies that if government performs her function as a regulatory institution in ensuring effective and efficient discharge of her duties and implementation of poverty alleviation programmes, poverty will be reduced. Furthermore, corruption and political instability have positive effect on poverty while, government effectiveness has a negative effect on poverty. This is contrary to the findings of Umaru, Hamza and Ali (2015) that found corruption to be one of the major causes of poverty in Nigeria.

The study also showed that real exchange rate is significant and positively related to poverty in Nigeria. This signifies that changes in exchange rate can influence poverty directly. Lastly, the findings revealed that inflation is negatively and significant at 10% level to poverty. This implies that an increase in the level of inflation will decrease poverty, possibly because inflation is caused by too much money in circulation sponsored by increase in government expenditure via deficit budgeting. The $R^2$is 0.75 which implies that 75% of the independent variables explain the systematic variations in poverty. The Durbin-Watson test of serial correlation seems to indicate absence of serial correlation with 1.60, approximately 2.

CONCLUSION AND RECOMMENDATIONS

The study assessed the importance of institutional quality in the effectiveness of foreign assistance on poverty reduction in Nigeria. Literatures suggest that foreign aid have significant effect on poverty reduction, however, the quality of institution especially corruption and government effectiveness, has been harmful to the goal of foreign aid in alleviating poverty. This study concludes that institutional quality seems to have very minimal role in the efficacy of foreign aid to alleviate poverty since only regulatory quality out of the four institutional quality variables can reduce poverty. Also, foreign aid does not have any significant relationship with poverty. Foreign direct investment will work best in poverty reduction as shown in this study; likewise exchange rate and inflation will have more impact on the living standard of the people.

The policy implication of this study is that government should depend less on foreign aid as avenue to alleviate poverty as such aid seems to have less impact on reducing poverty in Nigeria. Based on the result from this study, government should intensify efforts geared towards attracting foreign investors into the country. One way of doing this is by creating a favourable environment by providing infrastructures and ensuring reduced cost of doing business in the country. This would generate the desired result of reducing poverty via the multiplier effects of such foreign investments in creating employment, generating income, increasing output and promoting growth and development.

Based on the findings, the government should endeavour to stabilise exchange rate and minimise its fluctuations while also curbing inflation caused by deficit financing, which pumps too much money into the economy and creates the illusion of rich citizens.

Furthermore, government should discharge her regulatory role effectively and efficiently especially by ensuring that the poor are the direct beneficiaries of poverty alleviation programmes and policies.Also, fluctuations in foreign exchange will directly affect or increase poverty thus, the need to stabilise the value of the Naira. This can be achieved by implementing trade policies that will expand domestic trade and boost international trade.

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