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Foreign Aid, Foreign Direct Investments and Economic Development in Kenya

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ABSTRACT: Foreign aid in the years since independence has sometimes been more blessed to give than to receive, although greater discrimination is now apparent even to those who give. Throughout the developing world aid currently accounts for a big percent of revenues that countries tend to have. Foreign direct investment is a parameter for many countries as they are said to have assets abroad and foreigners tend to have assets locally. Foreign aid and foreign direct investment are looked at as having an influence on economic development. The study determined whether foreign aid and foreign direct investments impact on economic development in Kenya. Data was collected from the Economic Surveys published by the National Bureau of Statistics for the years 2013 to 2025. Trend analysis was undertaken and graphs drawn to portray the patterns of the data and correlation matrix and regressions run to come up with regression results. Graphs portrayed consistent increase in GDP at market prices, volatile and fluctuating foreign aid and varying foreign direct investment. The association between foreign aid and economic development was negative, the association between foreign direct investment and economic development was direct, while the association between foreign aid and foreign direct investment was inverse. The regression results revealed that foreign aid significantly impacts on economic development, foreign direct investment doesnot significantly impact on economic development and that foreign aid significantly impacts on foreign direct investment but when combined together only foreign aid was found to significantly impact on economic development while foreign direct investment didnot significantly impact on economic development. Policy recognizes that economic development is essential and for countries that receive foreign aid and that undertake foreign direct investment policies that are formulated should be such that aspects such as foreign aid that appears to favourably impact on economic development should not be ignored. Pegging foreign aid to certain activities and regions and investing directly other than going through intermediaries might reduce financial impropriety and corruption as far as foreign aid is concerned. Conducive investment climate is also essential for countries to attract FDI as FDI plays an important role in the country's capital formation and for the Multinationals which invest in the host country they create employment and open up capital markets for developing countries as they source part of their funds from international financial markets.

KEYWORDS: Foreign Aid, Foreign Direct Investment, Economic Development, Kenya.

INTRODUCTION

Foreign aid is one of the sources of funds for economies particularly developing countries of Africa, Asia, China and even Latin America. Little as it might be compared to other monies that the country generates especially when compared to tax revenues and loans (external and internal), activities that foreign aid funds are crucial. Countries derive their funds from a number of sources including, central and local taxes, external grants and external loans, domestic borrowing through treasury bills and treasury bonds, borrowing from commercial banks and sometimes voluntary contributions, the funds of which are never enough. Countries and country advisers tend to emphasis on efficient management of country resources including imposing austerity measures in the use of country funds. Countries manage their funds through the consolidated fund in which the law of the Land (The Constitution) states that all monies paid to government must be paid into the Consolidated Fund or any other Fund recognized by law. This meaning that withdrawal of funds from this Fund has to seek approval from the National Assembly. Corruption is therefore expected to be minimal when funds are received and processed through the government mechanisms. Notwithstanding however, countries find themselves caught up in the web of corruption in which sometimes monies withdrawn from government coffers is misappropriated or sometimes used for other purposes other than the purposes for which the money was intended. Some aspects of the financial problems found in developing countries are commonly highlighted by the Commonwealth countries (Odinkalu, 2023).

For example, the Second Commonwealth Education Conference, meeting in Delhi in 1962, centred its discussion on the role of external aid. The Conference made recommendations about the promotion of bilateral aid arrangements, and governments were required to allocate huge amount of funds to country priority projects particularly when formulating national development plans and to explore means by which additional resources could be mobilised through the encouragement of local initiatives. The Conference exhorted governments to seek reductions in unit costs through economies of scale and greater efficiency. The topic was not pursued at the Third Conference (Ottawa, 1964) or Fourth Conference (Lagos, 1968) (The Commonwealth,1970(a); The Commonwealth, 1970(b)).

Most developing countries the world over were over-reliant on foreign aid for many years until it became scarce because many of these countries started diverting the foreign aid for other purposes other than those intended. Because these countries decided to embrace the practice of financial impropriety donor funds were diverted by country managers for use in other areas other than the purpose for which the donor money was intended. Worse still many of the recipient countries started getting involved in corruption in which a big percentage ended up in people's pockets. Funds meant for Refugee Camps such as the Kakuma Refugee Camp and HIV AIDs (foreign aid) by Global Funds and Clinton Foundation for example, were withdrawn leaving projects which were being funded by those donors with little or no financial support. Development partners then embarked on requiring the recipient countries to meet certain donor conditionalities before being given the foreign aid. Some of the donor conditionalities were not easy to meet and therefore foreign aid was withdrawn in quite a number of those countries. Foreign aid in the years since independence has embraced the concept that 'sometimes be more blessed to give than to receive', although greater discrimination is now apparent even to those who give.

Many countries in Africa, Kenya included uses foreign aid to fund humanitarian crises such as food and provision of shelter like in the areas of Turkana, Samburu and the case of "Kakuma Refugee Camp", health care and education (as is the case in Turkana) (Adebisi, Azeez & Oyedeji, 2017), security (such as peace keeping mission in Somalia Republic and Haiti) and sometimes tourism facilities upgrade (such as in Maasai Mara Game Park (the 'wild beasts') and Game Reserves countrywide) among others.

Many recipient countries engulfed on the practices of diverting foreign aid for non-recommended and non-intended purposes leading to donors withdrawing their financial support. Development projects that were therefore initially funded through foreign aid were then majorly funded through external loans from the World Bank and International Monetary Fund (IMF) and bilateral and other multilateral agencies.

Many of those countries are found it difficult to service these external loans forcing donors to curtail lending external loans to them. Throughout the developing world aid currently accounts for a small percent of revenues that countries tend to have because of donor conditionalities that were imposed by the aid givers following misappropriation of foreign aid and the problem of corruption entrenched in public institutions of the receiving countries which are majorly developing countries. Few Commonwealth countries, however, are as dependent on aid as, for example, Chad, India, and many countries in Africa where part of their budget consists of aid funds. The most familiar forms of aid are gifts of money, loans, personnel (both volunteers and others), and equipment. Without aid few developing countries could have expanded their agriculture, mining and exploration, energy, security, infrastructure, health care, water and sewerage programmers', and education systems among others, as rapidly as has been the case, but there have been some disadvantages such as inappropriate materials and equipment, unsuitable personnel, the transfer of attitudes and expatriates from donor countries, the insistence by donors on their own experts assessing possible projects ignoring the existence of local experience and expertise which in some instances has impacted negatively on economic development in developing countries (Hair Jr, Black, Babin, & Anderson, 2013) .

Many developing countries do not appear to have enough resources to fully execute the SDGs and their objective of financing sustainable development since state institutions and non-state entities have not coordinated donor funded activities in adherence to donor conditionalities in which they have been denied donor funds (United Nations Development Programme, 2021; United Nations Environment Programme, 2016; Bullock, Tilley, Hartmann & Marquardt, 2020; Jakubczak, Gołębiowska, Prokopowicz & Jakubczak, 2021; Eeedle, 1971; Kostecka, Podolak, Mazur-Pączka, Garczyńska & Pączka, 2022).

To attain the desired economic development many countries source Foreign direct investment (FDI) by collaborating with foreign investors so as to increase country investments and to strengthen the countries' foreign currency portfolio. Investments by foreigners majorly take the form of machinery, expertise and other professionals, knowledge and money in foreign currency denominations. FDI is the process by which residents of one country acquire ownership of assets for the purpose of controlling production, distribution and other activities of firms located in other countries (Obasi, Ezenkwa, Onwa, & Nwogbaga, 2017; Adam, 2020; Gao & Yu, 2020).

The International Monetary Fund (IMF) balance of payments manual defines FDI as investment that is made to acquire a lasting interest in an enterprise operating in another country other than the country of the investor, the investors' purpose being that of having an effective voice in the management of the enterprise. The United Nations 1999 World Investment Report (UNTCAD,

1999) defines FDI as an investment involving long-term relationship and reflecting interest and control of a resident entity in a resident enterprise in an economy other than the one of the foreign investor. FDI can be classified into horizontal, vertical or conglomerate. Horizontal FDI leverages on opportunities that are not exploited by entities in the host country as it produces the same goods and services produced in the country of origin in the host country which makes differentiation of goods and services and competitive advantage essential (Mankiw, Romer, & Weil, 1992).

Vertical FDI is undertaken to exploit raw materials and access to markets by acquiring distribution outlets. Conglomerates FDI encompasses both horizontal and vertical foreign direct investments. The effects of FDI can be classified as economic, social or political. The economic effects are on economic output, balance of payments and market structure while the political aspects raises the question of national sovereignty to avoid jeopardy of the host country independence owing to the size and influence of the foreigner and foreign multinational institutions (Chorn & Seik, 2017). The social concerns involve creation of enclaves and a clique of foreign elites in the host country which influence country activities and sometimes country policies in sectors where they are entrenched. Additionally, there tends to be cultural and attitude norms in the host country which are not sometimes compatible with those of foreign countries where the foreign investors come from.

Many developing countries are associated with corruption and misuse of donor funds discouraging development partners from availing more funds to those countries. Some donor countries tend to pull out their financial support when they donot agree with the practices of the recipient countries (Fatemi & Fooladi, 2013). In the recent past for example, USAID pulled out from providing foreign aid to Kenya and closed down her offices in Kenya. Essentially, from a global perspective, it was not the first donor country to curtail donor aid to a developing country. Following the withdrawal of donor funds quite a number of these countries were forced to get back to external borrowing which many again found themselves with difficulties of repayments making it difficult for the lender countries to provide subsequent external loans moving forwards. These countries have in the recent past tended to rely on country generated resources and borrowings from the domestic market since foreign aid is no longer forthcoming or when it is availed it tends to be insufficient and countries are therefore forced to look into their funds generated internally (Emmanuel & Kahinde, 2018; Romer, 1990) .

The government funds part of its foreign currency commitments in international capital markets using marketable and non-marketable loans. Marketable loans in the international financial market such as foreign currency bonds can be traded in secondary markets while non- marketable loans such as multilateral loans and export credit agency funding cannot be traded in such markets. Foreign currency marketable bonds form a large portion of the foreign currency loan portfolio and are also issued for benchmarking purposes in which the bond provides a standard against which the performance of other bonds can be measured. In South Africa for example, the government creates and maintains benchmark bonds in foreign currencies to provide a pricing reference point for South African corporations and state-owned companies to borrow internationally (National Treasury, (2011/2012); Van Wyk, 2015). Foreign Direct Investment (FDI) is widely regarded as a key driver of economic development in emerging and frontier economies, facilitating technology transfer, managerial expertise, and market integration. Recent studies indicate that FDI's effectiveness in fostering growth depends on various economic and institutional factors, particularly the level of economic development in the host country.

Nigeria for example has bulk oil reserves and a lot of minerals such as bitumen, iron ore, gold zinc and tin. In 2019, Nigeria had a total gross domestic product (GDP) of US$448.12 billion and in 2018 the economy had received a total of US$1.997 billion as foreign direct investment. The Nigerian economy has been receiving foreign direct investment from The World Bank and other institutions in the past. The net value of foreign direct investment varied over time. Nigeria registered a sharp decrease in FDI levels from US$8.841 billion in 2011 to US$1.997 billion in 2018 (Nigerian Economic Summit Group, 2023; National Bureau of Statistics (NBS); 2023; World Bank 2020; World Bank, 2015; Babatunde, 2018). Policymakers face the dual challenge of attracting FDI while strengthening financial institutions to support sustainable economic development (Claringbould, Koch & Owen, 2019; Cunha, Meira & Orsato, 2021). In Asia and the Pacific, for instance, economic uncertainties led to a decline in the region's share of global FDI, with inflows falling from 45% in 2018 to 35% in 2019 and outflows decreasing from 52% to 41%, with further reductions in 2020 (UN, 2021).

How is FDI channeled or used so as to increase gross domestic product and create employment prospects? However, fundamentals of economics assume that FDI can help in employment creation and increasing industrial output, ceteris paribus. In as much as Nigeria ranks twenty-seven world- wide in terms of nominal GDP values, the amount of foreign aid the country receives from external sources and how much FDI is in that country is of interest (Oladimeji & Folayan, 2018; Gholami, Sang-Vong Tom & Heshmati, 2005).

Foreign aid is expected to improve the livelihoods of the population in the recipient countries and some authors have argued that foreign aid increases economic development due to the multiplier effect of the 'spending-income cycle'. Essentially foreign aid received for whatever purpose trickles down to spending (what it is spent on) and production of goods and services which are

paid for using foreign aid (Gordon & Suzanne, 2023; Leal Filho, Tripathi, Andrade Guerra, Giné-Garriga, OrlovicLovren & Willats, 2019). This expenditure scenario has the trickling down effect of spurring economic development of whatever magnitude. Foreign aid can increase or decrease foreign direct investment depending on how usage of foreign aid is interpreted by foreign investors who can pump money into the country or pump money in other countries if they are sensed to have used foreign aid inappropriately (Aldy, Gerarden & Sweeney, 2023). Many developing countries misuse foreign aid by sometimes using it for personal gratification such as using it to finance big personal investments in sky-scrappers to benefit them in future and their future generations. Other countries divert foreign aid to financing country expenditures since resources generated using the country mechanism is not enough leaving those for who the foreign aid was intended languishing in dire situations. Foreign direct investment received from other countries to the host country can spur economic development (Moosa, 2002; Romer, 1990). But sometimes foreign investors are fought by governments of host countries especially when multinationals and influential foreign investors are thought of as influencing politics in such a way that does not favour the ruling elite. The political ruling elites closes offices of those multinationals and repatriates the influential foreign investors abroad back to their country of origin.

FDI can therefore influence economic development either favourably or unfavourably depending on the projects that they financed using the FDI (Bhupatiraju, 2020; Fatemi & Fooladi, 2013). Direct foreign investors have at times financed mega projects of universities, airports, stadiums, roads, health facilities, water and sewerage, agricultural and irrigation projects, information communication technology (ICT) such as Konza Technopolies, renewable energy projects and carbon intensity (Zhang, Zhu, Chen & Li, 2020), green projects for preserving the environment (Bennett, Cisneros-Montemayor, Blythe, Silver, Singh, Andrews & Sumaila, 2019; Islam & Managi, 2019), security through the ministry of defence (Shuaibu, Salleh & Shehu, 2015) and the police force, and many other projects where finances have been provided by foreign investors other than by governments of host countries.

The theories that provide the theoretical foundation of this research are; the classical economic theory, Keynesian theories of economics, O-Ring theory and the Great Push theory which sheds light on aspects that are important in sustaining economic development. Foreign aid creates demand for food commodities purchased using the foreign aid and therefore it enhances livelihood of people of the recipient countries. Foreign direct investment involves investment in foreign denomination currencies, investment in big multinational corporations which creates employment and produces goods and services that are consumed in these countries therefore creating a multiplier effect. Economic development and what influences it is vetted against theories of production and the many theories that touch on increases in value of countries' output of goods and services and their access to markets.

STATEMENT OF THE PROBLEM

Foreign aid has been used by many countries to introduce and scale up many development projects encompassing infrastructure, education, security (internal and external), environmental projects and many others that relied on foreign aid. Owing to mismanagement of donor funds and financial impropriety by government financial managers of recipient countries, donor funds were diverted and used in other areas other than the purpose for which the donor money was given. Corruption was also entrenched when disbursing donor funds in which governments either used donor funds for financing part of its recurrent expenditures or the government officials diverted it for private use. Funds meant for development projects were also diverted for use for purposes other than what they were intended for. Conditionalities were then introduced by development partners by requiring the recipient countries to meet certain donor conditions before being given the aid. Stringent measures became difficult to adhere to by these nations which made donor countries to stop the foreign aid. Few Commonwealth countries are now dependent on aid, for example, Chad, India, and many countries in Africa part of their budget consists of aid funds. Without aid few developing countries could have expanded their agriculture, mining and exploration, energy, security, infrastructure, health care, water and sewerage programmes, and education systems among others, as rapidly as has been the case, but there have been some disadvantages such as inappropriate materials and equipment, unsuitable personnel, the transfer of attitudes and expatriates from donor countries, the insistence by donors on their own experts assessing possible projects ignoring the existence of local experience and expertise which in some instances has impacted negatively on economic development in developing countries. When countries were denied foreign aid the countries started to borrow from the foreign market including accessing funds from the international financial market in form of international tradeable marketable securities such as Euro Bonds. Limited resources of many developing countries made it difficult for them to service external loans which made them to focus on borrowing from the domestic market which essentially left them with the problem of fiscal deficit.

Global Fund for HIV and AIDs withdraw its funding and subsequently USAID followed to withdraw aid from Kenya which crippled all the programmes that the programmes and other financing that was being channeled by the donor agency including the employment that the donor funds were providing to many Kenyans. Essentially, from a global perspective, it was not the first

donor country to curtail donor aid to a developing country but withdrawal of donor funds tends to reduce the incomes of the citizens of the recipient country and by extension reduces GDP of these recipient developing countries. From the research perspective; What foreign aid does Kenya get and how sufficient is it? Is there are a correlation between foreign aid and foreign direct investment? Is the foreign direct investment (FDI) failing to lead to increased gross domestic product which is turned around to economic development? What are the implications of foreign aid and foreign direct investment on Economic development in Kenya.

CONCEPTUAL MODEL

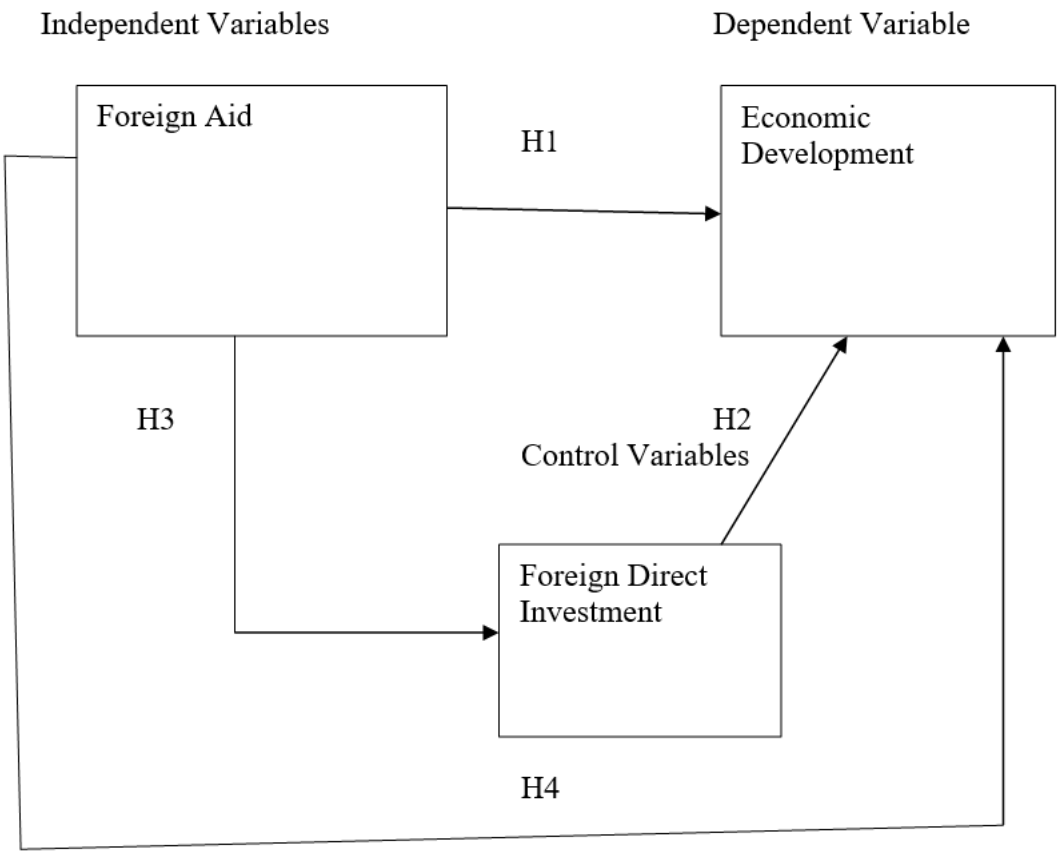


Figure 1: Conceptual Model

The hypothesis is specified below:

Hypothesis

Null Hypothesis 1: Foreign Aid has no impact on Economic Development in Kenya

Null Hypothesis 2: Foreign Direct Investment has no impact on Economic Development in Kenya

Null Hypothesis 3: Foreign Aid has no impact on Foreign Direct Investment in Kenya

Null Hypothesis 4: Foreign Aid and Foreign Direct Investment have no impact on Economic Development in Kenya

Materials and Methods

Data on foreign Aid, foreign direct investment and on economic development for the period 2013 to 2024 was collected from the Economic Surveys published by the Kenya National Bureau of Statistics for the years 2013 to 2025. Foreign Aid (FAid) was measured using grants from international organisations. Foreign Direct Investment (FDI) was taken as investment in foreign assets and the data for this variable was obtained from the Economic Surveys for the years 2013 to 2025. Economic Development was measured using Gross Domestic Product (GDP) at market prices and was extracted from the Economic Surveys after which natural logarithms of the values obtained from the Economic Surveys were estimated and natural logarithm values fitted in graphs. Pearson correlations were estimated and fitted into the Correlation Matrix (Breusch, & Pagan, 1979) and regression models were estimated and the results output presented in Analysis of Variance (ANOVA) tables. The data in the graphs and tables were interpreted and discussed as the output of the analysis.

Table 1: Summary of Data Set (in Ksh)

Variable	Indicator	Variable Description	Unit of measurement	Source of Data
GDP(Market Prices)	Economic Development	Proxy for Economic development measurement	Ksh billions	Economic Surveys 2013 to 2025
FAid	Foreign Aid	Grants from international organisations	Ksh millions	Economic Surveys 2013 to 2025
FDI	Foreign direct investment	Foreign direct investments in internationally	Khs millions	Economic Surveys 2013 to 2025

Source: Researcher's Construct

Model Specification

The general regression equation was stated as;

$EconDev = \beta_0 + \beta_1 FAid + \beta_2 FDI$ ..... (1)

Where EconDev is economic development, FAid is foreign Aid and FDI is foreign direct investment. β_0 is the constant term while β_1 and β_2 are coefficients.

Four objectives were formulated to achieve the main objective and four regression equations were estimated for each sub-objective.

The first objective was to determine the effect of foreign Aid on economic development in Kenya and the equation was stated;

$EconDev = \beta_0 + \beta_1 FAid$ ..... (2)

$EconDev = \beta_0 + \beta_1 FDI$ ..... (3)

$FDI = \beta_0 + \beta_1 FAid$ ..... (4)

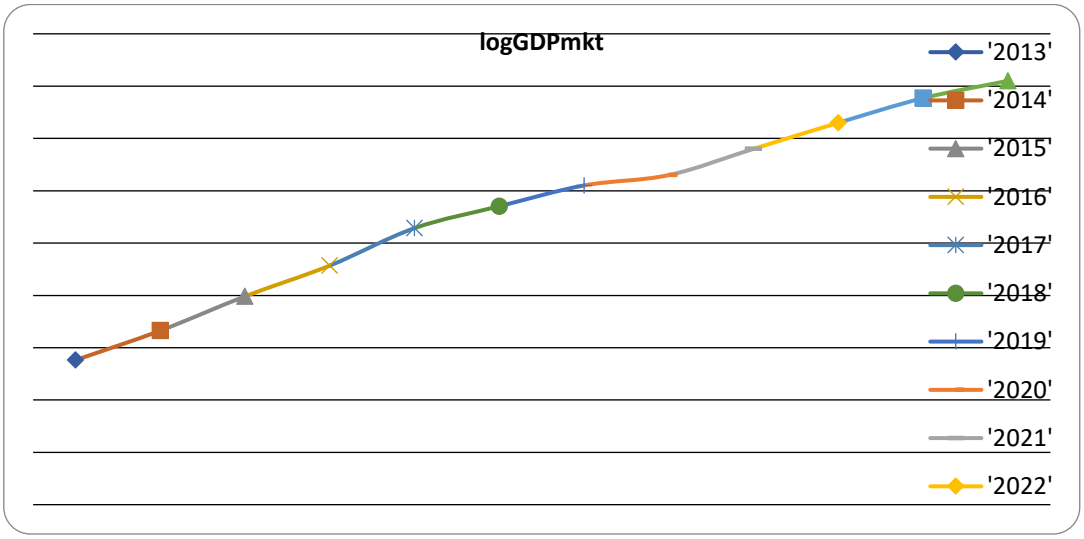
$EconDev = \beta_0 + \beta_1 FAid + \beta_2 FDI$ ..... (5)

Where the abbreviations are as defined in equation 1.

Trend Analysis

Graphs drawn from the data extracted are presented and discussed in the section that follow.

Graph 1: Trend of GDP at Market Prices

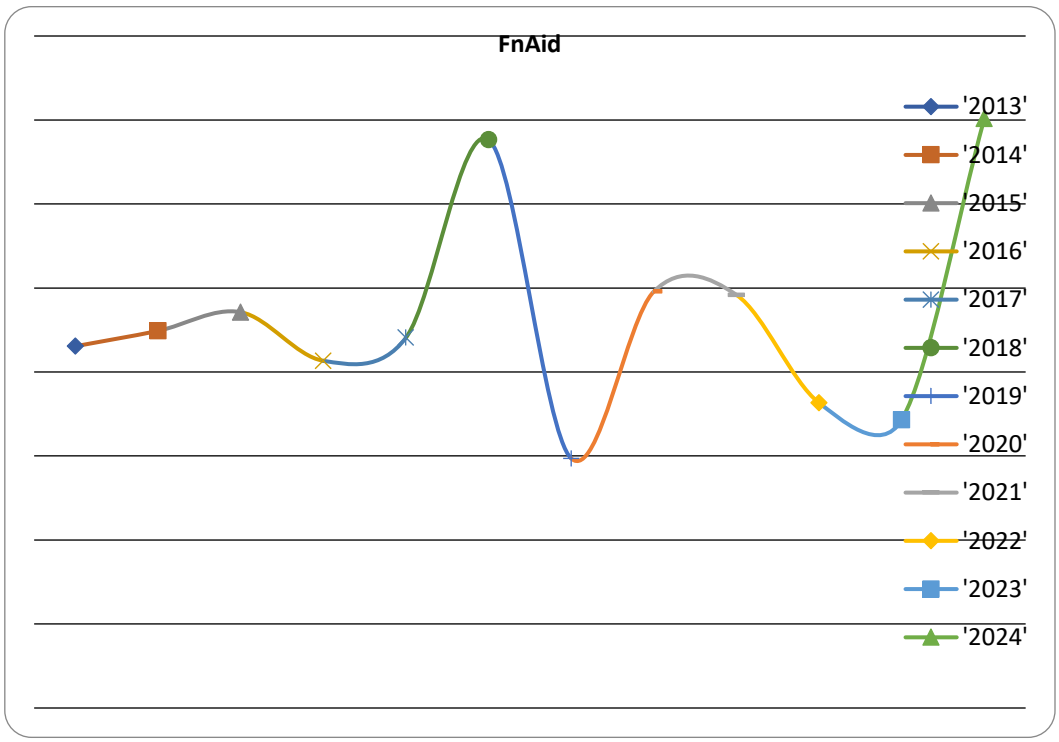


Source: Researcher, 2026

Trend analysis as per graph 1 shows that GDP value consistently increased during the study period 2013 to 2024. Graph 2 shows that foreign aid fluctuated during the study years. Foreign aid initially increased marginally for the first three years after which the value decreased before again assuming an average increase. The values then exhibited a more than average increase after which

it took a big jump downwards before assuming an average increase then flattened and decreased at a decreasing rate after which it jumped a lot upwards.

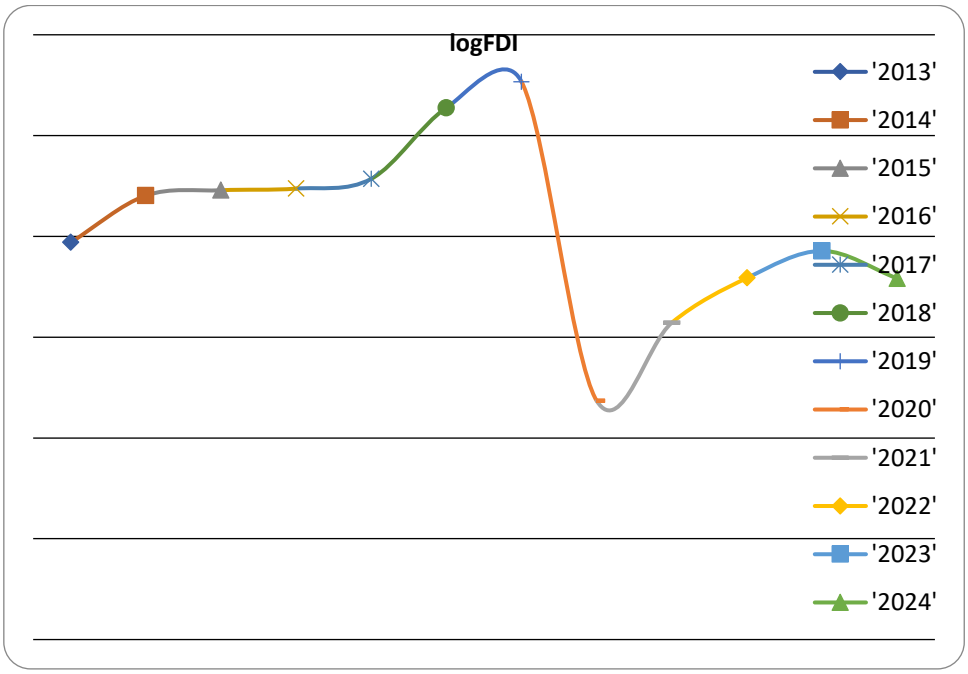
Graph 2: Trend Analysis of Foreign Aid



Source: Researcher, 2026

Trend analysis of foreign direct investment (FDI) shows that FDI fluctuated during the study period by increasing during the first half of the years of study after which the FDI decreased tremendously and drastically and then increased averagely and finally marginally decreased to settle at the end of the study period without further changes because the data was not available after that.

Graph 3: Trend Analysis of Foreign Direct Investment (FDI)



Source: Researcher, 2026

Correlation Analysis

Table 2: Correlation Matrix

Correlation Matrix			
	EconDev	FnAid	FDI
EconDev	1		
FnAid	0.14387**	1	
FDI	-0.3314*	-0.1139**	1

Source: Researcher, 2026

The correlation coefficients as displayed in the correlation matrix portrays that there is a significant positive relationship between foreign aid and economic development which means that when foreign aid increases economic development increases. On the other hand there is a non-significant negative relationship between foreign direct investment and economic development which indicates that they move towards the opposite direction. Additionally foreign aid is significantly negatively associated with foreign direct investment which means they work against each other or at least one works against the other without the other knowing.

Regression Results

Four regression equations were estimated each determined to achieve each of the four objectives and to reject or fail to reject the hypotheses of the study.

The Impact of Foreign Aid on Economic Development

Table 3: Foreign Aid and Economic Development

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	. 0.14387[a]	.0160	.0120	9.87453E-14
a. Predictors: (Constant), Foreign Aid				

ANOVA[a]						
Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	79.347	2	35.154	11.594	.009[b]
	Residual	42.365	34	2.147		
	Total	121.711	36			
a. Dependent Variable: Economic Development						
b. Predictors: (Constant), Foreign Aid						

Coefficients[a]								
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**95.0% Confidence Interval for B**	
		B	**Std. Error**	**Beta**			**Lower Bound**	**Upper Bound**
1	(Constant)	6.0400	1.9375		0.7319	0.1840	0.3735	1.8193
	Foreign Aid	0.0063	1.9471	0.1727	1.1637	0.1200	1.2951	1.8637
a. Dependent Variable: Economic Development								

Source: Researcher, 2026

The coefficient of correlation of 14.387% (r=0.14387) means that there is positive relationship between foreign aid and economic development. The coefficient of determination of 1.60% (R-Square=0.0160) reveals that 1.6% of economic development is explained by foreign aid which is significant as denoted by F-value of 11.594 and p-value of 0.009 (F=11.594, p=0.009). The regression of foreign aid against economic development estimated a constant term of 6.0400 which means that without foreign aid the country would still record economic development of 6.04 trillion shillings which was however found not to be significant (t=0.7319, p=0.1840). The coefficient of 0.2063 shows that one unit of foreign aid contributes to 0.0063 units of economic development inferring that to get to one unit of economic development one would need almost 1000 times of the foreign aid. This amount was however not found to be significant (t=1.1637, p=0.1200). ***Therefore the study fails to accept the null hypothesis that foreign aid doesnot significantly impact on economic development in Kenya.*** The resulting equation is therefore stated as;

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EconDev=6.0400+0.0063FnAid with EconDev defined as economic development and FnAid defined as foreign aid but since the constant term and the predictor were found not to be significant, the equation is reduced to;
EconDev = f(Others) without foreign aid.

The Impact of Foreign Direct Investment on Economic Development

Table 4: Foreign Direct Investment and Economic Development

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	-0.3314[a]	.1276	.1191	4.55104E-09
a. Predictors: (Constant), FDI				

ANOVA[a]						
Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	99.267	2	33.153	38.3156	.0450[b]
	Residual	22.4315	34	2.068		
	Total	121.681	36			
a. Dependent Variable: Economic Development						
b. Predictors: (Constant), FDI						

Coefficients[a]								
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**95.0% Confidence Interval for B**	
		B	**Std. Error**	**Beta**			**Lower Bound**	**Upper Bound**
1	(Constant)	8.7968	2.4819		2.9613	0.060	0.4264	1.2753
	FDI	-0.3256	-0.4613	2.527	1.8418	0.009	0.7453	2.9362
a. Dependent Variable: Economic Development								

Source: Researcher, 2026

The relationship between foreign direct investment and economic development was negative and was measured at -33.14% (r= -0.3314) which means that foreign direct investment was found to reduce economic development. FDI was found to explain 12.76% of economic development which was found to be significant (F=38.3156, p=0.0450). Although the p-value is high, it is less than the threshold of 0.05 and therefore meets the cut-off of significance. The constant term of 8.7968 infers that 8.7968 units of FDI increases economic development by one unit and was found not to be significant (t=2.9613, p=0.060). FDI had a negative impact on economic development but one unit of FDI was found to reduce economic development by 0.3256 which was found to be significant (t=1.8418, p=0.009). ***The study therefore rejects the null hypothesis that foreign direct investment does not significantly impact on economic development.*** The equation is therefore stated;
EconDev= -0.3256FDI, where the abbreviations are as stated previously.

The Relationship Between Foreign Direct Investment and Foreign Aid

Table 5: Foreign Direct Investment and Foreign Aid

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	-0.113889[a]	.0616	.0311	1.89423E-09
a. Predictors: (Constant), Foreign Aid				

ANOVA[a]						
Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	87.155	2	41.523	28.1940	.059[b]
	Residual	34.761	34	2.0281		
	Total	121.916	36			
a. Dependent Variable: FDI						
b. Predictors: (Constant), Foreign Aid						
Coefficients[a]						

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	6.8949	2.8363		2.5342	0.0300	1.3165	4.9674
	Foreign Aid	-0.1736	1.6835	-1.527	1.6132	0.0140	1.1276	2.7462
a. Dependent Variable: FDI								

Source: Researcher, 2026

The correlation coefficient of -0.113889 shows that there is a negative relationship between foreign aid and foreign direct investment which means foreign aid decreases FDI. The coefficient of determination of 6.16% (R-Square=0.0616) means that foreign aid explains 6.16% of foreign direct investment but was found not to be significant (F=28.1940, p=0.059). The constant term of 6.8949 means that when there is no foreign aid foreign direct investment would stand at 6.8949 billions and was found to be significant (t=2.5342, p=0.0300). The coefficient term of -0.1736 infers that one unit of foreign direct investment can only be generated by reducing foreign aid with 0.1736 units. This therefore means that when foreign aid reduces by one-unit foreign direct investment significantly increases by 0.1736 which was estimated to be significant (t=1.6132, p=0.0140). ***Therefore, the null hypothesis that foreign aid has no significant impact on foreign direct investment is rejected.*** The equation arising from these values is thus;

FDI = 6.8949 - 0.1736ForeignAid

Since all the values were found to be significant the equation remains as-is without modification.

The Effect of Foreign Aid and Foreign Direct Investment on Economic Development

Table 6: Foreign Aid, Foreign Direct Investment and Economic Development

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	-0.20365[a]	.14911	.09027	9.87453E-14		
a. Predictors: (Constant), FDI, Foreign Aid						
ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	111.234	2	28.332	33.4115	.01920[b]
	Residual	23.632	34	2.0274		
	Total	134.966	36			
a. Dependent Variable: Economic Development						
b. Predictors: (Constant), FDI, Foreign Aid						

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	8.732	0.3641		1.8637	0.069	0.4638	1.1823
	FDI	-0.3513	1.1537	-0.1581	2.1745	0.059	1.16395	2.6201
	Foreign Aid	0.5278	1.2618	0.2567	1.7468	0.073	0.0759	1.1182
a. Dependent Variable: Economic Development								

Source: Researcher, 2026

The regression analysis reveals that there is a negative relationship between foreign aid, foreign direct investment and economic development as inferred by the coefficient of correlation value of -0.20365. The coefficient of determination was estimated (R-Square=0.14911) meaning that 14.911% of economic development is explained by foreign direct investment and foreign aid and this percentage was significant (F=33.1115, p=0.01920). The constant term was 8.732 which means that with no foreign aid and with no foreign direct investment the economy generates economic development amounting to 8.732 trillions but was found not to be significant (t=1.8637, p=0.069). The coefficient of foreign direct investment was estimated at -0.3513 inferring that foreign direct investment reduces economic development as one unit of foreign direct investment reduces economic development by 35.13% the reduction of which was found not to be significant (t=2.1745, p=0.059). In the same token foreign aid had a coefficient

of 0.5278 insinuating that the economy generates one unit of foreign aid increases economic development by 52.78% the increase of which was found not to be significant (t=1.7468, p=0.073). ***The study therefore fails to reject the null hypothesis that foreign direct investment and foreign aid donot impact on economic development***. The resulting equation from the estimates is stated;
EconDev = 8.732 – 0.3513FDI + 0.5278FnAid
Which reduces to EconDev = f(other values) since both foreign direct investment and foreign aid are not significant in influencing economic development. When it is about foreign direct investment and foreign aid the constant term is not significant thus reducing the two determinants to 'zero sum game'.

CONCLUSIONS

Foreign aid and foreign direct investment was vetted against economic development. Graphs on foreign aid, foreign direct investment and economic development were drawn. Trend analysis of economic development revealed consistency of increase in the values for the years 2013 to 2024 while the values for foreign aid and values for foreign direct investment fluctuated during the 12 years of study. The correlation matrix displayed significant positive relationship between foreign aid and economic development and significant negative relationship between foreign direct investment and economic development. Further, there was a significant positive association between foreign aid and foreign direct investment. In terms of the regression results, foreign aid was found to insignificantly impact on economic development including the constant term which means it is other aspects that fuel economic development and not foreign aid. Additionally, foreign direct investment was found to negatively significantly impact on economic development with an insignificant constant term while foreign aid was found to positively and significantly impact on foreign direct investment. The constant term of the foreign aid was also significant. When foreign aid and foreign direct investment was put together, both were found to be irrelevant in impacting on economic development which possibly means that foreign direct investment was watered down by foreign aid making it irrelevant. The constant term after combining both foreign aid and foreign direct investment and throwing them to economic development was found not to be significant. Policies on foreign aid are import to an economy since foreign aid influences economic development and therefore foreign aid should not be ignored when formulating country policies including economic policies. Policies on foreign direct investment should take into account foreign aid because foreign aid fuels foreign direct investment. Both foreign aid and foreign direct investment combined donot impact on economic development which infers that they donot need to be considered together (or consider only one of them which is foreign aid) if the objective is to spur economic development.

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