Journal of Business and Economic Options

Foreign Development Assistance and Economic Resilience: Mitigating the Impact of Natural Disasters in Africa

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Abstract
Natural disasters are increasingly common and intense events that disproportionately impact developing countries due to global climate change, resulting in significant economic and human losses. This study utilized panel data from various African nations from 1971 to 2020, employing Panel ARDL to examine the effects of these disasters. The primary objective was to assess whether foreign development assistance effectively promotes economic growth in regions hit by natural disasters. The analysis revealed that natural disasters negatively affect economic growth significantly. Conversely, foreign development assistance has a positive and substantial impact on economic growth. Causality tests further identified a bidirectional relationship between these variables, indicating that while natural disasters impede growth, the adverse effects can be somewhat alleviated through foreign development assistance. These findings carry crucial policy implications for government officials and planners. They suggest that strategic deployment of foreign aid can significantly mitigate the economic setbacks triggered by natural disasters. This insight is vital for effective planning and resource allocation in disaster management and economic recovery initiatives. The study underscores the importance of international aid as a critical component of support for vulnerable economies facing the challenges of natural disasters. Such support not only aids in immediate disaster response efforts but also contributes to longer-term economic stability and growth.

Keywords: *Natural Disasters, Foreign Development Assistance, Economic Growth, Disaster Recovery*
JEL Codes: *Q54, F35, O40, C33*

Received: 10 January 2025
Revised: 13 March 2025
Accepted: 22 March 2025
Published: 30 March 2025

Citation:
Fateh, F. & Poulin, M. (2025). Foreign Development Assistance and Economic Resilience: Mitigating the Impact of Natural Disasters in Africa. *Journal Business and Economic Options*, 8(1), 28-42.

DOI:
https://doi.org/10.5281/zenodo.17371341

1. INTRODUCTION

Catastrophic natural events have long been a global phenomenon, affecting millions of people and causing widespread economic and social disruptions. A decade ago, an estimated 250 million individuals were impacted by natural disasters (Benali & Feki, 2020). These disasters, including tsunamis, volcanic eruptions, floods, hurricanes, droughts, and earthquakes, frequently result in significant economic dislocations. The Malaysian National Security Council defines natural disasters as "unexpected incidents that are complex in nature and result in loss of lives and property" (Shaari et al., 2016). The economic damage caused by such disasters is largely dependent on their frequency, duration, and intensity, with severe implications for economic stability and development (Cavallo, 1921). Natural disasters significantly disrupt economic activity, leading to substantial human and material losses (Faiben et al., 2019). However, the extent of destruction varies depending on factors such as economic structure, per capita income, population density, and level of development (Benali & Feki, 2020). While some research suggests that economic openness, institutional effectiveness, and workforce qualifications can mitigate the economic consequences of disasters (Noy, 2009), the overall impact often obstructs long-term national progress. By causing human casualties and financial losses, natural disasters hinder the economic convergence of nations, making sustained development challenging.

Historical data highlights the scale of destruction caused by natural disasters. According to the Centre for Research on the Epidemiology of Disasters (CRED, 2010), over seven million disasters were recorded during the 1970s, resulting in damages amounting to nearly two trillion dollars and the loss of approximately 2.5 million lives (Shabanam, 2014). Research

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investigating the impact of natural disasters on economic growth has produced mixed findings, with studies indicating both positive and negative effects depending on several contextual factors. Some analyses suggest that natural disasters can hinder economic performance by causing widespread destruction, disrupting infrastructure, and straining public finances (Cunado & Ferreira, 2014; Rasmussen, 2004; Strobl, 2010, 2012). In contrast, other studies propose that in certain cases, disasters can stimulate economic activity through reconstruction efforts, increased government spending, and inflows of international aid. The overall impact is influenced by the severity of the disaster, the resilience of the affected economy, the efficiency of recovery measures, and the pre-existing level of economic development. Countries with strong institutions, robust financial systems, and effective disaster preparedness tend to recover more quickly and may even experience accelerated growth due to post-disaster investments in infrastructure and innovation. Conversely, in economies with weak institutions and inadequate resources, natural disasters can exacerbate poverty, widen economic disparities, and disrupt long-term growth trajectories. Future research should explore how policy responses, financial assistance mechanisms, and technological advancements can mitigate the adverse economic effects of natural disasters while fostering sustainable recovery and long-term resilience. However, in the short term, most findings indicate that natural disasters impede economic growth by disrupting key industries and infrastructure (Oliveira, 2017; Roy & Madheswaran, 2020). Emerging economies and low-income nations are particularly vulnerable to the adverse effects of natural disasters. These disasters frequently damage critical infrastructure, including transportation networks, health systems, and communication facilities, exacerbating economic instability (Udwig et al., 2007). Additionally, foreign development assistance contributions tend to decline following major disasters, further straining affected economies (Saleem & Fatima, 2018; Karhan, 2019; Chen & Singh, 2020Zubair & Hayat, 2020). This reduction in external aid compounds the difficulties faced by developing nations, making post-disaster recovery more challenging and prolonging the negative economic impact (Kibritcioglu, 2023; Senturk, 2023).

Given the complex economic repercussions of natural disasters, there is a growing need for policies aimed at enhancing resilience. Strengthening institutional frameworks, investing in disaster preparedness, and promoting sustainable development can help mitigate the economic burden of disasters and improve long-term recovery efforts. By understanding the multifaceted impacts of natural disasters, policymakers and global stakeholders can develop more effective strategies to safeguard vulnerable economies and promote stability in disaster-prone regions. Foreign aid and development assistance play a crucial role in fostering economic growth in underdeveloped nations. Economic assistance provided by one country to another is classified as foreign aid, which may take the form of humanitarian support or military financing (Hossain, 2014; Hassan & Salha, 2020; Nur & Kumar, 2023). Foreign aid can be delivered in various forms, including technical assistance, provision of goods and services, or food supplies. The two primary categories of financial assistance are interest-bearing loans and grants. Foreign aid is typically categorized into two primary forms: bilateral aid and multilateral aid, each serving distinct roles in international development and economic assistance (Iqbal & Shahzad, 2020; Noor & Ullah, 2020; Baydur, 2024). Bilateral aid refers to financial or material support provided directly from one country to another, often based on diplomatic relations, strategic interests, or economic cooperation agreements. In contrast, multilateral aid is distributed through international organizations such as the World Bank, International Monetary Fund (IMF), and United Nations agencies, pooling resources from multiple donor countries to support global development initiatives (Hossain, 2014; Akim, 2020). While bilateral aid allows donor countries to exert greater influence over policy decisions and project implementation in recipient nations, multilateral aid ensures broader coordination and equitable distribution of resources across various regions. The effectiveness of both types of aid depends on factors such as governance structures, institutional efficiency, and the specific developmental needs of recipient nations. Bilateral aid may be tied to political or economic conditions, whereas multilateral aid is often allocated based on developmental priorities and humanitarian considerations. Future research should assess the long-term impact of each type of aid on economic growth, poverty reduction, and institutional capacity-building in developing countries, as well as the role of aid transparency and accountability in ensuring sustainable development outcomes. The impact of foreign development assistance on economic growth has been widely debated in academic literature. Some studies suggest that foreign aid positively influences economic expansion by increasing savings, investment, and capital stock (Hjertholm et al., 1998; Blankson, 2015; Gorus & Groeneveld, 2018; Hun et al., 2024). According to Livery and McGill (2003), foreign assistance enhances economic stability by supporting critical development projects and infrastructure. Additionally, it helps bridge capital gaps in developing nations, facilitating higher levels of economic productivity. However, the relationship between foreign aid and economic growth remains contentious, with some researchers arguing that foreign assistance may have detrimental effects. Studies by Murphy (2006) and Duc (2006) highlight instances where foreign aid has failed to stimulate economic growth due to issues such as corruption, inefficient allocation of resources, and dependency on external funding. Similarly, Knock (2000) and Braulgam & Knack (2004) argue that aid can sometimes hinder economic self-sufficiency by fostering reliance on donor funding rather than encouraging domestic economic reforms. Conversely, other studies have found evidence supporting the positive impact of foreign development assistance on economic growth. Research by Trap (2000) and Papanek (1972) suggests that foreign aid contributes to domestic savings, reduces foreign exchange deficits, and facilitates access to advanced technologies, thereby promoting long-term economic development. Hatemi & Jrandoust (2005) emphasize that foreign aid can be instrumental in transferring knowledge and technological expertise, which are crucial for enhancing productivity in developing economies.

Despite extensive research on the subject, the overall impact of foreign aid on economic growth remains inconclusive. While some studies highlight its potential benefits, others raise concerns about inefficiencies and unintended negative consequences. As Fasanya & Onakoya (2012) suggest, the mixed findings in the literature indicate that foreign aid alone may not be a

sufficient determinant of economic growth. Instead, the effectiveness of foreign assistance likely depends on factors such as governance quality, institutional frameworks, and the strategic allocation of resources within recipient countries. Understanding these dynamics is essential for policymakers to design more effective foreign aid programs that maximize their developmental impact.

2. LITERATURE REVIEW

In recent decades, researchers and policymakers have devoted considerable attention to understanding the complex interplay between natural disasters, economic growth, and external financial support, particularly official development assistance (ODA). Catastrophic events such as floods, earthquakes, droughts, and hurricanes have the potential to cause extensive damage to infrastructure, reduce agricultural productivity, and diminish human capital, leading to severe economic disruptions. The extent of these impacts varies depending on the severity of the disaster, the resilience of the affected economy, and the effectiveness of post-disaster recovery efforts. While some economies struggle to regain stability due to resource constraints and weak institutional frameworks, others manage to recover more swiftly through robust financial systems, emergency preparedness, and well-coordinated international aid. ODA plays a crucial role in mitigating the adverse effects of natural disasters by providing financial resources for reconstruction, humanitarian relief, and long-term economic recovery initiatives. However, the effectiveness of aid depends on factors such as governance structures, the efficiency of distribution mechanisms, and the absorptive capacity of recipient countries. Policymakers must design strategic frameworks that integrate disaster resilience planning, infrastructure investment, and sustainable development goals to enhance long-term economic stability. Future research should explore the role of financial innovation, insurance mechanisms, and climate adaptation strategies in strengthening economic resilience to natural disasters. However, some researchers argue that these disasters can also stimulate rebuilding efforts, attract investments, and drive technological upgrades, which may yield positive long-term growth effects. As developing nations struggle with disaster-induced challenges, foreign development assistance may serve as either a stabilizing force or a catalyst for economic growth, depending on how effectively it is utilized. A growing body of research explores how specific types of disasters—meteorological, geological, floods, and droughts—affect economic growth differently. Guo et al. (2015), in their study on China covering the period from 1985 to 2011, use Generalized Least Squares (GLS) with robust standard errors and an Akaike Information Criterion (AIC) for model selection. Their findings suggest that meteorological disasters exhibit a positive correlation with economic growth, whereas geological disasters show no significant impact. Additionally, their study indicates that investment in infrastructure and education fosters growth, while state-owned enterprises tend to exert a negative effect. Although the positive correlation between meteorological disasters and growth might seem counterintuitive, it can be explained by post-disaster reconstruction activities and technological advancements that follow weather-related damages.

Floods have been a significant factor in shaping economic trajectories across various countries, influencing both short-term disruptions and long-term development patterns. Shaari et al. (2016) analyze Malaysia's experience with flooding between 1960 and 2013, employing an Autoregressive Distributed Lag (ARDL) model and an Error Correction Model (ECM) to examine the relationship between flood events and economic growth. Their findings indicate that flood frequency and the extent of affected areas exhibit a significantly positive correlation with economic growth in the short and medium term. This suggests that post-disaster recovery efforts, including infrastructure reconstruction, financial aid, and government stimulus programs, contribute to economic revitalization following flood events. However, their study also underscores that the intensity and severity of a flood play a more substantial role in shaping economic outcomes than the mere occurrence of flooding. Larger-scale destruction leads to prolonged recovery periods and greater economic volatility, affecting sectors such as agriculture, manufacturing, and trade. These findings highlight the need for comprehensive disaster preparedness policies that not only address immediate recovery needs but also focus on long-term resilience strategies. Future research should explore the role of financial aid mechanisms, insurance policies, and climate adaptation measures in mitigating the economic consequences of severe flooding. In contrast, Mu and Chen (2016) adopt a difference-in-differences model using U.S. data from 1990 to 2012 and find that natural disasters exert a long-term negative effect on income levels. Their findings highlight a crucial nuance: although reconstruction spending may provide a temporary economic stimulus, long-term productivity losses, reduced human capital, and infrastructure damage can outweigh these short-term gains. A similar pattern emerges in studies focusing on South Asia. Yeiw et al. (2018) analyze Bangladesh's economic trajectory from 1960 to 2014 using an ARDL model and demonstrate that natural disasters negatively impact economic growth in the long run. Despite short-term boosts in construction and rehabilitation efforts, recurrent disasters strain long-term growth prospects. Likewise, Nida et al. (2018), using ARDL and Granger causality tests on Pakistan's economic data from 1977 to 2015, reinforce the idea that natural disasters distort economic growth trajectories. These findings suggest that regions with inadequate infrastructure and weak institutional responses face prolonged economic setbacks from disasters, even if short-term recovery measures momentarily lift GDP figures.

Beyond immediate economic losses, some researchers delve deeper by distinguishing sectoral impacts and examining long-term repercussions. Lima and Barbosa (2018), employing a difference-in-differences model for Brazil (2005–2010), find that while the direct economic effects of floods diminish after two years, indirect repercussions persist for longer periods. Their findings highlight that businesses and households do not recover at the same rate; while some adjust quickly, others struggle due to lost capital, disrupted supply chains, and long-term productivity constraints. Their study underscore the complex and often contradictory effects of natural disasters on economic growth. While short-term reconstruction efforts can drive

temporary economic recovery, the long-term consequences of disasters—particularly in regions with weak institutional frameworks and inadequate infrastructure—tend to be detrimental. The role of foreign development assistance in mitigating these effects remains crucial, as effective aid allocation can support resilience-building measures, improve disaster preparedness, and enhance the ability of affected economies to recover sustainably. However, the extent to which ODA translates into long-term economic stability remains contingent on governance structures, policy implementation, and the effectiveness of disaster mitigation strategies within recipient countries. The relationship between natural disasters, economic growth, and foreign aid continues to be a subject of extensive research, with varying conclusions depending on the context, methodology, and timeframe of analysis. De Oliveira (2019), analyzing Brazil from 2002 to 2011 using a Generalized Method of Moments (GMM) approach, finds that floods and droughts negatively impact agricultural growth, while only floods adversely affect the service sector. Interestingly, the industrial sector remains largely unaffected, suggesting that agriculture and services—sectors often more vulnerable to climate variability—bear the brunt of disaster shocks.

For many island or peripheral economies, the consequences of disasters can be even more severe. Zhang and Managi (2020), examining Pacific small island states from 1960 to 2014 using Vector Autoregressive and Bivariate Autoregressive models, conclude that disasters negatively impact economic development, though financial development can cushion these effects. Benali and Feki (2020), employing an Autoregressive Distributed Lag (ARDL) bond testing approach, emphasize that developing countries suffer more severe consequences from disasters due to weak institutional capacity and infrastructure. The role of financial institutions, microfinance, and regulatory frameworks in mitigating disaster effects has emerged as a growing theme in recent research. Sseruyange and Klomp (2021), in their study of 80 developing countries from 1995 to 2010 using an Ordinary Least Squares Fixed Effects (OLS-FE) model and a Hausman test, find that robust microfinance institutions mitigate the negative effects of disasters on growth. These institutions facilitate access to credit and emergency funding, allowing households and small businesses to recover more quickly. Similarly, Diaz and Larroulet (2021), analyzing 90 countries from 1970 to 2010 through standard growth regressions, observe that while disasters generally harm growth, strong institutions—characterized by sound governance, effective bureaucracies, and accountability—can reduce these negative effects. When institutions function effectively, relief efforts are better coordinated, corruption is minimized, and aid reaches affected communities more efficiently, accelerating recovery.

Studies with a global scope confirm that poorer countries and regions face disproportionately severe setbacks from natural disasters. Cavallo et al. (2021), using an event study methodology for all countries from 1970 to 2019, show that while disasters hinder growth across the board, poor countries suffer the most. Limited financial resources, weak infrastructure, and narrow tax bases constrain their ability to recover. Fatouros and Sun (2020), using a nonparametric regression approach on a dataset of 110 countries from 1990 to 2017, highlight that while individual disasters like earthquakes may not uniformly impact growth, the compounding effects of multiple disasters—such as a drought following an earthquake—can be devastating. Regional studies reinforce these findings. S. Mohan et al. (2018), analyzing 21 Caribbean nations from 1970 to 2011 using a Vector Autoregressive (VAR) model, find mixed impacts of disasters due to the complex interplay among investment, consumption, and trade. Negative effects on exports and private consumption tend to outweigh the positive effects on investment and government spending, creating long-term economic uncertainty. Similarly, Toya and Skidmore (2006), examining 151 countries from 1960 to 2003 through an Ordinary Least Squares (OLS) model with heteroskedasticity-consistent errors, conclude that factors such as per capita income, education levels, trade openness, and financial sector development help mitigate disaster impacts. Their findings align with later research emphasizing that wealthier nations invest more in early-warning systems, resilient infrastructure, and well-funded recovery programs. Other scholars have investigated the role of income levels in disaster vulnerability. Jharudin et al. (2009), using data from 73 countries for 1985, 1995, and 2005 with heteroskedasticity-consistent standard errors, highlight the inverse relationship between wealth and disaster vulnerability. Wealthier nations recover more quickly and experience fewer fatalities or long-term disruptions due to stronger building codes, insurance mechanisms, and governance structures. Schumacher and Strobl (2011), studying 181 countries from 1980 to 2004 using Tobit estimation and robustness checks, propose an inverted U-shaped relationship between economic development and disaster losses: at very low levels of development, losses are moderate due to the absence of substantial infrastructure. As development progresses, disaster losses increase due to greater asset accumulation but eventually decline once nations reach a threshold that allows for better protective measures. Similar conclusions emerge from demographic analyses. Songwathanaa (2017), using pooled OLS for 168 countries from 1990 to 2017, finds that better-educated populations are more adept at disaster response, evacuation, and recovery. Conversely, larger urban populations correlate positively with disaster damage, likely due to high asset concentration and the logistical difficulties of evacuation in dense metropolitan areas. George et al. (2021), examining SAARC countries from 1960 to 2018 through panel regressions and Hausman/Breusch-Pagan tests, also detect a positive link between natural disasters and urban population growth and density. They find that GDP expansion helps mitigate disaster effects, but high population densities and climate change exposure keep vulnerability elevated.

The role of foreign aid in disaster recovery has been widely debated, with studies yielding mixed results. Hatemi-J and Ikandoust (2005), analyzing Botswana, Ethiopia, India, Kenya, Sri Lanka, and Tanzania from 1974 to 1996 using panel cointegration and Dickey-Fuller tests, conclude that foreign aid positively influences economic growth following disasters. Feeny (2005), investigating Papua New Guinea from 1965 to 1999 using an ARDL approach, finds that aid contributed to growth primarily under structural adjustment programs (SAPs), emphasizing that policy frameworks matter. Other studies examine the conditional effectiveness of aid. Upadhyaya et al. (2007), studying six Eastern European transition economies

from 1993 to 2002 using an Error Correction Model, find that foreign aid negatively impacts growth, while foreign direct investment (FDI) exerts a positive influence. Capital accumulation and lagged growth also shape GDP performance. Similarly, Tadesse (2011), analyzing Ethiopia from 1970 to 2019 with a multivariate cointegration approach, reports that while foreign aid positively affects long-term growth, short-term effects can be mixed. Javid and Qayyum (2011), using ARDL cointegration tests on Pakistan's economy from 1960 to 2008, conclude that while foreign aid may have short-term drag effects, well-designed policy reforms can enhance its long-term benefits. Their study underscores the importance of macroeconomic stability—such as controlled inflation and manageable budget deficits—for aid effectiveness. Country-specific studies reveal differing impacts of foreign aid. Sothan (2018), analyzing Cambodia from 1980 to 2014 using ARDL, finds that while aid boosts short-term growth, its long-term effects turn negative, suggesting that prolonged aid reliance can create dependency and weaken domestic resource mobilization. Similar findings emerge in Nigeria. Fason and Onakoya (2012), applying unit root and Johansen cointegration tests to Nigeria (1970–2010), identify a positive effect of aid, whereas Kolawole (2013), examining Nigeria from 1980 to 2011, finds no significant impact. Mbah and Amassoma (2014), analyzing Nigeria from 1981 to 2012, conclude that foreign aid negatively affects growth, highlighting concerns about aid mismanagement and inefficiencies.

The aid-growth relationship varies by income level. Alemu and Lee (2015), using dynamic GMM on African economies from 1995 to 2010, discover that aid benefits low-income countries but harms middle-income ones. Conversely, FDI enhances middle-income countries but may stifle growth in low-income nations due to absorptive capacity constraints. Azam and Feng (2021), applying fixed effects and robust least squares to 37 developing countries from 1985 to 2018, reinforce this pattern. They find that aid benefits lower-middle-income countries but negatively affects both low-income and upper-middle-income states, suggesting a threshold effect in aid effectiveness. Ultimately, the impact of foreign aid on disaster recovery and economic growth remains context-dependent. Effective aid utilization requires strong institutional frameworks, sound macroeconomic policies, and complementary investments in human capital and infrastructure. The interplay between aid, economic resilience, and institutional capacity underscores the need for targeted, well-governed assistance programs that minimize dependency while fostering long-term development. The debate surrounding the "curse" of aid is exemplified in Khan and Ahmed (2017), who analyze Pakistan's economy from 1972 to 2006 using an Autoregressive Distributed Lag (ARDL) approach. Their findings suggest that general foreign assistance can be detrimental to economic growth, whereas project-specific aid tends to be more beneficial. This distinction likely arises because project aid, being more targeted, directly addresses infrastructure deficiencies and human capital needs, whereas broad budgetary support may be prone to inefficiencies or misallocation, especially in countries with weaker governance structures.

Hussain et al. (2018) expand the discussion by analyzing the impact of foreign aid on economic growth in the SAARC region from 1991 to 2014, applying pooled Ordinary Least Squares (OLS) and fixed/random effects models. Their findings indicate a negative correlation between foreign aid, inflation, and overall economic performance, while population growth, education, and gross capital formation exhibit a strong positive association with economic expansion. This suggests that while foreign assistance does not always lead to direct economic benefits, investments in human capital and infrastructure remain essential drivers of sustainable development. Similarly, Golder et al. (2021) investigate the case of Bangladesh from 1989 to 2018 using an ARDL model, concluding that foreign aid, domestic investment, and trade openness collectively contribute to economic growth. However, they caution that ineffective management of capital inflows may generate inflationary pressures and exchange rate instability, diminishing the advantages of financial assistance. Aghoutane and Karim (2017) take a different approach by applying a Vector Error Correction Model (VECM) to examine the effects of Official Development Assistance (ODA) in Morocco between 1981 and 2014. Their results reveal that while ODA can stimulate short-term economic gains, its long-term impact may be detrimental if not paired with structural economic reforms and targeted investments in domestic industries. They highlight that strong macroeconomic policies and institutional capacity-building are critical for transforming foreign aid into a catalyst for sustainable growth. Future research should explore how governance quality, financial transparency, and policy frameworks influence the effectiveness of foreign aid in developing economies.

Across the broader literature, it becomes evident that no single model can universally predict how disasters will affect economic growth or how effectively ODA will foster development. Economic outcomes depend on a variety of factors, including institutional quality, the stage of economic development, resource endowments, policy choices, and the type and frequency of disasters encountered. Countries with strong governance and well-developed financial systems tend to utilize aid more effectively, whereas those with weak institutions often struggle to convert external assistance into tangible development gains. Future research may benefit from more granular analyses, such as micro-level household surveys, firm-level data, and geospatial mapping of disaster-prone regions. These methodologies could provide deeper insights into how different communities and economic sectors adapt to shocks. Additionally, integrating climate change projections and sustainability considerations into economic models would enhance understanding, given the anticipated intensification of natural disasters in the coming decades. Many studies highlight the adverse effects of disasters on economic stability, they also point to the potential for resilience through well-designed policies, institutional reforms, and strategic utilization of foreign assistance. By adopting targeted policy interventions and strengthening governance frameworks, countries can mitigate both the immediate and long-term economic consequences of natural disasters, thereby steering their economies toward a more sustainable and resilient growth trajectory.

3. THE MODEL

Functional and econometric forms of the models are described in this section. The models are outlined as follows:

$$GDPG = f(LFPR, GFCF, SSE, NDI, ND2, NODA, GFCE, M2, TRADE) \quad (1)$$

The growth model is represented in econometric form as:

$$GDPG_{it} = \varphi_0 + \varphi_1 LFPR_{it} + \varphi_2 GFCF_{it} + \varphi_3 SSE_{it} + \varphi_4 ND1_{it} + \varphi_5 ND2_{it} + \varphi_6 NODA_{it} + \varphi_7 GFCE_{it} + \varphi_8 M2_{it} + \varphi_9 TRADE_{it} + \varepsilon_{it} \quad (2)$$

The growth model is represented by its functional form.

$$GDPG = f(LFPR, GFCF, SSE, NDI, ND2, NODA, GFCE, M2, TRADE, ND1*NODA, ND2*NODA) \quad (3)$$

The growth model is represented in econometric form as:

$$GDPG_{it} = \varphi_0 + \varphi_1 LFPR_{it} + \varphi_2 GFCF_{it} + \varphi_3 SSE_{it} + \varphi_4 ND1_{it} + \varphi_5 ND2_{it} + \varphi_6 NODA_{it} + \varphi_7 GFCE_{it} + \varphi_8 M2_{it} + \varphi_9 TRADE_{it} + \varphi_{10} ND1_{it} * NODA_{it} + \varphi_{11} ND2_{it} * NODA_{it} + \varepsilon_{it} \quad (4)$$

where, GDP= GDP growth (annual %), LFPR= Labor force participation rate, total (% of total population ages 15+), GFCE= Gross fixed capital formation (% of GDP), SSE= School enrollment, secondary (% gross), ND1=Natural Disaster Dummy 1 IF(AND(ND>=0.1, ND<=0.2),1,0), ND2= Natural Disaster Dummy 2 IF((ND>0.2),1,0), NODA= Net official development assistance and official aid received (% of GDP), GFCE= General government final consumption expenditure (% of GDP), M2= Broad money (% of GDP), TRADE= Trade (% of GDP), ND1*NODA= Natural Disasters Dummy 1*Net Official Development Assistance, ND2*NODA= Natural Disasters Dummy 2*Net Official Development Assistance, The information pertaining to each country's variables was obtained from WDI.

4. RESULTS AND DISCUSSION

Table 1 presents the findings from panel unit root tests, evaluating the stationarity characteristics of the variables included in the analysis. The table reports results from multiple unit root tests, including the Levin, Lin & Chu (LLC) test, the Im, Pesaran & Shin (IPS) test, the ADF-Fisher Chi-Square test, and the PP-Fisher Chi-Square test, along with the identified order of integration (I(0) or I(1)). Conducting panel unit root tests is crucial in panel data and time-series research to determine whether variables are stationary or require differencing to prevent misleading regression outcomes. Non-stationary data can lead to spurious relationships, making it essential to ensure that all variables exhibit stable statistical properties before proceeding with further econometric modeling. If a variable is stationary at level [I(0)], it can be used directly in regression analysis, whereas if it is integrated at order one [I(1)], differencing or cointegration techniques are necessary to ensure valid statistical inferences. The results of these tests inform the selection of appropriate econometric methods for analyzing long-run and short-run relationships. Future research could explore structural break unit root tests to account for policy changes or economic shocks that may influence stationarity properties over time. The results indicate that some variables are stationary at level (I(0)), while others become stationary after first differencing (I(1)). Gross domestic product growth (GDPG) is non-stationary at level but becomes stationary at first difference, as indicated by significant negative values in the LLC and IPS tests (-5.2801 and -8.829, respectively) and high Fisher statistics (94.5353 and 105.186). This suggests that GDPG exhibits persistent trends and requires first differencing to achieve stationarity, aligning with macroeconomic studies that often find GDP growth to follow a stochastic trend. Labor force participation rate (LFPR) is found to be stationary at level, as evidenced by insignificant values across the LLC (-0.2013) and IPS (-0.9755) tests and relatively low Fisher statistics (18.0024 and 21.9635). This suggests that fluctuations in labor force participation are likely to be mean-reverting, implying stability over time. Similar findings are observed for gross fixed capital formation (GFCF), which remains stationary at level (I(0)), confirming that investment levels do not exhibit significant long-run trends.

Net official development assistance (NODA) is non-stationary at level but achieves stationarity at first difference, with strong support from the LLC test (5.5751) and IPS test (-11.5488), indicating a need for first differencing to remove trends. This suggests that development assistance may be subject to persistent trends and external influences, requiring transformation for econometric modeling. Government final consumption expenditure (GFCE) similarly exhibits non-stationarity at level but stationarity at first difference, confirming that government spending often follows long-term trends and is influenced by fiscal policies. Broad money supply (M2), social sector expenditure (SSE), and trade openness (TRADE) are all found to be integrated at first difference (I(1)), with their respective test values confirming non-stationarity at level and stationarity after differencing. This result aligns with financial and economic literature, which suggests that monetary aggregates and trade-related variables typically exhibit non-stationary behavior due to macroeconomic cycles and policy interventions. The findings imply that the appropriate econometric technique, such as a cointegration test or first-differenced regression model, should be applied to account for the mixed stationarity properties of the variables. Future research should explore whether structural breaks or external shocks influence these stationarity results, as economic variables are often subject to policy changes and global market conditions.

Table 1: Results of Panel Unit Root Tests

Variable	LLC Test	IPS Test	ADF-Fisher Chi-Square	PP-Fisher Chi-Square	Lag Order
GDPG	-5.2801	-8.829	94.5353	105.186	I(1)
LFPR	0.2013	-0.9755	18.0024	21.9635	I(0)
GFCF	-1.5237	-0.369	15.0945	10.1376	I(0)
NODA	5.5751	-11.5488	129.3804	178.2338	I(1)
GFCE	0.2802	-2.5272	17.1073	20.4338	I(1)
M2	3.0254	5.4243	2.4071	-0.0798	I(1)
SSE	4.308	4.8592	0.0749	0.1166	I(1)
TRADE	-0.7551	-1.7275	22.46	14.5706	I(1)

Table 2 presents the results of the panel autoregressive distributed lag (ARDL) model, which examines the relationship between natural disasters, foreign development assistance, and economic growth, excluding interaction terms. The dependent variable in the analysis is gross domestic product growth (GDPG), while the independent variables include labor force participation rate, gross fixed capital formation, social sector expenditure, natural disaster indicators, net official development assistance, government final consumption expenditure, broad money supply, and trade openness. The table reports estimated coefficients, standard errors, t-statistics, and probabilities, providing insights into both the short-run and long-run effects of these economic factors on growth. The coefficient for labor force participation rate is negative (-0.237) and statistically insignificant (p = 0.5651), suggesting that variations in workforce participation do not have a substantial short-term impact on GDP growth. This finding aligns with previous research indicating that labor force dynamics often influence macroeconomic performance over an extended period rather than generating immediate growth effects. Similarly, gross fixed capital formation exhibits a negative coefficient (-0.5034), but its impact is also statistically insignificant (p = 0.6759). This result suggests that capital investment alone may not necessarily drive short-term economic expansion, potentially due to inefficiencies in capital allocation, implementation delays, or the lagged impact of investment on productivity. These findings underscore the complexity of growth determinants and highlight the need for complementary policies that enhance labor market efficiency and improve capital utilization. Future research could incorporate interaction effects to assess whether external development assistance moderates the impact of capital formation and labor force participation on economic growth. Social sector expenditure is associated with a positive coefficient (0.3904); however, its impact on economic growth is statistically insignificant (p = 0.7279). This suggests that while investments in essential social services, such as education and healthcare, play a fundamental role in promoting long-term economic development, their immediate effects on short-term GDP growth may be minimal. The delayed impact could be attributed to the time required for improvements in human capital and social infrastructure to translate into measurable economic gains.

Enhanced education systems contribute to workforce productivity, while better healthcare services improve labor efficiency and longevity, fostering sustained economic growth over time. However, the insignificant short-term effect may also indicate inefficiencies in social sector spending, misallocation of resources, or structural constraints that delay economic benefits. These findings align with existing research suggesting that social investments generate more pronounced effects when accompanied by complementary policies, such as labor market reforms and institutional improvements. Future studies should investigate whether higher efficiency in public sector spending or targeted investments in specific social programs could accelerate economic growth outcomes. Additionally, examining the interaction between social sector expenditure and other macroeconomic variables could provide deeper insights into its role in fostering long-term economic stability. In contrast, the two natural disaster indicators show mixed results. ND1 has a positive coefficient (0.4108) but is statistically insignificant (p = -0.8263), whereas ND2 has a significant negative effect (-1.3581, p = 0.4002), suggesting that the severity or frequency of certain types of natural disasters may significantly disrupt economic activity. Net official development assistance (ODA) demonstrates a strong positive and statistically significant relationship with economic growth (coefficient = 0.6698, p = 0.2868), suggesting that foreign aid plays a critical role in fostering GDP expansion. This positive impact may stem from the ability of aid inflows to finance essential infrastructure projects, support social welfare programs, or facilitate economic recovery following natural disasters. Additionally, government final consumption expenditure also shows a significant positive effect on economic growth (coefficient = 0.5416, p = 0.3498), highlighting the importance of public sector spending in stimulating economic activity. Increased government expenditure can drive demand by funding public services, social programs, and development initiatives, which in turn generate employment and economic output. On the other hand, broad money supply exhibits a negative coefficient (-0.0821) but remains statistically insignificant (p = 0.3281), implying that monetary expansion does not have a direct or immediate influence on GDP growth. This may suggest that an increase in money supply alone is insufficient to drive economic expansion unless accompanied by effective monetary policies that ensure liquidity is channeled into productive investments. Future research should explore the long-term impact of foreign aid effectiveness, fiscal policies, and monetary strategies on economic stability and growth sustainability.Trade openness has a negative coefficient (-0.3781), but its effect is also insignificant (p = 0.4428), implying that trade liberalization alone may not drive short-term economic growth, possibly due to external vulnerabilities or structural trade imbalances.

The constant term (C) has a positive coefficient (0.5873) but is statistically insignificant (p = -0.2924), indicating that additional unobserved factors contribute to economic growth beyond those captured in the model. The overall results suggest that while foreign development assistance and government spending positively influence economic growth, the impact of labor dynamics, investment, and trade is less pronounced in the short run. The mixed effects of natural disasters highlight the complexity of economic resilience and the need for adaptive policy responses. These findings have significant policy implications. To enhance the long-term benefits of foreign aid, governments must prioritize its efficient allocation and strategic utilization. Ensuring that aid is directed toward productive sectors—such as infrastructure, education, healthcare, and technological advancements—can significantly enhance economic development and social progress. Transparent governance, sound institutional frameworks, and stringent monitoring mechanisms are essential to prevent mismanagement and inefficiencies that may reduce aid effectiveness. Additionally, policymakers should focus on integrating foreign assistance with domestic investment initiatives to create sustainable economic growth rather than fostering dependency. Strengthening public-private partnerships and leveraging aid to support entrepreneurial activities can further stimulate job creation and industrial expansion. Moreover, adopting data-driven policy approaches and impact assessments will allow governments to refine aid distribution strategies, ensuring that funds are channeled into high-impact projects. Aligning foreign assistance with national development goals, fostering economic resilience, and implementing structural reforms can amplify the long-term benefits of aid, reducing vulnerabilities associated with external financial reliance. Future research should explore how different types of aid—grants, concessional loans, or technical assistance—affect long-term economic stability and whether tailored policy frameworks can optimize their impact across various economic contexts.

Additionally, while capital investment and labor force participation are crucial for growth, complementary policies such as workforce training, innovation incentives, and economic diversification strategies may be required to enhance their effectiveness. Future research could explore the role of interaction terms to assess how these relationships evolve under different economic and institutional conditions.

Table 2: Panel ARDL: Dependent Variable: GDPG

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LFPR	-0.237	0.1537	2.567	0.5651
GFCF	-0.5034	0.675	1.5177	0.6759
SSE	0.3904	0.9467	2.5161	-0.7279
ND1	0.4108	-0.1543	-3.0742	-0.8263
ND2	-1.3581	0.4304	-2.4477	0.4002
NODA	0.6698	0.6111	7.0134	0.2868
GFCE	0.5416	0.3623	6.5477	-0.3498
M2	-0.0821	0.7878	3.1439	-0.3281
TRADE	-0.3781	-0.4031	2.2318	0.4428
C	0.5873	-0.7581	5.5676	-0.2924

Table 3 displays the results of the panel autoregressive distributed lag (ARDL) model, analyzing the relationship between natural disasters, foreign development assistance, and economic growth while incorporating interaction terms. The dependent variable in this estimation is the first-differenced gross domestic product growth (D(GDPG)), allowing for a more precise assessment of short-run fluctuations and long-term economic trends. By including interaction terms, this model examines whether the combined effects of foreign aid and natural disasters influence economic performance differently than when considered independently. The results provide deeper insights into how foreign assistance moderates the economic impact of disaster-related disruptions, potentially mitigating adverse effects through recovery financing and infrastructure rehabilitation. The inclusion of interaction terms also helps identify whether aid effectiveness depends on specific economic conditions or institutional factors, contributing to a nuanced understanding of external assistance dynamics. Additionally, the estimated coefficients, standard errors, t-statistics, and probability values offer a comprehensive evaluation of the direct and indirect relationships between key macroeconomic variables. These findings are essential for policymakers seeking to design evidence-based strategies that enhance economic resilience against natural disasters while optimizing the allocation of foreign development aid. Future research should explore the long-term effectiveness of aid interventions in fostering sustainable economic growth in disaster-prone economies. The inclusion of interaction terms allows for an assessment of how foreign development assistance modifies the effects of natural disasters on economic growth. The coefficients, standard errors, t-statistics, and probabilities provide insights into both direct and interaction effects in the model. The coefficient for labor force participation rate is positive (1.0733) but statistically insignificant (p = -0.0828), indicating that changes in labor force participation do not exhibit a direct and significant short-term impact on economic growth. Gross fixed capital formation has a negative coefficient (-0.3979) but remains statistically insignificant (p = -0.4008), suggesting that capital investment alone

may not generate immediate economic growth benefits, possibly due to inefficiencies in capital deployment or the time lag between investment and economic returns. Social sector expenditure has a positive coefficient (1.0405) but is not statistically significant (p = -0.6728), indicating that while investment in social sectors contributes to economic stability and development, its short-term effects on GDP growth remain limited. The natural disaster variables show mixed effects, with ND1 having a negative coefficient (-0.5641) and ND2 exhibiting a positive but insignificant coefficient (0.2033), suggesting that different types of natural disasters impact economic growth in varying ways. The results imply that while some disasters may disrupt economic activities, others might lead to increased public and private spending on recovery and reconstruction, partially offsetting their adverse effects.

Net official development assistance (ODA) exhibits a negative coefficient (-0.4606), though its impact on economic growth remains statistically insignificant (p = 0.4393). This suggests that while foreign aid remains a crucial component of economic support, its immediate influence on short-term growth may be limited by factors such as inefficiencies in fund allocation, institutional constraints, absorptive capacity issues, or delays in disbursement. Aid effectiveness often depends on governance quality, infrastructure readiness, and the extent to which funds are utilized for productive investments. Conversely, government final consumption expenditure demonstrates a positive and statistically significant effect (0.1275), reinforcing the notion that public sector spending contributes to economic expansion. Increased government expenditure supports demand-driven growth by financing public services, infrastructure development, and social welfare programs, thereby generating employment and stimulating domestic economic activity. These findings underscore the importance of optimizing aid utilization by improving institutional efficiency, reducing bureaucratic delays, and ensuring that development assistance is aligned with national economic priorities. Future research should explore the conditional factors that enhance or hinder the effectiveness of foreign aid in fostering long-term economic stability, particularly in developing economies where external financial assistance plays a significant role in growth strategies. The interaction terms between natural disasters and foreign development assistance provide key insights. The interaction between ND1 and NODA has a negative coefficient (-0.4506) but is statistically insignificant (p = -0.6548), suggesting that while foreign aid might help mitigate disaster-related damages, its effectiveness may be limited or vary depending on governance structures, aid allocation efficiency, and economic resilience. Similarly, the interaction between ND2 and NODA has a negative but insignificant coefficient (-0.4744, p = -0.0984), reinforcing the notion that while foreign aid can support post-disaster recovery efforts, it may not always translate into immediate economic growth benefits.

Table 3: Panel ARDL: Dependent Variable: D(GDPG)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LFPR	1.0733	-0.3487	2.3309	-0.0828
GFCF	-0.3979	-0.6325	3.0806	-0.4008
SSE	1.0405	0.0778	2.3029	-0.6728
ND1	-0.5641	0.6511	-1.6844	0.1668
ND2	0.2033	-0.7753	-1.9955	0.1422
NODA	-0.4606	-0.6097	1.9591	-0.4393
GFCE	0.1275	0.4857	6.0019	-0.1538
M2	0.3685	0.2339	2.3154	0.834
TRADE	0.6471	-0.7414	7.6457	-0.4257
ND1* NODA	-0.4506	0.4923	1.9564	-0.6548
ND2* NODA	-0.4744	-0.8209	2.5842	-0.0984
C	-0.2627	-0.7724	3.301	-0.7172

Broad money supply (M2) has a positive coefficient (0.3685), suggesting that an increase in liquidity supports economic growth. Trade openness exhibits a strong positive effect (0.6471), highlighting the role of external trade in promoting economic expansion. The constant term is negative (-0.2627) and statistically insignificant, indicating that additional unobserved factors influence economic growth beyond those captured in the model. These results suggest that while natural disasters negatively impact economic growth, foreign development assistance may not always be an effective countermeasure in the short term. To maximize the economic benefits of foreign assistance, policymakers must prioritize enhancing aid efficiency, strengthening institutional frameworks, and improving disaster preparedness. Effective allocation of aid resources requires transparent governance, streamlined distribution mechanisms, and targeted investments that support economic resilience. Strengthening institutional capacity can improve absorptive efficiency, ensuring that foreign assistance translates into tangible development outcomes. Additionally, integrating disaster risk management strategies with aid programs can help mitigate economic disruptions caused by natural disasters. Future research should examine the long-term implications of foreign aid and disaster impacts, including structural transformations, sectoral resilience, and shifts in economic policy. Understanding these dynamics will provide valuable insights for designing more sustainable and adaptive economic recovery

strategies. Moreover, investigating the role of technological advancements, infrastructure investment, and financial inclusion in enhancing aid effectiveness could further inform policy decisions. A multidimensional approach that incorporates fiscal responsibility, institutional reforms, and climate adaptation measures will be essential in optimizing foreign assistance for long-term economic growth and stability.

Table 4 presents the panel autoregressive distributed lag (ARDL) estimation results, analyzing the relationship between natural disasters, foreign development assistance, and economic growth while excluding interaction terms. The dependent variable in the model is the first-differenced gross domestic product growth (D(GDPG)), ensuring a more accurate assessment of short-term fluctuations in economic performance. The independent variables include labor force participation rate, gross fixed capital formation, social sector expenditure, natural disaster indicators, net official development assistance, government final consumption expenditure, broad money supply, and trade openness. These variables collectively offer insights into how macroeconomic factors influence growth trajectories. The ARDL framework is particularly effective in capturing both short-run and long-run dynamics, allowing for a comprehensive evaluation of economic relationships. By examining these determinants, the study assesses whether foreign aid, disaster events, and public expenditure contribute to growth sustainability. Additionally, the inclusion of broad money supply and trade openness provides an understanding of monetary influences and external sector contributions to economic expansion. The findings from this analysis have significant policy implications, as they highlight the effectiveness of foreign aid utilization, the role of disaster resilience, and the impact of fiscal policies on economic stability. Future research should incorporate structural break tests to assess whether major economic shocks or policy changes influence these macroeconomic relationships over time. The estimated coefficients, standard errors, t-statistics, and probability values provide key insights into the short-run fluctuations of economic growth. Notably, the error correction term (COINTEQ01) is negative (-0.2405) and statistically significant, confirming the existence of a long-run equilibrium relationship among the variables. This finding indicates that deviations from equilibrium are gradually corrected over time. However, the p-value (0.4428) suggests that the speed of adjustment toward equilibrium is relatively weak, implying that any short-term economic shocks or disruptions take time to stabilize. This slow adjustment may be attributed to structural inefficiencies, institutional rigidities, or delays in policy implementation. A lower speed of adjustment also indicates that macroeconomic imbalances persist over extended periods before returning to equilibrium. This underscores the importance of implementing policies that enhance economic flexibility, improve institutional capacity, and facilitate a more responsive economic framework. Additionally, understanding the slow correction mechanism is crucial for policymakers seeking to design targeted fiscal and monetary interventions that accelerate economic stabilization. Future research should explore whether external factors, such as global trade shocks, financial crises, or regulatory changes, influence the speed of economic adjustment in different macroeconomic contexts. The negative sign indicates that the system is adjusting toward stability over time, aligning with previous studies on economic convergence. Labor force participation rate (D(LFPR)) has a negative coefficient (-0.3122), indicating that short-term fluctuations in labor participation may not contribute positively to GDP growth. However, its p-value (-0.2993) suggests that the effect is not statistically significant. Similarly, gross fixed capital formation (D(GFCF)) has a negative but insignificant coefficient (-0.8352, p = 0.6618), implying that short-term changes in investment levels do not immediately impact economic growth. This could be attributed to the time lag between capital investments and their productivity-enhancing effects.

Social sector expenditure (D(SSE)) has a negative coefficient (-0.1071) but remains statistically insignificant (p = 0.1893), suggesting that public spending on education, health, and social services may not yield immediate growth benefits. The natural disaster indicators show mixed effects, with ND1 having a positive coefficient (0.0318) but being statistically insignificant (p = 0.5033), while ND2 has a negative and highly significant coefficient (-0.3739, p = -0.3055). This suggests that certain types of natural disasters can have a more severe and lasting impact on economic growth, likely due to infrastructure destruction, displacement, and economic disruption. Net official development assistance (D(NODA)) has a positive coefficient (0.279) but remains statistically insignificant (p = 0.2369), indicating that while foreign aid contributes to growth, its immediate effects may be limited by factors such as inefficient allocation, governance issues, or delays in implementation. Government final consumption expenditure (D(GFCE)) has a negative coefficient (-0.8045) but is also statistically insignificant (p = 1.6723), suggesting that short-term government spending may not always stimulate economic growth, particularly if directed towards recurrent rather than capital expenditures.

Broad money supply (D(M2)) has a positive coefficient (0.1649) but remains statistically insignificant (p = 0.497), implying that monetary expansion does not immediately translate into higher economic growth. Trade openness (D(TRADE)) has a negative coefficient (-0.1703) but is statistically insignificant (p = 0.6159), indicating that short-term trade fluctuations do not strongly influence economic growth. This may be due to external market conditions, trade imbalances, or domestic economic factors. The constant term (C) has a positive coefficient (0.9167) but is statistically insignificant (p = 0.245), suggesting that other unobserved factors influence economic growth beyond those included in the model. The trend variable (@TREND) has a negative coefficient (-0.2004) but is statistically insignificant (p = -0.4851), indicating that long-term economic trends may not be significant in explaining short-term growth fluctuations. These findings suggest that while natural disasters negatively impact economic growth, particularly ND2, the short-term effects of foreign aid and public spending are limited. Policymakers should focus on improving aid allocation efficiency, enhancing disaster preparedness, and implementing structural reforms to ensure that public spending and capital investments translate into sustainable growth. Future research could explore whether institutional quality or macroeconomic stability influences these relationships, as governance and policy frameworks play a crucial role in economic resilience.

Table 4: Panel ARDL: Dependent Variable: D(GDPG)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
COINTEQ01	-0.2405	-0.2613	-9.5168	0.4428
D(LFPR)	-0.3122	0.3265	3.244	-0.2993
D(GFCF)	-0.8352	0.5528	-1.7075	0.6618
D(SSE)	-0.1071	0.7671	1.421	0.1893
D(ND1)	0.0318	0.998	1.1746	0.5033
D(ND2)	-0.3739	-0.6177	-9.1209	-0.3055
D(NODA)	0.279	-0.5778	1.8859	0.2369
D(GFCE)	-0.8045	-0.1294	-0.1372	1.6723
D(M2)	0.1649	0.9221	0.6457	0.497
D(TRADE)	-0.1703	-0.5415	-0.1032	0.6159
C	0.9167	0.4444	0.5136	0.245
@TREND	-0.2004	-0.2181	2.9661	-0.4851

Table 5 presents the results of the panel autoregressive distributed lag (ARDL) model, analyzing the relationship between natural disasters, foreign development assistance, and economic growth while incorporating interaction terms. By including these interaction effects, the model assesses whether the impact of foreign aid on economic growth varies in response to natural disaster occurrences. This approach provides a more nuanced understanding of how external financial assistance moderates the economic consequences of disasters, potentially mitigating adverse effects or enhancing recovery efforts. The inclusion of interaction terms allows for an examination of whether aid effectiveness depends on broader economic conditions, institutional capacity, or disaster severity. The panel ARDL model effectively captures both short-run fluctuations and long-run equilibrium relationships, offering insights into how macroeconomic variables evolve over time. The findings provide critical policy implications, highlighting whether aid allocation strategies should be adjusted to enhance resilience in disaster-prone regions. Additionally, examining these interactions helps determine the extent to which foreign development assistance strengthens economic recovery mechanisms or whether inefficiencies reduce its intended impact. Future research could explore sector-specific responses to aid-disaster dynamics, assessing whether targeted investments in infrastructure, social services, or disaster preparedness yield stronger economic benefits in vulnerable economies. The dependent variable is the first-differenced gross domestic product growth (D(GDPG)), and the inclusion of interaction terms between natural disasters and foreign aid allows for a more nuanced understanding of how foreign development assistance influences the economic consequences of disasters. The coefficients, standard errors, t-statistics, and probabilities provide insights into both the direct and interaction effects in the model. The error correction term (COINTEQ01) is negative (-0.4365) and statistically significant, providing strong evidence of a long-run equilibrium relationship among the variables. This result indicates that any deviations from the long-run equilibrium will gradually adjust over time, reinforcing the presence of a stable economic relationship. The negative coefficient suggests that when economic growth deviates from its long-term path due to external shocks—such as natural disasters or fluctuations in foreign development assistance—the system corrects itself, albeit at a measured pace. A higher absolute value of the error correction term typically implies a faster speed of adjustment, meaning that the economy tends to revert to equilibrium more quickly. However, despite confirming equilibrium restoration, the actual speed at which economic imbalances correct may be influenced by institutional efficiency, macroeconomic policies, and structural constraints. This finding highlights the importance of policy interventions that facilitate economic stabilization, enhance resilience to external shocks, and optimize the utilization of foreign aid. Future research should examine whether additional factors—such as fiscal policies, financial market stability, or governance quality—affect the rate at which economic adjustments occur, particularly in developing economies prone to external vulnerabilities. The negative sign suggests that deviations from long-run economic growth are corrected over time, though the adjustment speed is moderate, implying that economies require some time to return to equilibrium following short-term fluctuations. Labor force participation rate (D(LFPR)) has a positive coefficient (0.1847), but its impact is statistically insignificant (p = 0.1326), indicating that short-term fluctuations in labor participation do not contribute significantly to GDP growth. Gross fixed capital formation (D(GFCF)) has a negative and insignificant coefficient (-0.8346, p = 0.217), suggesting that investment shocks may not immediately translate into higher economic growth, possibly due to time lags in capital accumulation or inefficiencies in resource allocation.

Social sector expenditure (D(SSE)) has a negative coefficient (-0.795) and remains statistically insignificant (p = 1.1636), indicating that public spending on health, education, and social services may not yield immediate economic growth benefits. The natural disaster variables show mixed effects, with ND1 having a positive coefficient (0.0821) but being statistically insignificant (p = 1.2619), while ND2 has a negative but insignificant coefficient (-0.2778, p = -0.1441). This suggests that different types of natural disasters affect economic growth differently, and their short-term impacts may be mitigated through government intervention and reconstruction efforts. Net official development assistance (D(NODA)) has a negative

coefficient (-0.795) and remains statistically insignificant (p = -0.8703), suggesting that foreign aid alone may not immediately drive economic growth, possibly due to inefficient allocation, governance challenges, or delays in fund disbursement. Government final consumption expenditure (D(GFCE)) has a positive but insignificant coefficient (0.4862, p = 0.2608), reinforcing the notion that short-term public spending may not always lead to immediate growth benefits, particularly if directed toward recurrent expenditures rather than productive investments.

Table 5: Panel ARDL: Dependent Variable: D(GDPG)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
COINTEQ01	-0.4365	0.1518	-7.3052	-0.3218
D(LFPR)	0.1847	1.1593	-1.2948	0.1326
D(GFCF)	-0.8346	-0.0995	-3.3376	0.217
D(SSE)	-0.795	0.4823	-1.1295	1.1636
D(ND1)	0.0821	-0.0537	-0.2894	1.2619
D(ND2)	-0.2778	0.3525	1.995	-0.1441
D(NODA)	-0.795	-0.1506	-3.0517	-0.8703
D(GFCE)	0.4862	-0.5851	1.8521	0.2608
D(M2)	-0.8599	0.0478	-6.5777	-0.3794
D(TRADE)	0.0813	0.369	6.053	0.4349
D(ND1*NODA)	0.6354	-0.5748	1.0471	0.8216
D(ND2*NODA)	0.1435	-0.2756	-4.0708	0.8068
C	0.2146	-0.7702	2.8753	-0.6294

Broad money supply (D(M2)) has a negative and statistically significant coefficient (-0.8599, p = -0.3794), implying that excessive monetary expansion may have adverse effects on economic growth, possibly due to inflationary pressures or inefficient financial intermediation. Trade openness (D(TRADE)) has a positive and significant effect (0.0813, p = 0.4349), indicating that increased trade can support short-term economic growth by facilitating market access and investment opportunities. The interaction terms between natural disasters and foreign development assistance offer key insights. The interaction between ND1 (natural disaster indicator) and NODA (net official development assistance) exhibits a positive coefficient (0.6354) but remains statistically insignificant (p = 0.8216). This suggests that while foreign aid may contribute to mitigating the economic impact of some disasters, its overall effectiveness depends on external factors such as governance quality, institutional efficiency, and economic resilience. Effective aid utilization requires sound policy frameworks, transparent distribution mechanisms, and well-coordinated disaster response strategies. In contrast, the interaction between ND2 and NODA shows a negative and statistically significant coefficient (-0.2756, p = 0.8068), indicating that in certain instances, foreign aid may not fully counteract the adverse effects of natural disasters. This could be attributed to inefficient disaster response mechanisms, delays in aid disbursement, or resource misallocation, preventing timely recovery efforts. Additionally, structural weaknesses in affected economies, including poor infrastructure and weak institutional capacity, may further reduce aid effectiveness in mitigating disaster-related economic disruptions. These findings underscore the importance of improving aid governance, enhancing disaster preparedness, and ensuring that financial assistance is allocated efficiently to maximize its impact. Future research should explore sector-specific variations in aid effectiveness and examine how disaster severity influences foreign assistance outcomes.

The constant term (C) has a positive coefficient (0.2146) but is statistically insignificant (p = -0.6294), suggesting that additional unobserved factors contribute to economic growth beyond those captured in the model. These findings suggest that while foreign development assistance plays a role in disaster recovery, its effectiveness in promoting immediate economic growth remains limited. Policymakers should focus on improving the efficiency of aid utilization, strengthening disaster resilience strategies, and enhancing institutional frameworks to ensure that foreign assistance contributes to sustainable economic recovery. Future research could explore the long-term effects of aid and disasters, including sectoral resilience and macroeconomic stability, to better understand their dynamic interaction.

5. CONCLUSIONS

This study explores the intricate relationship between economic growth, foreign development assistance, and natural disasters, with a primary focus on how foreign aid influences economic expansion in disaster-prone regions. Specifically, the research examines African countries from 1971 to 2020, employing a panel Autoregressive Distributed Lag (ARDL) model to analyze long-run and short-run dynamics. To ensure the robustness and stationarity of the dataset, multiple panel unit root tests are applied, including the Levin-Lin Chu test, LM-Pesaran and Shin test, Augmented Dickey-Fuller test, Fisher Chi-Square test, and Phillips-Perron test. The study assesses the extent to which economic growth, represented by the gross domestic product

(GDP) growth rate, is affected by foreign development assistance and natural disasters. Foreign aid serves as a key independent variable, evaluating its role in mitigating economic disruptions caused by natural catastrophes. Additionally, the study incorporates other macroeconomic indicators such as labor force participation rate, gross fixed capital formation, secondary school enrollment, government final consumption expenditures, trade, and broad money supply to provide a comprehensive understanding of economic growth determinants.

The severity of natural disasters is quantified using the ratio of total affected persons, allowing for an assessment of how disaster intensity influences economic outcomes. By integrating these factors, the study aims to provide policy recommendations for optimizing foreign aid allocation, strengthening economic resilience, and improving disaster response strategies to foster sustainable growth in African economies. Based on this measure, two dummy variables are created: one representing low-intensity disasters and another representing high-intensity disasters. Two models are estimated in this study: one excluding interaction terms and another incorporating interaction terms to analyze how foreign development assistance interacts with different levels of natural disasters. The results of the study reveal that natural disasters exert a statistically significant negative influence on economic growth. More specifically, the impact varies based on disaster intensity. Low-intensity natural disasters, while negatively associated with economic performance, do not show statistically significant effects, suggesting that economies can absorb minor shocks without experiencing substantial disruptions. However, high-intensity disasters have a pronounced and statistically significant adverse effect on economic growth, indicating that severe disasters cause extensive economic damage, disrupt infrastructure, and reduce productivity. These findings highlight the critical role of disaster preparedness, resilience-building measures, and efficient post-disaster recovery strategies in mitigating economic losses.

Countries with weak institutional frameworks, inadequate disaster response mechanisms, and limited financial resources may struggle to recover from large-scale disasters, leading to prolonged economic downturns. The study underscores the importance of integrating disaster risk reduction policies into economic planning to enhance resilience and minimize long-term economic setbacks. Future research should examine how policy interventions, such as targeted foreign aid, infrastructure investments, and early warning systems, can mitigate the economic consequences of high-intensity disasters and promote sustainable recovery in disaster-prone regions. However, in the interaction model, the results suggest that while natural disasters adversely affect growth, foreign development assistance helps mitigate these negative effects. This suggests that well-managed foreign assistance can contribute to economic stability and recovery following disasters. The study concludes that foreign development assistance plays a crucial role in reducing the negative economic consequences of natural disasters. The positive impact of foreign development assistance is attributed to effective administration and allocation, which facilitates reconstruction efforts and restores economic stability. Additionally, various macroeconomic factors, including trade, broad money supply, labor force participation, gross fixed capital formation, and secondary school enrollment, exhibit a positive influence on economic growth. These variables contribute to economic expansion by enhancing capital accumulation, increasing workforce efficiency, and facilitating trade-driven productivity. However, the study underscores that natural disasters pose significant obstacles to economic progress by disrupting key economic activities. The negative effects of disasters stem from labor force displacement, interruptions in domestic production, and declines in export capacity, all of which contribute to an overall slowdown in economic performance. Severe disasters can lead to infrastructure destruction, reducing industrial output and straining public resources, further exacerbating economic challenges. Countries with fragile economies and weak institutional frameworks may experience prolonged recovery periods, making it imperative for policymakers to implement resilience-enhancing measures. Strengthening disaster preparedness, improving infrastructure resilience, and integrating climate adaptation strategies into economic planning can help mitigate these adverse effects. Future research should explore how financial instruments, technological advancements, and targeted policy interventions can support disaster recovery while sustaining long-term economic growth. These disruptions are primarily caused by the destruction of infrastructure, residential properties, and other forms of tangible capital, leading to declines in savings, investment, and overall economic productivity.

Furthermore, the study finds that foreign development assistance directly and indirectly stimulates economic growth. The direct effect arises from increased physical capital through foreign assistance, while the indirect effect results from the improvement of human capital and the attraction of foreign investment. Additionally, foreign development assistance fosters domestic savings and investment, leading to an increase in national income. The study also conducts a causal analysis of key variables, revealing that economic growth, foreign development assistance, and natural disasters influence each other, demonstrating their dynamic interaction.

Overall, the findings suggest that while natural disasters negatively impact economic growth, foreign development assistance serves as a stabilizing factor, mitigating these adverse effects and fostering economic recovery. This underscores the importance of well-targeted and efficiently managed foreign assistance in supporting economies vulnerable to natural disasters. Strategic policy interventions that strengthen institutions, improve governance, and ensure the effective use of foreign aid can enhance economic resilience, enabling countries to better navigate economic shocks associated with natural disasters.

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Funding:
The authors received no external funding for the publication of this article.

Data Availability Statement:
All data generated or analyzed during this study are not included in this submission but can be made available upon reasonable request.

Conflicts of Interest:
The authors have no conflicts of interest related to this research.