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Economic Development Implications of the International Financial Institutions Loans: A Focus on Employment Generation in Nigeria

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ABSTRACT : Employment generation has remained central to the policy goal of economic development in Nigeria. In view of this, an empirical investigation into the link between international financial institutions loans and employment rate was carried out in this study. Specifically, the effects of loans from the International Finance Corporation (IFC), International Development Association (IDA), Paris Club and African Development Bank on employment rate were examined. 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 first difference, which justifies the test for cointegration using the Johansen method. It was found from the cointegration test results that long run relationship exists among the variables in the model. The parsimonious ECM revealed that IDA and African Development Bank loans have a significant positive effect on employment rate. This highlights the substantial role played these funding sources in generating employment in Nigeria. On the contrary, International Finance Corporation and Paris Club do not have any significant effect on employment rate. Owing to the findings, it is recommended that loans available to Nigeria from the international development association should be channeled to investments in critical infrastructure and agriculture development to generate employment and achieve economic development.

KEYWORDS: *Employment generation, institutions loans, International Finance Corporation, IDA, Paris Club and African Development Bank*

I. INTRODUCTION

Because of the need to avoid the negative effects of unemployment, many developing countries, including Nigeria, have made addressing unemployment issues a priority in their development plans. Many of these countries' economies would seek external finance in the form of foreign loans from international financial institutions to invest in key infrastructure if they were short on cash. These organizations provide loans on both hard and soft terms, depending on the country's credit rating (Benedict, Rina &Toan, 2003). This is projected to raise the level of goods and service production and, as a result, create more jobs. As a result, many politicians believe it is self-evident that there must be a direct link between productivity and job creation. External debt buildup is a regular occurrence in developing countries where domestic savings are low, current account payments deficits are significant, and capital imports are required to supplement domestic resources in order to drive economic growth and reduce poverty. This works as long as borrowed funds are used effectively for productive investment and there is no macroeconomic instability or regulations that distort economic incentives (Amakom, 2003).

Nigeria's unemployment rate has also been shifting, not following a regular pattern with the country's public debt. Loans from international financial institutions are thought to be 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 are a source of capital and, by extension, a way to improve job prospects through more investment and job creation.

Despite the fact that Nigeria has extensive access to loans from international financial institutions for the implementation of its annual budget, the conditionality associated with these loans has remained a source of concern for policymakers and other major economic stakeholders. The terms of the loans frequently conflict with fiscal aims, such as capital investment or recurrent spending targets, limiting the overall goal of budget implementation and international institution loans. Apart from the loan terms imposed by international financial institutions, the systemic corruption that appears to have engulfed the public sector has provided a huge impediment to the proper execution of budgets in Nigeria, where public service is regarded as a goldmine. As a result, borrowed money has been diverted into personal accounts, and essential budget components have been pushed to the background (Sanusi, 2017). 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. In this context, the goal of this study was to see how the execution of international financial institution loans contributes to the creation of jobs in Nigeria.

II.LITERATUREREVIEW

2.1Neoclassical Theory

According to neoclassical growth theory, debt has a direct impact on economic growth. This is because the amount borrowed is expected to increase investment if used properly. Butt (2009) argues that growth should increase and allow for prompt debt repayment as long as governments use borrowed funds for productive investment and do not suffer from macroeconomic instability, policies that distort economic incentives, or large unfavorable shocks (Akpomi & Kayii, 2021; Butt, 2009). The indirect consequence of debt, on the other hand, is its impact on investment. Debt servicing reduces the resources available for investment, which has a transmission mechanism that affects growth. Furthermore, public debt can operate as an implicit tax on a country's resources, imposing a cost on future generations in the form of a lower flow of revenue from a decreased stock of private capital. As a result, long-term interest rates may rise, private investments critical for productivity development may be crowded out, and capital accumulation may suffer (Benedict et al., 2003).

2.2 Empirical Literature

Afolabi et al. (2017) looked into the long and short-term relationships between foreign institutional loans and Nigerian economic growth. The study encompassed the years 1980 to 2014 and used an error correction model and a granger causality test to establish the association between the variables empirically. As a result, the research revealed that foreign loans had a detrimental impact on Nigeria's economic growth. The idea is that foreign loans should be used sparingly for infrastructure and projects that will result in economic development and expansion, as well as increased employment generation. Onakoya and Ogunade (2017) employed the OLS technique to gather evidence on how foreign loans affect Nigeria's economic growth. According to the study, which covered the years 1981 to 2014, external debt does not influence economic growth at a 5% level of significance, according to the study. This means that Nigerians aren't using foreign loans for development projects, which is the primary reason for borrowing.

Ndubuisi (2017) used the ordinary least squares approach and other statistical tools to extend the study on the influence of foreign loans on Nigerian economic growth from 1985 to 2015. The currency rate and external reserves were used as control variables, while the foreign loan stock and external debt servicing were the primary independent variables.The GDP was also included as a dependent variable in the study. As a result of the findings, debt service payments had a negligible negative impact on economic growth, whereas the foreign debt stock had a considerable positive influence on Nigeria's economic growth and, by extension, job creation. External reserves and the exchange rate, both of which are control variables, had a significant impact on GDP.As a result, the report advocated the use of debt from foreign organizations to fund infrastructure development.

To analyze the influence of institutional loans on economic growth in Nigeria from 1970 to 2013, Mbah et al. (2016) used an error correction model and an ARDL bound testing approach. The analysis discovered a long-run association between the variables and showed that external debt has a considerable negative impact on Nigeria's economic growth. The analysis suggested sensible borrowing that was induced by exports. In a study by Udeh et al. (2016), GDP was a function of external debt stock, external debt service, and a control variable, the exchange rate. This is how the study found that the exchange rate had a positive relationship with GDP, while the external debt stock and external debt service payment had a negative relationship with GDP.

Using ordinary least squares regression using secondary data, Ajayi and Oke (2012) evaluated the impact of foreign institutional loans on Nigerian economic growth and development over a 27-year period. The findings revealed that Nigeria's external debt burden has a negative impact on the country's national income and per capita income. The report also indicated that Nigeria's massive external debt caused the devaluation of the country's currency, a substandard educational system, frequent industrial strikes, a rise in worker layoffs, and

unsettling economic stagnation. Sulaiman and Azeez (2012) used the ordinary least squares (OLS) technique and other relevant statistical tools to analyze data from the Central Bank of Nigeria Statistical Bulletin and the Debt Management Office from 1970 to 2010 to investigate the impact of foreign institutional loans on Nigerian economic growth. The study also discovered evidence that foreign institutional loans helped Nigeria's economic development. Despite the fact that this conclusion isn't true in the real world, the authors said that borrowing money from other countries should only be done for economic reasons, not for political reasons.

Adedoyin et al. (2016) used auto-regressive distributed lag (ARDL) to examine a period from 1981 to 2014 and discovered a substantial association between foreign institutional loans and economic growth in both the long and short run, but no causality between the variables. This study recommended, among other things, that a debt limit be imposed and maintained. Ijirshar et al. (2016) examined the link between external debt and economic development in Nigeria from 1981 to 2014 using a combination of descriptive statistics and econometric methods. The study found that the stock of external debt has a considerable favorable impact on economic growth in both the short and long term. When Nigeria had to pay off its debts from outside the country, this had a big effect on its economic growth.

Mbanasor and Okere (2012) investigate whether foreign borrowed funds are a tool for or a threat to Nigerian economic growth. Data was obtained from the CBN statistical bulletin and analyzed using OLS estimating techniques for this research. According to the findings, foreign borrowed funds are positively associated with economic growth. Therefore, the government should ensure appropriate debt management in order to encourage future growth. Shehu Usman and Aliyu (2013) looked into the impact of foreign borrowed funds on the Nigerian economy's growth. The data for the study came from the CBN statistical bulletin and spanned the years 1970 to 2010. Five other variables were employed as proxies for debt indicators, while GDP was utilized as a proxy for growth. Three different methods were used in the study, and the results show that money that Nigeria gets from other countries goes right into the country's economy.

Kasidi and Said (2013) used data series from 1990 to 2010 to evaluate the influence of external debt on Tanzanian economic growth. The study found that external debt and debt service had a considerable impact on GDP growth. Debt service payment has a negative effect of around 28.517, whilst total external debt stock has a positive effect of about 0.36939. Using the ordinary Least Square approach (OLS) to co-integration, Atique and Malik (2012) looked at the influence of domestic and external debt on Pakistan's economic development independently from 1980 to 2010. The results showed that there was a big inverse relationship between domestic debt and economic growth, as well as a big inverse relationship between overseas debt and economic growth.

III. METHODOLOGY

3.1 Research Design

An ex post research design was followed in this study given that for each of the variables used for the investigation are already in existence.

3.2 Model Specification

This study employed a dynamic model with the selected key International Financial Institutions loans such as Paris club loan, International Development Association loan, International finance cooperation loan and Loan from African development bank as the explanatory variables while employment rate is the dependent variable. The specification of the model in its functional form is as follows:

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

EMP = Employment rate, 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:

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

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

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

The error correction mechanism (ECM) was adopted as the model estimation technique to explore the dynamic relationship between employment rate and foreign institutional loans as well estimate the speed of adjustment. In addition, it was also applied in estimating the coefficients of each of the differenced lagged dependent and explanatory variables. Notably, 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:

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

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:

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

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

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.

IV. 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

	EMP	IFCL	PCL	IDA	ADB
Mean	14.89	0.003	12.59	2.951	0.004
Median	14.29	0.000	9.109	1.967	0.0007
Maximum	25.00	0.051	35.69	11.907	0.043
Minimum	10.32	-0.030	0.000	0.580	0.00014
Std. Dev.	3.73	0.017	13.39	2.771	0.0082
Jarque-Bera	1.58	11.039	4.863	23.51	264.01
Probability	0.45	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 mean value of the employment rate stood at 14.89 per cent while 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 employment rate 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 employment rate and Paris Club loans indicate that they are 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 Pairwise Correlation Coefficients

As an integral aspect of the pre-estimation tests, the correlation between each pair of the explanatory variables was examined and the results are reported in Table 2.

Table 2: Summary of the correlation matrix

	HDI	POV	EMP	IFCL	IDA	PCL	ADB
HDI	1						
POV	0.248	1					
EMP	0.594	-0.175	1				
IFCL	-0.018	0.088	0.007	1			
IDA	-0.381	-0.0359	-0.513	-0.095	1		
PCL	-0.655	-0.1190	-0.450	0.081	0.578	1	
ADB	0.093	0.220	0.057	0.070	-0.323	-0.241	1

Source: Researcher's computation using E-views 10

As observed from Table 2, the correlation coefficients between a pair of the explanatory variables ranged from a minimum value of -0.323 to a maximum value 0.578. This implies that there is no evidence of perfect or near perfect correlation between each of the explanatory variables. In other words, the correlation coefficients between each pair of the explanatory variables do not pose any threat of multicollinearity. For this reason, the explanatory variables were regressed together in each of the models.

4.3 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 3.

Table 3: 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	
EMP	-1.531	-2.94	-6.029	-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 3 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.

4.4Cointegration 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 4.

Table 4: Johansen cointegration test results

Series: EMP IFCL IDA ADB PCL				
Trace test results				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.821106	125.2200	69.81889	0.0000
At most 1 *	0.650733	66.70731	47.85613	0.0003
At most 2 *	0.437152	30.94210	29.79707	0.0368
At most 3	0.238598	11.40078	15.49471	0.1880
At most 4	0.060797	2.132601	3.841466	0.1442

Maximum Eigenvalue test results				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.821106	58.51268	33.87687	0.0000
At most 1 *	0.650733	35.76520	27.58434	0.0036
At most 2	0.437152	19.54133	21.13162	0.0822
At most 3	0.238598	9.268176	14.26460	0.2645
At most 4	0.060797	2.132601	3.841466	0.1442

Source: Researcher's computation using E-views 10

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

In furtherance of the pre-estimation tests, cointegration test for the employment model was equally conducted at 5 per cent level. The trace test results revealed that three cointegrating equations exist in the model. This indicates that at least three variables can adjust to the long run equilibrium position. In addition, the maximum eigenvalue test results showed evidence of two cointegrating equations in the model. In other words, at least two variables can adjust to the long run position. Overall, the results provide the empirical condition for rejecting the null hypothesis of no cointegrating, which implies that employment rate has long run relationship with the selected institutional loans. This finding is consistent with the results of Iwuoha (2020); Cahyadin&Ratwianingsih (2020) and Saad, & Ahmad (2020) among others.

4.5 Model Estimation

The evidence of cointegration in the model necessitated the choice of the ECM in accordance with the proposition of Engle and Granger (1987). The results are presented in Table 5.

Table 5: Parsimonious ECM

Dependent Variable: D(EMP)				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(EMP(-1))	0.530043	0.146926	3.607553	0.0020
D(IFCL)	-7.025750	12.54014	-0.560261	0.5822
D(IFCL(-1))	-32.93440	16.53065	-1.992323	0.0617
D(IDA)	1.470558	0.330388	4.451002	0.0003
D(IDA(-1))	0.638225	0.301427	2.117343	0.0484
D(IDA(-2))	0.679343	0.228284	2.975866	0.0081
D(PCL)	-0.069291	0.043344	-1.598627	0.1273
D(PCL(-2))	0.040285	0.043434	0.927498	0.3659
D(ADB)	-40.81066	33.02944	-1.235584	0.2325
D(ADB(-1))	102.5895	45.30291	2.264523	0.0361
ECM(-1)	-0.395678	0.134206	-2.948284	0.0086
C	-0.110837	0.265347	-0.417706	0.6811
R-squared	0.792822	Mean dependent var		0.005588
Adjusted R-squared	0.620174	S.D. dependent var		2.463873
S.E. of regression	1.518484	Akaike info criterion		3.978490
Sum squared resid	41.50430	Schwarz criterion		4.696777
Log likelihood	-51.63433	Hannan-Quinn criter.		4.223447
F-statistic	4.592133	Durbin-Watson stat		2.189351
Prob(F-statistic)	0.001420			

Source: Researcher's computation using E-views

As observed from the results, employment rate lagged for one period has a significant positive effect its current value. This implies that employment generation in the previous period can relied upon in forecasting future changes in the employment rate. The findings further revealed that IDA loans impacted positively on employment rate. This is in tandem with the findings of Haiss& Steiner (2020) and Mensi*et.al.* (2020), but disagreed with the results of Eke &Akujuobi (2021). It further highlights the substantial role played by the World Bank Group in providing concessional loans and grants to boost economic growth and stimulate productive employment. It is also evident from the results that loans from the African Development Bank contributed positively to employment rate. This finding is very impressive as it corroborates with the results of Nyadera, Asal&Agwanda (2021). The implication of this finding is that funding available to the government and private sector from the Bank promotes the process of employment generation in Nigeria. On the contrary,

International Finance Corporation and Paris Club do not have any significant effect on employment rate. This finding could be attributed to the challenges that undermine the effectiveness of foreign institutional loans which cut across systemic corruption, poor institution and governance, high debt servicing obligations among others

Table 6: Post-estimation diagnostics test results

Test type	Test statistic	Probability	Decision
Breusch-Godfrey Serial Correlation LM Test H_0: No serial correlation in the residuals	1.197	0.5496	Accept H_0
Normality Test H_0: Residuals are normally distributed	2.687	0.2609	Accept H_0
White's Heteroscedasticity Test H_0: No heteroscedasticity in the residuals	15.769	0.7405	Accept H_0
Ramsey RESET Test H_0: No misspecification in the model	0.417	0.6663	Accept H_0

Source: Researcher's computation using E-views

The outcomes of the post-estimation tests 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. Accordingly, 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 post-estimation test results that the employment model is very reliable for policy formulation and forecast.

V. CONCLUDING REMARKS

This study offered some insights into the empirical relationship between International Financial Institution loans and economic development in Nigeria. This followed the growing recognition of the importance of the international financial institutions loans in unlocking private investment and creating opportunities for long term growth and employment generation. Loans from the Work Bank Group, especially IFC and IDA in addition to loans from the Paris Club and African Development Bank were used as proxies for International Financial Institution loans. On the other hand, employment rate served as the proxy for economic development. The findings revealed that IDA loans contributed meaningful to promoting employment generation in Nigeria. However, contrary to expectations, Paris Club loans do not have any significant contribution to employment generation. Based on the findings, it is concluded that loans from the IDA are important for creating employment opportunities in Nigeria. Thus, it is recommended that loans available to Nigeria from the international development association should be channeled to investments in critical infrastructure and agriculture development to increase production of goods and services and by extension generate employment and achieve economic development.

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