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FOREIGN DEBT AND ECONOMIC DEVELOPMENT IN NIGERIA (2015 - 2020)

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ABSTRACT: *This study carried out an empirical analysis of foreign debt and economic development in Nigeria covering the period 2015 – 2020. The study used an ex post facto research design, which is based on examining the independent and dependent variables after events have already occurred and using data that is already available in order to determine the relationship between the variables. In order to gather data for this study, a documentary method based on the examination of documents and materials was used. Documentary methods are the procedures used to classify, examine, and analyze documents, whether they are in the public or private domain. To analyze the data generated from this study, the study relied on qualitative descriptive analysis. The major findings of the study are that there are other intervening variables that affect economic growth in addition to health and poverty indicators, external debt is viewed as being harmful to a nation's ability to advance economically, and given the impact of debt to the living standard of the Nigeria people, health expenditure on economics, it could be deduced that even though health expenditure increases, it could have a negligible impact on economic growth if it is not maximized effectively to produce improved health outcomes. It is therefore the recommendation of the study that government should diversify the nation's export base so as to increase export earnings and promote industrialization in order to reduce import dependency as a high exchange rate will make our goods more attractive in the foreign market and will increase foreign exchange earnings.*

KEYWORDS: Foreign Debt, Economic Development, Nigeria

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INTRODUCTION

Technically speaking, a debt is the distribution of funds made available to a needy entity (or nation) for development and consumption purposes on specific terms of repayment by a wealthy entity or institution. As a result, public debt is what is incurred when a government borrows money from both domestic and foreign financial markets. Reproductive debt, which refers to money borrowed to buy factories, electricity, refineries, and other infrastructure, is debt obtained to finance investment in certain assets or infrastructure. A government, an organization, or a household that borrows money from another country's government or private lenders is said to have foreign debt. A developing country must raise money for the execution of its development plans by utilizing all of the available and feasible resources. It must make use of surplus income, tax revenue, look for outside assistance, and borrow in addition.

Nigeria's efforts to achieve the Millennium Development Goals (MDGs) set for 2030 are in jeopardy due to its financial debt issues (CBN, 2015). However, this had an impact on both the rate and level of development over time. The outrageous interest rates on the various debts have made it a habit to use loans to refinance obligations that are coming due. Due to its participation in the Enhanced Structural Adjustment Facility (ESAF) of the IMF, Nigeria was forced to implement restrictive monetary policies in the 1980s and 1990s as a response to economic unrest with significant economic and social costs (Mbanwusi, 2011). Estimates for the 2016 Nigerian budget show a deficit of N2.2 trillion, which will primarily be covered by borrowing. A combination of N900 billion in foreign borrowing and N984 billion in domestic borrowing will be used to cover the deficit, which is 36.5 percent of the total budgeting estimate. This will add to the economy's burden, lower revenue, and jeopardize the nation's overall development. This study will examine foreign debt and its effects on Nigeria's economic development based on this hypothetical situation.

Research Questions

To direct this investigation, the following research questions were developed:

1. How has foreign debt impacted on the economic growth of Nigeria from 2015–2020?
2. What is the impact of indiscriminate borrowing by the government on Nigeria's external debt profile between 2015 and 2020?
3. What is the impact of external debt on the standard of living of Nigerian citizens from 2015–2020?

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LITERATURE REVIEW

Debt and Economic Growth: A Conceptual Analysis

Everyone and every nation borrows, but the size of the borrowing is the main cause for concern. Private debt is what is owed by individuals; public debt is what is owed by governments. The Central Bank's money raised to support the balance of payments or to finance development projects is referred to as public debt. Due to the amount of wants and needs that must be met, borrowings are required by the borrowing entity. 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, it is called debt servicing. Debt servicing comprises principal, interest/service fee and other charges.

A government, an organization, or a household that borrows money from another country's government or private lenders is said to have foreign debt. Foreign debt also includes debt owed to institutions like the World Bank and the Asian Development Bank (ADB). Foreign debt can be created by combining short-term and long-term debt (CFI, 2021). In recent decades, there has been a gradual increase in foreign debt, with unexpected consequences for some borrowing countries. In particular, low-income countries will experience slower economic growth, crippling debt issues, stock market volatility, and even unintended consequences like an increase in human rights violations. External debt is another name for foreign debt.

Every time resources are taken and rearranged to make them more valuable, economic growth results. Growth in the economy only speaks to the volume of goods and services produced; it does not describe how they are made. Economic growth can be measured by the percentage rate of growth in the gross domestic product (GDP) in nominal terms, which accounts for inflation, or in real terms, which are adjusted for inflation (GDP). Economic growth is the only type of development that is measured in monetary terms (Ayres & Warr, 2010). Economic growth may be positive or negative. Negative growth can be used to describe a situation where the economy is shrinking. Negative growth is associated with economic recession and economic depression. Gross national product (GNP) is sometimes used as an alternative measure for gross domestic product. In order to compare multiple countries, the statistics may be quoted in a single currency, based on either prevailing exchange rates or purchasing power parity. Then, in order to compare countries of different population sizes, the per capita figure is quoted. To compensate for changes in the value of money (inflation or deflation), the GDP or GNP is usually given in "real" or inflation adjusted terms, rather than the actual money figure compiled in a given year, which is called the nominal or current figure (Ayres & Warr, 2010).

Empirical Review

Between 1999 and 2007, Mbawusi (2011) conducted a critical analysis of Nigeria's debt profile and foreign debt management. By using a qualitative descriptive method of data analysis, it was discovered that, if properly managed within a predetermined limit, Nigeria's debt appeared to be sustainable in relation to GDP.

An empirical study was conducted by Qureshi and Alli (2006) to ascertain the connection between Pakistan's public debt and economic growth from 1981 to 2008. Their conclusions showed that public debt has a detrimental effect on economic growth.

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Izedonmi and Ilaboya (2012) conducted an empirical investigation into the links between Nigerian debt levels and economic expansion. They came to the conclusion that there is an inverse relationship between public debt burden, debt servicing obligations, and economic performance, using data from 1980 to 2010.

A dynamic study by Dinneya (2006) examines the impact of external debt on economic growth under different political regimes. By examining the link between democracy, external debt and growth in Nigeria, he established that the political leadership under which external debts are contracted and utilized could have a significant influence on the impact of debt on economic growth. The result shows that the impact of external debt on economic growth is mixed.

Theoretical Framework

The Dependency theory, which Andre Gunder Frank (1967) advanced in his book, Capitalism and Underdevelopment in Latin America, serves as the foundation for this study. Dependency theory is distinct from the majority of Western methods for examining political development. One distinction is that this method was developed in the Third World, primarily Latin America, as opposed to among academics in the West. Third world dependency thinkers were concerned with explaining the unequal and unjust situations in which they and their nations found themselves. Third world countries were poor while "developed" countries were rich. Third world countries had bad health conditions while other countries had good health conditions. Third world countries had little military power while other countries had tremendous military resources. Third world countries faced starvation while citizens of other countries had no worry about losing weight.

METHODOLOGY

Research Design

Since there was no experiment performed during the research and ex post facto also studies facts that have already occurred in the past, this study adopted an ex post facto research design. The study used an ex post facto research design, which is based on examining the independent and dependent variables after events have already occurred and using data that is already available in order to determine the relationship between the variables. This design will be used in this study by employing a methodical empirical investigation where the independent and dependent variables are not directly under control because their manifestations have already taken place. It will direct the investigation process and hypothesis testing, which entails tracking the independent and dependent variables as they emerge in Nigeria between 2015 and 2022.

Method of Data Collection

In order to gather data for this study, a documentary method based on the examination of documents and materials was used. Documentary methods are the procedures used to classify, examine, and analyze documents, whether they are in the public or private domain. Additionally, the documentary method of data collection provides comprehensive information and concept clarification to aid in instrument design. We will therefore primarily rely on textbooks, journals, official documents, written papers and essays, unpublished research theses

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sourced from the library and the internet to generate the data, figures, and information needed to test the hypotheses because the documentary method entails gathering information from secondary sources. The term "secondary sources of data" refers to a collection of data that has been compiled or created by another person. These data are typically taken from publicly accessible data archives and can take the form of documents, survey results, internet books, etc.

Method of Data Analysis

To analyze the data generated from this study, the study relied on qualitative descriptive analysis. Asika (2006) defines qualitative descriptive analysis as "summarizing the information generated in the research so as to further discover relationships among variables." This implies extracting meaning and making logical deductions from the already documented mass of data. In addition, statistical tables, graphs and simple percentages were employed to determine the impact of foreign debt on Nigeria's economic development.

RESULTS AND ANALYSIS

The initial research question looked at the effects of foreign debt on Nigeria's economic growth from 2015 to 2020. According to this study, there are other intervening variables that affect economic growth in addition to health and poverty indicators. For instance, it has been found that education spending and expected years of schooling are significant determinants of economic growth and the reduction of poverty, but the impact is stronger with regard to expected years of school. The implication is that, unless it results in better educational outcomes, increased education spending may not always translate to poverty reduction and economic growth. As a result, this research supports Omodero and Alpheasu's (2019) finding that there is a positive relationship between external debt and economic growth. The discussion above revealed that between 2015 and 2020, Nigeria's economic growth was impacted by its foreign debt.

The second research question examines the effects of the government's indiscriminate borrowing on Nigeria's external debt profile between 2015 and 2020. According to the study, external debt is viewed as being harmful to a nation's ability to advance economically. This suggests that Nigeria's external debt profile has been negatively impacted by the government's indiscriminate borrowing. The study finds that domestic debts, when managed well, can result in high growth rates. A significant policy implication of this finding is that policymakers should make a concerted effort to manage the debt effectively by directing funds to profitable endeavors (the real sector) in order to raise Nigeria's output level and thus achieve the desired level of growth.

Research question 3 sought to examine how external debt undermined the standard of living of Nigeria citizens from 2015–2020. The study found out that given the impact of debt on the living standard of the Nigerian people and health expenditure on economics, it could be deduced that even though health expenditure increases, it could have a negligible impact on economic growth if it is not maximized effectively to produce improved health outcomes. Given the magnitude of corruption and mismanagement of public funds in Nigeria, it is not certain that increase in health expenditure will guarantee an improvement in human capital development that will propel economic growth unless the fund is judiciously maximized. This

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is consistent with the finding of Olayinka (2018) on the effect of corruption and mismanagement on human capital and economic development in Nigeria. A novel revelation from this study is that even though health contributes to the level of economic growth in Nigeria, the result of the interactive effect of health and poverty does not only prove to be stronger and positive on economic growth, but also suggests the ability of health improvement to arrest the adverse effect of poverty on economic growth. Hence, this provides the motivation for the increase in health investment in a country like Nigeria that is ranked the poorest country in the world currently.

CONCLUSION

This study concludes by providing support for these hypotheses in the context of Nigeria given the escalating poverty situation by examining life expectancy—economic growth nexus and the role of poverty reduction in their relationship. The study shows that, though both health and poverty could have independent impacts on economic growth, health improvement helps to mitigate the adverse effect of poverty on economic growth in Nigeria. This implies that improving health to curb the escalating level of poverty will lead to better economic performance. This can be achieved at the threshold level of life expectancy of 64 years. The results suggest that government should initiate policies targeted at improving health to achieve the minimum threshold of life expectancy of 64.4 years above the current 47.8 years, to curb the impact of poverty incidence on economic growth in Nigeria.

Also, issues of escalating debt profile and rising interest rate are worrisome. Apart from repayment of principal which form a chunk of the annual budget, a huge amount is committed to service these debts annually. This has a potential negative effect on poverty in Nigeria. As debt increases, resources that would have been used for development and to address poverty crises are used to service the debt. While debt in itself is not bad, the need for policies by the Nigerian government to ensure it is spent on projects that will improve well-being is imperative. More so, the increasing interest rate is making access to finance difficult for millions of Nigerians involved in small- and medium-scale business, with important bearing on employment generation, increased earning and poverty alleviation. Furthermore, issues of political instability and violence/terrorism should urgently be curbed because they portend grave danger for poverty reduction, as revealed by this study, and to smoothen the path to the realization of sustainable development goals (SDGs).

RECOMMENDATIONS

The following recommendations were formulated for the study:

1. A revival of abandoned industries as a more effective way of reducing foreign borrowing, creating employment opportunities and alleviating poverty in the country. Government should diversify the nation's export base so as to increase export earnings and promote industrialization in order to reduce import dependency, as a high exchange rate will make our goods more attractive in the foreign market and will increase foreign exchange earnings.

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2. The need for sustainable borrowing: External debts should be contracted solely for economic reasons and not for social or political reasons. Policymakers should ensure that public debt is used to finance high income generating investments capable of attracting adequate revenue required to amortize the debt and also create future streams of revenue that would help reduce national debt and enhance future economic growth. This is to avoid the accumulation of external debt stock overtime and prevent an obscuring of the motive behind external debt. The authorities responsible for managing Nigeria's external debt should adequately keep track of the debt payment obligations and the debt should not be allowed to extend beyond a maximum limit so as to avoid debt overhang.

3. The need to improve the standard of living of Nigerian citizens: The government needs to make policies to strengthen the profitable economic framework in this country to create investment climate confidence, because it has the potential to reduce poverty in Nigeria and usher greater economic fortune. Thus, there should be a guiding rule (policy framework) that will guide the borrowing plan of the country to avoid any government of the day creating debt for the next government in the future, thereby creating debt crises for the country.

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