External Debt and Sustainable Development: Empirical Evidence from Nigeria

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Abstract

This paper studied the association between external debt and sustainable development in Nigeria to ascertain empirically the extent of relationship between external borrowings and achieving Sustainable Development Goals (SDG) 2 – Zero Hunger and SDG 3 – Good Health and Well Being. Secondary data for the period 2003 to 2019 were extracted from publications of Debt Management Office (DMO) of Nigeria, National Bureau of Statistics, International Monetary Fund (IMF) and the World Bank. The study formulated two hypotheses and tested them using Spearman's Rank Correlation tool. The results revealed that there is no significant relationship between external debts and sustainable development in Nigeria. The paper argues that the accumulated external debts in Nigeria are not properly utilized for sustainable developmental projects that reduce the high poverty index and low life expectancy of its populace. It therefore recommends adoption of debt management strategies targeted at gradual liquidation of Nigeria's external debt stock to avoid debt overhang. This should be done through reduction in excessive government spending especially expenditures on non-productive sectors of the economy. Hence, judicious utilization of funds on sustainable projects that reduce poverty level and improve life expectancy should be carried out in order for Nigeria to join other United Nations(UN) member countries on achieving the 17 SDGs by the year 2030.

Keywords: External debt, SDGs, Poverty index, Life expectancy.

Introduction

Notably, external borrowing and its management have been of great concern and has generated many debates locally and internationally by many scholars, governments and citizens. The discussions have been on whether to borrow or not and whether it can be a catalyst towards achieving sustainable development considering the need to achieve Sustainable Development Goals (SDGs). SDGs are goals set by the United Nations (UN) for its member nations to be achieved on or before the year 2030.

Due to the debt crisis of some developing economies, International Monetary Fund (IMF) and World Bank came up with Heavily Indebted Poor Countries (HIPC) Initiative in 1996 to bring these debts, which were mostly in sub-Saharan Africa, to sustainable points (Pattillo, Poirson & Ricci, 2002, as cited in IMF, 2005). Nigeria was not considered as one of those in the category of HIPC by World Bank and IMF, due to its high potentials and oil revenue generation, however, Nigeria was one of Africa's biggest debtors with over Thirty Five Billion, Nine Hundred and Forty Four Million, Six Hundred and Sixty Thousand US Dollars ($35,944,660,000.00) as at 31st Dec. 2004(Debt Management Office (DMO), 2020a).

On the advent of democratic rule, vigorous campaigns for debt pardon were undertaken by the Olusegun Obasanjo's administration in 1999 and Paris Club took special cognizance of the economic reform programmes managed by Economic Reform Team headed by Dr. (Mrs.) Ngozi Okonjo-Iweala. Nigeria successfully got $18 Billion Debt Cancellation Agreement signed by the Paris Club and the Federal Government (FG) in 2005. The amount was 60% of the $30 Billion owed by Nigeria to the Cartel. This debt relief deal facilitated Nigeria to exit from all its Paris Club debt obligations in April 2006. This was also followed by the liquidation of its London Club debt obligations (DMO, 2020a). On the possibility of Nigeria returning to status quo by accumulating more loans in the future, Okonjo-Iweala said that there was now a consensus among government players that the nation will not get into the situation again (The Guardian Editorial, 2005).

The external debt stock of Nigeria as at 31st December 2019, was Twenty Seven Billion, Six Hundred and Seventy Six Million, One Hundred and Forty Thousand US Dollars (US$27,676,140,000) (DMO, 2020). On the other hand, as at 31st Dec. 2018, it was Twenty Five Billion, Two Hundred and Seventy Four Million, Three Hundred and Sixty Thousand US Dollars (USD25,274,360,000).

External debt management is of particular interest in this paper, considering the local and international angle the borrowing has on the recipient country, especially developing economies. The motivation of this study is the usual critical questions in the minds of the populace both the educated and the not-too-educated citizens, whenever they hear of increase in external debt profile of their countries. In Nigeria, these rising external debts, do they translate to better life? How has it led to affordability of food; better security; adequate portable water supply; better education; provision of jobs; available and accessible healthcare that will help to reduce death rates of infants, pregnant women and all, both those living in the rural and urban communities in order to improve the life expectancy of its citizens? Have the public external debts reduced the number of people living below international poverty line of $1.90 USD per day (World Bank, 2018), which is N721 per day using Central Bank of Nigeria(CBN) exchange rate of N379.5 (Central) a dollar as at ending of Dec. 2020? How many Nigerian citizens are living in less than N721 per day?

A recent report from Brookings Institution, a foremost American Research Institute founded in 1916 said that in 2018, Nigeria has overtaken India as the World's poverty capital with Democratic Republic of Congo taking a second place (Adebayo, 2018).

All these critical questions on sustainable development indices are encapsulated in the SDGs. Sustainability means enduring systems, institutions and processes. Sustainable Development is the kind of development that meets the needs of the present generation without compromising the ability of the future generations in meeting theirs.

Therefore, the aim of this study is to ascertain the degree of association between External Debt and Sustainable Development in Nigeria. The objectives include:

i) To determine the relationship between External Debt Stock and Poverty Index in Nigeria.
ii) To examine the relationship between External Debt Stock and Life Expectancy in Nigeria.

In line with the objectives, the paper formulates the following research questions:

a) To what extent is External Debt Stock related to Poverty Index in Nigeria?
b) To what extent is External Debt Stock associated with Life Expectancy in Nigeria?

The above research questions yield the following hypotheses:

Ho1: There is no significant relationship between External Debt Stock (EDS) and Poverty Index (PIN).

Ho2: There is no significant relationship between External Debt Stock (EDS) and Life Expectancy (LEX).

The paper contributes to the literature in debt management in Nigeria in two main ways. Firstly, it broadens our understanding of the effect of accumulation of external debts. Secondly, it adopts a new dimension - using sustainable development indices - in examining the effect of external debts on the citizens. The findings will therefore be of interest to policy makers with respect to debt acquisition. It will form a springboard for further research on other SDG indices. Nigerian democracy has remained unbroken since 1999 yielding robustness in legislative deliberations on debt accumulation and the desire to attain SDGs, that necessitated the choice for the period under review from 2003-2020. It is worthy to note that SDGs were initiated as a continuation of the long term growth and developmental plan of the UN, after the Millennium Development Goals (MDGs) of UN that started in the year 2000 and elapsed in 2015.

The rest of the paper is organized as follows: Section 2 presents the literature review followed by methodology in Section 3. The empirical result and analysis are shown in Section 4, while Section 5 contains the Conclusion with recommendations.

Literature Review

Conceptual Review

Concept of Debt

Everyone and every country borrow, however the major apprehension is the magnitude of the borrowing. When individuals borrow, it is known as private debt, but when governments borrow, it is called public debt. Public Debt is defined as the money raised by the Central Bank to finance developmental projects, or to support the balance of payments. Borrowings are necessitated by shortage of funds by the borrowing entity, due to quantum of wants and needs to be satisfied. The debts could be owed to individuals (private), Institutions (Multilateral) or governments (Bilateral) within (Domestic) or outside the country (External) (Gberege & Micah 2008; Adams 2004). When these debts are paid back, they are called Debt Servicing. Debt servicing comprises of principal, interest/service fee and other charges.

Debt Management in Nigeria

Debt Management Office (DMO) was set up on 4th October 2000 to centrally manage Nigeria’s debt, which was hitherto done by several establishments in an uncoordinated manner. This diffused management strategy led to ineffectiveness and inefficient management of debt (DMO, 2018). They formulate policies, strategies and advise government on Medium and Long- term policy strategies.

External Debt Stock in Nigeria 2000-2017

Table 1. Nigeria's Public External Debt Stock from Year 2000 till 31st Dec. 2019

In Billions of US Dollars

2000	2002	2004	2006	2008	2010	2012	2014	2015	2016	2019
$28.27	$30.99	$35.99	$3.54	$3.72	$4.57	$6.53	$9.71	$10.72	$11.41	$27.68

Source: Debt Management Office (2020)

The external debt stock in this study is the aggregate external debt of the Federal Government, 36 States of the federation and the Federal Capital Territory (FCT), Abuja.

Sustainable Development Goals

The UN came up with a set of seventeen (17) goals called Sustainable Development Goals (SDGs) in 2015, after the elapse of Millennium Development Goals (MDGs) in 2015. Some of these goals are adopted as proxies of Sustainable Development in Nigeria in this study. Nigeria is a member of UN and is expected to attain SDGs by 2030. The seventeen (17) SDGs are:

1. No poverty in all its forms everywhere – Goal 1
2. Zero Hunger – Goal 2
3. Good health and well being – Goal 3
4. Quality Education – Goal 4
5. Gender Equality – Goal 5
6. Clean water and sanitation – Goal 6
7. Affordable and clean energy – Goal 7
8. Decent work and economic growth – Goal 8
9. Industry, innovation and infrastructure – Goal 9
10. Reduced inequalities – Goal 10
11. Sustainable cities and communities – Goal 11
12. Responsible consumption and production – Goal 12
13. Climatic Action – Goal 13
14. Life below water – Goal 14
15. Life on hand – Goal 15
16. Peace, Justice and strong institutions – Goal 16
17. Partnership for the goals – Goal 17

(United Nations SGSs, 2015).

Poverty Level/Index: According to World Bank Poverty and Equity Data Portal, 2020 (World Bank, 2020):

a) International Poverty Line has a value of $1.90 PPP(Purchasing Power Parity) per day.
b) Lower Middle Income Class Poverty Line has a value of US$3.20 PPP per day.
c) Upper Middle Income Class Poverty Line has a value of US$5.50 PPP per day.

For this study, we are taking data for International Poverty Line, otherwise called Poverty headcount ratio at $1.9 a day, calculated using 2011 PPP to the % of population. Poverty Index is used in this study as a proxy or a measure of Zero Hunger – SDG2. The population of Nigeria according to World Bank was 186 Million as at 2016 and 190.9 Million in 2017(World Bank, 2020). Furthermore, according to World Population Review (2019), the country's population has risen to 200,963,599 in 2019 from 195,874,740 as at 2018, as reported by World Bank (World Bank, 2020). In 2016, the Nigeria Bureau of Statistics (NBS) painted a gloomier picture, as it stated that Nigerians living under the poverty line is not less than 112 Million (Akinkuotu, 2018).

Life Expectancy Index: This will be used as a proxy for SDG3 – Good Health and Well-being. According to WHO (2018), life expectancy in Nigeria is: Male 54.7, female 55.7 and total life expectancy is 55.2, making Nigeria to be 178 out of 193 in the World Life ranking among the member countries of United Nations. This is an evidence of poor health and poor welfare condition of the populace, despite the growing external debt profile.

TABLE 2: Summary of All the Variables

Year	External debt stock	Poverty index at $1.90 per day	Life expectancy at birth
	$ '000	%	YEARS
2003	32,916,810.00	53.50	47.242
2004	35,944,660.00	54.70	47.720
2009	3,947,300.00	53.50	50.422
2010	4,727,050.00	60.90	50.896
2013	8,821,900.00	53.30	52.228
2015	10,718,430.00	60.00	53.112
2016	11,406,280.00	72.00	53.541
2017	18,913,440.00	70.00	53.950
2019	27,676,140.00	40.10	54.490

Sources: DMO (2020a); DMO (2020b); National Bureau of Statistics (NBS) (2020), IMF (2020) and World Bank (2020)

In view of the above, the paper examines the relationship between external debt and sustainable development, using the Conceptual Framework shown below.

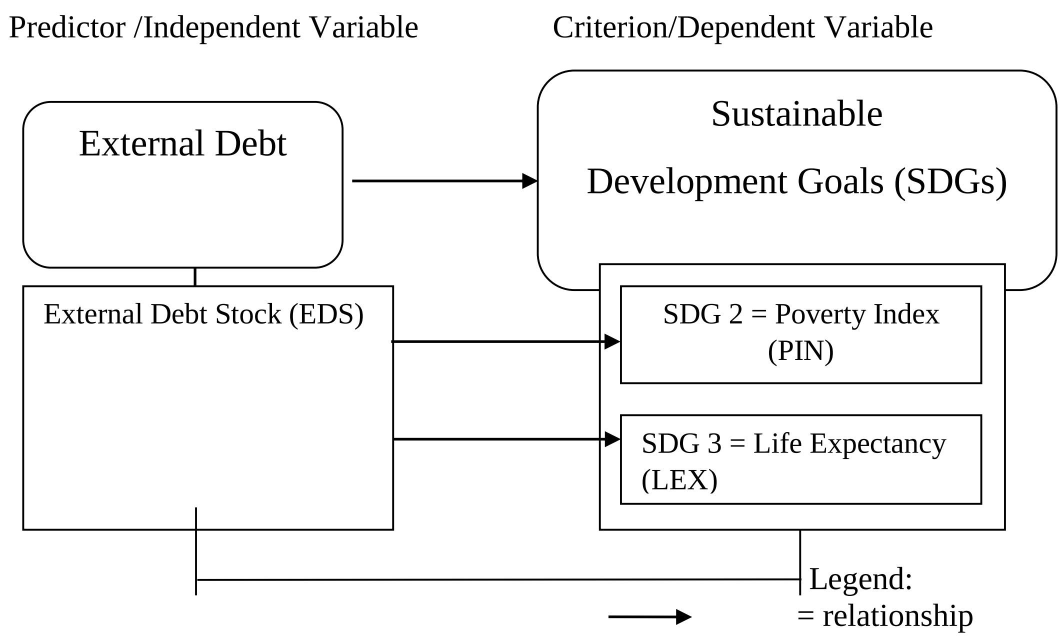

FIGURE 1.1 – The operational framework of the effect of external debt and sustainable development in Nigeria.
Source: Researcher's Study Variables and Conceptual Review of Literature (2021).

Theoretical Framework

This study uses Debt Overhang Theory as its theoretical underpinning.

Debt Overhang Theory

Debt overhang theory states that debt accumulation leads to debt overhang. Debt overhang exists when a country exceeds its repayment ability. Debt servicing ability of a country is hinged on the ability of the productive output of the indebted country (Sachs, 1989; Krugman, 1988). Debt overhang discourages growth and investment in the absence of concessions or debt reliefs or debt cancellations (Koeda, 2008; Coehen & Sachs, 1986). In view of the fact that external debt results in debt overhang, Debt Overhang Theory is considered germane for this paper.

Empirical Framework

The empirical literature on external debt and economic growth and development abound.
Omodero and Alpheaus (2019) examined the effect of foreign debt on the economic growth of Nigeria, using data from 1997-2017 employing Ordinary Least Squares

(OLS) Regression Technique. The study revealed that foreign debt has a significant negative effect on economic growth. They recommended that a better purposeful borrowing pattern should be carried out in the country and the revitalization of abandoned industries in order to reduce foreign debts.

Further, Upendo (2015) findings in the study show that external borrowing and its service significantly influence positively and negatively economic growth respectively, and they have long term association. That is, external debt significantly affects economic growth positively and conversely, external debt servicing significantly affects economic growth negatively.

Suleiman and Azeez (2012) studied external debt and economic growth of Nigeria from 1970-2010, employing Ordinary Least Square (OLS), Augmented Dickey Fuller (ADF), Unit Root Test (URT), Johansen Co-integration Test (JCT) and Error Correction Model (ECM). They discovered that external debt has contributed positively to economic growth.

Koeda (2008) on his study on the extent of debt overhang and the effectiveness of debt relief found that the effect depends on the recipient country's initial economic conditions. It further revealed that debtor countries have the incentive to over consume in earlier periods under the concessional lending scheme. He also said that weak institutions in these low income countries make it difficult for the gains of debt reliefs to be actualized.

Gaps in Knowledge

Several researchers have examined External debt as a subject (Adegbite, Ayadi & Ayadi, 2008; Mbah, Umunna & Agu, 2016; Edirneligil & Mucuk, 2015; Ajayi & Oke, 2012; Diallo, 2009; Imimole, Imoughele & Okhuese, 2014) but several of these previous studies concentrated on the effects of external debt on economic growth, using GDP as mainly their proxy. The researcher established a practical gap, that is, gap in practical implication of the proxies used as dependent variable in these previous works. Hence, adopts specific social indicators as specified by United Nations (UN) to examine the effect of external debt on achieving SDGs in Nigeria. SDG 2 – Zero Hunger and SDG 3 Good Health and Well Being are the focus. These social indicators chosen in this work are easily understood by both the educated and not too educated citizens. SDGs of the United Nations for its member countries are to be achieved on or before 2030.

Methodology

Data

The study derives its data from secondary sources. Poverty Index as the proxy for SDG2 - Zero Hunger, Life Expectancy of Nigerians as a proxy of SDG3 - Good Health and Well Being were obtained from publications of Debt Management Office (DMO), National Bureau of Statistics, International Monetary Fund (IMF) and World Bank. External Debt Stock as proxy depicting the burden of external debt was hand-collected from reports of Debt Management Office (DMO) only. The data cover the period from 2003 to 2019.

Model Specification

To examine the effect of external debt on sustainable development, this paper modeled sustainable development as a function of external debt. The implicit model is stated thus:

SUSTAINABLE DEVELOPMENT = f(EXTERNAL DEBT).

From the Conceptual framework, the model is explicitly specified thus:

PIN = EDS;

LEX = EDS.

Where: PIN = Poverty Index; LEX = Life expectancy; EDS = External Debt Stock.
To test the hypotheses, the paper employs the Spearman’s Rank Correlation as its statistical tool. The choice of this non-parametric tool is because of data constraints in Nigeria on one of the dependent variables (Poverty Index), leading to the violation of normality assumption amongst others, thereby making the use of regression tool of ordinary least square (OLS) not feasible. This was the best tool applicable considering the data available from the DMO, NBS, IMF and World Bank on the dependent variable. Spearman Rank Correlation coefficient is obtained from the formula:

$$r_s \ = 6\sum \frac{d^2}{n(n^2-1)}$$

Where:

r_s= Spearman Rank Correlation coefficient.

n = number of items being ranked, i.e. PIN, LEX, EDS, which is 9 for each item.

d = difference in rank between the dependent variables and independent variables; i.e. PIN – EDS; LEX-EDS; respectively.

The paper uses Stata 12 software package for computation of Spearman’s Rank Correlation coefficient and data analysis.

Results and Discussion

Graphical Representation

The graphical representation of the study variables in their natural forms is revealed below. This is to help to ascertain the real visual underlying trend beginning with External Debt Stock (EDS).

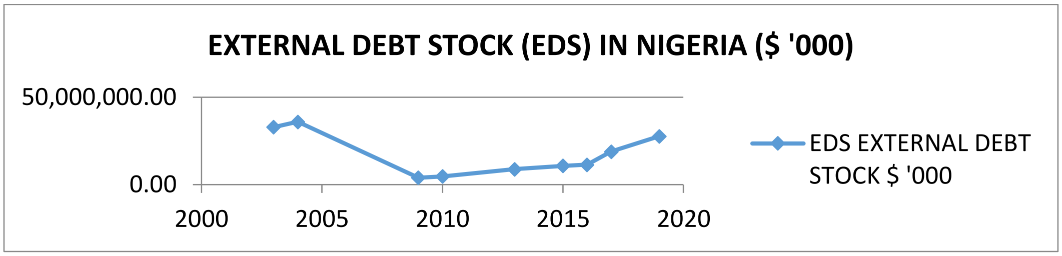

Figure 4.1 Nigeria's External Debt Stock from Year 2003-2019

Figure 4.1 above shows that EDS in Nigeria reached its peak in 2004, however, a sharp drop was witnessed in 2009. This was possibly due to the debt forgiveness given to Nigeria and the subsequent exit from the Paris Club of Creditors in 2006. From 2010, a steady increase was witnessed up to 2016 and later increased magnanimously around 2017 till 2019. This shows the quantum of external borrowings possibly caused by rise in financial deepening and other unfavorable economic events.

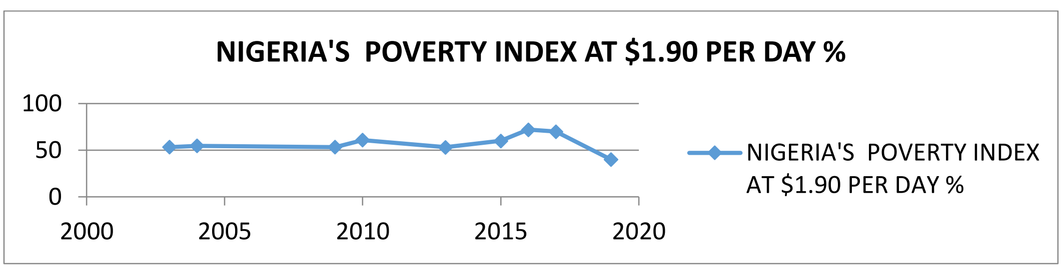

Figure 4.2 Nigeria's Poverty Index from 2003-2019

From Figure 4.2 above, Nigeria's Poverty index was relatively steady from 2003 to 2009. It increased in 2010 and dropped marginally in 2013. From 2014, it maintained a steady increase but took a great downward leap in 2019.

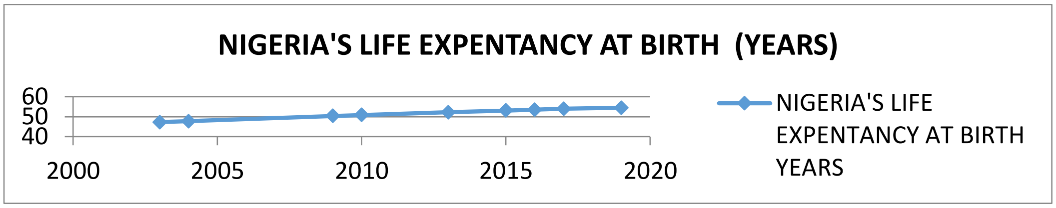

Figure 4.3 Nigeria's Life Expectancy at Birth from 2003-2019

From the graphical representation of Life Expectancy at Birth (LEB) in Nigeria in Figure 4.3 above, it can be vividly seen that there has been a steady increase. LEB moved from 47.24 years in 2003 and reached 54.49 years in 2019 which is the highest over the period. This could be attributed to steady improvements on matters that promote longevity of the citizens within this period.

Results of hypotheses testing

Table 4.1 displays the result of test of hypotheses. It shows that with respect to Ho1, external debt stock is positively related to poverty Index (rho = 0.1677), but insignificant (p-value = 0.6915).

With respect to Ho2, the test indicates that external debt stock is also positively associated with life expectancy (rho = 0.5279). Though the spearman rank correlation coefficient is high, it is nevertheless insignificant (p-value = 0.1787).

Table 4.1 Results of Test of Hypotheses

S/N	Hypotheses No	No of observation	Spearman's rho	p-value	Decision
1	Ho1	9	0.1677	0.6915	Do not Reject
2	Ho2	9	0.5279	0.1787	Do not Reject

Source: Stata Output.

The discussions of findings below were done in line with objectives of the study.

Objective 1: To determine the relationship between External Debt Stock and Poverty Reduction in Nigeria.

From Table 4.1, Hypothesis Ho1 shows that there is a positive correlation (r = 0.1677) meaning that the variables: External Debt Stock (EDS) and Poverty Index

(PIN) move in the same direction in Nigeria, that is, as EDS increases, PIN increases. With the standard significant level – alpha (p-value) < or equal to 0.05, our result of p-value = 0.6915 shows that the relationship is insignificant. This shows that there is inconclusive evidence about the significance of the association between EDP and PIN, all other factors remaining constant. Thus, agreeing with the Null hypothesis that there is no significant relationship between external debt and poverty index in Nigeria.

Objective 2: To examine the relationship between External Debt Stock and Life Expectancy in Nigeria.

Table 4.1 revealed that Hypothesis Ho2 result also shows a positive correlation between Life Expectancy (LEX) and EDS which suggests that acquisition of external debts by Nigeria is beneficial to the Nigerian citizens using Life Expectancy as proxy. However, the extent of the positive effect, is insignificant. However, in this study, our result of p-value = 0.1787 shows that the relationship is insignificant. Hence, we agree with the second hypothesis that there is no significant relationship between external debt and life expectancy in Nigeria.

Conclusion and Recommendations

This paper assesses the extent of relationship between external debts and sustainable development in Nigeria, using recent data. The study finds that there is no significant relationship between external debts and sustainable development. This implies that the external debt may not have been sufficiently invested into juicy investments that generate high marginal return capable of improving the income level of economic units thereby reducing the poverty level of the citizens. Another possible explanation is institutional corruption and embezzlements by leaders at different levels of government including Ministries, Departments and Agencies (MDAs). These MDAs are majorly financed by a large chunk of the external debt. This result could also be because it takes time for the loans invested in socio-economic infrastructures to yield the desired effects on the citizens.

Since external debt has no significant relationship with achieving sustainable development goals, the study recommends the following:

1. Discouragement of accumulation of more external debts by Federal and State Governments including FCT through the DMO. If the country must borrow externally, it should be invested in productive ventures that will yield high marginal returns more than the external debt itself and the cost of borrowing.

2. Investments in facilities that promote good health and well-being of her citizens by channeling resources in medical infrastructures and sanitation facilities in order that citizens can have accessible and affordable healthcare services.
3. Prudent application of external debt on developments that focus on the poor in the society is very crucial in reducing poverty in Nigeria.
4. A new set of Debt management strategies targeted at gradual liquidation of Nigeria's current external debt stock through reduction in excessive government spending, especially expenditures on non-productive sectors of the economy.
5. Finally, Government should come up with a **17-Point Agenda** targeted at each of the 17 SDGs for all MDAs, States, L.G.A and all Institutions both private and public. Every government efforts should be targeted towards achieving them. National deadline for achieving these targets that is earlier than 2030 set, like setting Nigeria's internal deadline of attaining SDGs to be 2027, then the remaining three (3) years used to solidify on the targets. Monitoring teams set up to assess performance. All these recommendations will help in achieving these Sustainable Development Goals(SDGs) by the year 2030.

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