

Assessing the effects of external borrowing on infrastructural development in Nigeria from 2015-2021

*Abubakar Idris Hassan¹, and Ogah Peter Ikibunim²

¹*Department of Public Administration, Faculty of Management Sciences, Federal University of Lafia, Nigeria.*

²*Department of Political Science, Faculty of Social Sciences, Federal University of Lafia, Nigeria.*

*Corresponding Author: abuidrishassan@gmail.com

Abstract

Government has the objective to provide basic infrastructure to its citizens across the nooks and crannies of the country. Generally, the existence of infrastructure facilitates socio-economic development. External borrowing is one of the sources that Nigeria depends on generating income to provide and finance infrastructure in the country. The study adopted Debt Overhang Theory in examining the effects of external borrowing on infrastructural development in Nigeria from 2015-2021. This research adopted qualitative research method by producing narrative and textual description of the study phenomena. To be more specific, this type of research is majorly explanatory. The study purposively sampled thirty-four (34) key informants. Seven (7) from the management staff of the Debt Management Office, eight (8) from the Infrastructure Concession Regulatory Commission as well as nineteen (19) management staff of the Federal Ministry of Finance Abuja. The finding of this study revealed that External borrowings are a major source of public receipts in Nigeria. External debt has both positive and negative effects on Nigerian economy generally and on infrastructural development particularly. On the positive note, external debt provides the country with increased funding, Improved infrastructure quality, the necessary funds to invest in infrastructure projects such as roads, bridges, schools, and hospitals. However, Nigeria is trapped on a debt treadmill as they are forced to take new loans to pay old ones. The study recommends that external borrowings when taken should be used exclusively for profitable productive capital investments that can be liquidated rather than recurrent expenditure.

Keywords: Debts, Development, External Borrowing, Infrastructure, Public Receipts.

1. Introduction

Infrastructures are the basic essential facilities and services that should be put in place for development. It facilitates and accelerates economic development, such that where there are no infrastructures, economic development and growth would be difficult to achieve. Economic development or growth is virtually impossible without a thriving infrastructure sector. Nigeria has a huge infrastructure deficit for which it requires

foreign capital and expertise to supplement whatever resources it can marshal at home. In an effort to bridge the domestic resource gap and to quicken the pace of her economic development, Nigeria has continued to raise external loans. There is concern about what the loans have been used for. Nigeria took to borrowing because it was thought that injecting the funds borrowed would enhance industrial/technological development,

employment, growth in infrastructural facilities etc. There is widespread consensus that inadequate infrastructure is one of the major constraints to sustained economic growth and development in Nigeria. Consequently, Nigeria's various development plans such as National Vision 20:2020 (NV 20:2020) and the Economic Recovery and Growth Plan (ERGP), 2017-2020, consistently point to weak infrastructure as one of the factors that seriously undermined the country's economic performance over the years. Significant efforts have been made to address these challenges. One of the main objectives of the Economic Recovery and Growth Plan is building a globally competitive economy by improving the quality and stock of the nation's infrastructure. Among the five key execution priorities in the ERGP include expanding the power sector infrastructure to achieve at least 10 giga-watts of operational capacity and investing massively in transportation infrastructure (Federal Ministry of finance, budget and national planning, 2020).

However, despite some noticeable effort and progress made over the last few years, government still acknowledged that substantial infrastructural deficit remains across the country. Nigeria turned to external debt to meet up with its infrastructural needs. Debt has for decades, remained a recurrent discourse of the crisis and contradictions of Nigeria's development. External debt represents a massive betrayal of Nigeria's huge resource base, both human and material, and the failure of policy measures targeted at the management of those resources (Noamane, 2022). There is a growing body of research on external debt. Siddique, Selvanathan and Selvanathan (2015) are of the opinion that external debts were not wisely and prudently utilized by most borrowing poor countries such as Nigeria. They hold that in a bid to facilitate

economic growth/development, policy makers may go all out as many nations had done, to accumulate debt without rethink on the consequences of over accumulation of external debts. Excessive accumulation of external debts might result in debt overhang and crowding out effect on private and public investments. However, Udeh, Ugwu and Onwuka (2016) warned that overemphasis on negative impact of debt will cause morbid fear of debt, resulting in debt avoidance when it would have stimulated the economy by bringing in the much-needed capital for infrastructural development and investment.

Despite the existing studies Siddique, Selvanathan and Selvanathan (2015) and Udeh, Ugwu and Onwuka (2016), there is need for a comprehensive analysis that considers the recent trends and developments from 2015-2021. Nigeria has experienced a significant increase in external debt since 2015. The Debt Management Office (DMO) Records show that Nigeria's external debt stood at \$28.04 billion in 1999 when former President Olusegun Obasanjo came into office. Following the debt forgiveness, it was \$2.11 billion at the time Chief Obasanjo left office in 2007. At the beginning of the Umaru Yar'Adua/Goodluck Jonathan administration, Nigeria's external debt also moved from \$2.11 billion to \$3.5 billion within the period under review. By May 2011 when Mr. Jonathan was elected to serve a fresh term in office, Nigeria's foreign debt was \$3.5 billion but went up to \$10.32 billion when he left in 2015. Up from \$10.32 billion in 2015, when President Buhari become president, Nigeria's external debt began to increase. Nigeria's external borrowings stood at \$11.40 billion in 2016, and rose to \$18.91 billion in 2017. \$21.04 billion in 2018, \$23.11 billion in 2019, \$33.34 billion in 2020 and 38.39 billion as at December 31st 2021. This means that the administration

incurred \$28.07 billion in foreign loans within the period under review (DMO 2023). However, the implications of this rising debt on the country's ability to address its infrastructural challenges and promote economic growth remain unclear. This implies that the relationship between external debt and infrastructural development in Nigeria is complex and multifaceted. There are a number of factors that can influence the impact of external debt on infrastructural development, including the use of debt proceeds, the level of debt sustainability, and the quality of governance. The effectiveness of external borrowing in improving Nigeria's infrastructure and enhancing the wellbeing of its population needs to be assessed. It is crucial to determine whether external debt has indeed contributed to infrastructural development or if there are other factors hindering progress in this area.

This study examines the relationship between external debt and Nigeria's infrastructural development from 2015-2021, shedding light on the implications of debt on the country's ability to address its pressing infrastructure needs.

2. Literature Review

In this sub section, conceptual and thematic review were conducted in order to situate this study.

Conceptual Review of External Debt

External debt on the other hand refers to the resources provided by a foreign country that is repaid with principal and interest at the end of a certain period. External debt has an increasing effect on national income when it is taken and vice versa has a decreasing effect on national income when it is paid (Corina, 2013). Several research have been conducted on the subject of foreign debt and numerous variables, with contradicting results, and some of these studies include; Ojukwu (2021): Who discussed the extent of relationship between external debts and sustainable

development in Nigeria, The study employed a mixed-methods design 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 External debt. Richard and Israel (2022) investigated the comparative assessment of External debt management and Infrastructural developments: Perspectives on Nigeria's economy, 1979–2020. The study employed robust least square regression, autoregressive distributed lag and error correction term to test the variables. They inferred that external loan contracting impacts infrastructural developments significantly in the short-run during both the military and civilian regimes in Nigeria; but such effects are only significant in the long-run during the civilian regime while insignificant for the military regime in the long-run.

Ajayi et al. (2018), studied the comparative analysis of public debt management and economic growth in Nigeria focusing on the military and civilian regime between 1981 and 2015. The study used variables such as real gross domestic product, External debt borrowings, domestic debt borrowings and gross fixed capital formation using OLS and VECM techniques, and discovered that though overall, there was significant co integration between external debt and economic growth, however, in both the civilian and military regimes, there were insignificant

effects of external debt on economic growth.

Udeh et al. (2018) investigated the influence of external debt on Nigeria's economy. Data were analyzed using Ordinary Least Square. Diagnostic tests were conducted using Augmented Dick Fuller Unit Root Test, Co-integration and Error Correction Model. The independent variable was GDP, while the explanatory variables were External Debt Stock, External Debt Service Payment and Exchange Rate. It was discovered that External Debt had a positive relationship with Gross Domestic Product in the short run, but a negative relationship in the long run. Also, while External Debt Service Payment had negative relationship with Gross Domestic Product, Exchange Rate had a positive relationship with it. The paper concluded that exchange rate fluctuation had positive impact on the Nigerian economy while external debt stock and debt service payment had negative impact on the same economy. The study recommended amongst others, that Debt Management Office should set mechanism in motion to ensure that loans were utilized for purposes for which they were acquired as well as set a ceiling for borrowing for states and federal governments based on well-defined criteria.

Isiborer al. (2018) studied the outcome of government debt on Nigeria's national output between 1982 and 2017, using two-stage least square regression, regressed lagged internal and external debts on GDP in the first stage. It discovered that while external debt impacted negatively on the economy, internal debt had a positive impact. In the next equation, GDP, total savings deposits in DMBs and capital expenditure were regressed on local debt and evidence demonstrated that all variables were connected to domestic debt. The study suggested that the authorities

should minimize borrowing from external sources and also fight against corruption.

Elom-Obed, Odo, Elom, & Anoke (2017) examined government debt effect on Nigeria's national output between 1980 and 2015. The research used VECM (vector error correlation model) statistical data analysis method, employed variables such as RGDP, foreign borrowings and local private savings. The result of the research revealed that government borrowings had negatively significant impacts on national output growth and domestic debt had significant positive link to national output growth for same period.

The relationship between external debt and infrastructural development in Nigeria

The relationship between external debt and infrastructural development has received attention over the years. According to Muhammad (2018), from the policy point of view, the renewed concern with infrastructure can be traced to the worldwide developments that took place over the last two decades. Infrastructures contribute to raising the quality of life by creating amenities, providing consumption goods (transport, energy and communication services and contributing to macroeconomic stability. Infrastructure is basic essential services that should be put in place to enable development to occur. If the facilities and services are not in place, development will be very difficult and in fact can be likened to a very scarce commodity that can only be secured at a very high price and cost.

The past few decades have experienced government of nations involved in the construction and maintenance of infrastructure systems. This participation has led governments to take on a large number of functions in the infrastructural sector such as; regulator, financier, owner with responsibility for construction and maintenance and also in many cases with

heavy involvement in the organizations carrying out services.

The provision and development of infrastructure have been subject of debate in Nigeria. According to World Bank (2022), external borrowing has been used to finance various infrastructural projects in Nigeria, such as roads, bridges, power plants, and water supply systems. These projects are essential for improving the country's productivity and competitiveness. The period under review (2015-2021) witnessed substantial investments in various infrastructure projects, financed primarily through increased external borrowing.

Records from DMO shows that Nigeria's external debt increased to \$33.62 billion as of December 2021 from \$10.32 billion in June 2015. President Buhari justified government borrowing to finance infrastructure, asserting that his government took loans in the interest of the country to solve the dire shortfall in infrastructure, emphasizing that the country must fix its roads to save lives from soaring road accidents. We have so many challenges with infrastructure. We just have to take loans to do roads, rail and power, so that investors will find us attractive and come here to put their money. Buhari's administration emphasized infrastructural development as a key pillar of its economic strategy, focusing on sectors such as transportation, power, and healthcare.

The World Bank (2014) held that improving infrastructure in the world is very fundamental to reducing poverty, increasing growth and achieving the Millennium Development Goals (MDGs). The need for infrastructure development is very important for developing countries, especially Nigeria. Infrastructure contributes to economic development by increasing productivity services, which enhances the quality of life.

However, irrespective of the huge external debt incurred, Nigeria is still marred by acute shortage of infrastructure ranging from traffic congestion, power blackouts in the country, poor road networks, access to capital and market, inadequate telecommunication services, shortage of drinking, irrigation and industrial water, all this bear witness to the inadequate existing infrastructure facilities. Even schools are not equipped with basic infrastructure that enhances human capital development (Nedozi, Obasanmi & Ighata (2014).

The problem of external debt has assumed a crisis proportion in Nigeria. One of the significant nexuses between external debt and infrastructural development in Nigeria is that external debt and its servicing are draining away resources which can be used to finance infrastructural projects. Muhammad (2018) posits that foreign debt accumulation is an economic burden that has the potential to hinder infrastructural development and economic growth instead of improving it as expected. When a foreign debt accumulates over time, it results in debt overhang and the developing country in question remains a perpetual dependent country to the foreign creditor countries using debt servicing instrument to exploit them. Under this scenario, the huge part of the debtor country's resources goes into debt servicing in order for the country to remain credit worthy. This is the situation Nigeria is facing by ensuring that no stone is left unturned in servicing foreign debt so as to attract more debt. As a result, the foreign debt profile keeps rising as well as the servicing cost. The economic implication is that foreign debt servicing impacts positively on economic growth by attracting more debt while the increase in foreign debt leads to debt overhang which depresses the economy. Thus, the seemingly economic improvement experienced by judiciously servicing debt and making Nigeria credit worthy is a mere sham because the

increasing level of foreign borrowing is detrimental to the economy and is also enslaving the nation.

Theoretical Framework: Debt Overhang Theory

Theories act as foundational blocks by providing empirical underpinnings for a written piece, help put any piece of academic writing in perspective. According to Otoghile (2015), a theory provides “a unique way for perception of reality, expressing someone’s prominent insight about a nature’s aspect in addition to a fresh and a new understanding about a world aspect” while Leedy & Omrod (2005) hold that it’s “an organized body of concepts and principles intended to explain a particular phenomenon”. As a matter of Theoretical approach, this research subscribes to Debt Overhang theory. We will discuss what debt overhang theory holds and how it is relevant to this study.

The theory of debt overhang was first postulated by Stewart C. Myers in 1977. The theory gained global popularity following the work by Krugman (1988). He held that if the possibility exists that the public debt of a country will be larger than what the country can repay the cost of servicing the debt will slow down investment. This is because it will discourage investors due to the fact that high public debt burden ordinarily attracts higher tax bills from the government to honor their repayment obligation, and thus, high debt incidence discourages investment in an economy in the long term. The basis of this theory is that, if the level of a country’s borrowing is over and above its capacity to pay, the expectation is that the debt servicing commitments will lead to a drain in the debtor’s country output, thereby increasing the country debt burden, i.e. liquidity crisis (Oti, Odigbo & Odey 2016). Debt accumulation leads to debt overhang. Debt overhang exists when a country exceeds its repayment ability.

According to the debt Overhang theory, high debts lead to anticipation of foreign taxation, reduce private sector incentive for savings and investment as well as promoting outflow of capital from the domestic economy (Patillo, Poirson & Ricci, 2002). This theory purports that accumulation of high stock of public debt would lead to reduction in economic growth and tangle developmental efforts through the channels of reduced public revenue and investment expenditure. It maintains that debt accumulation stimulates growth initially, but when it exceeds the debt sustainability threshold, the debt accumulation effect will intensify through liquidity constraint while debt servicing commitment diminish the earnings from exportation within the public sector for expenditure and by this means undermining economic development.

The theory states that when an entity’s debt is too large, a time will come when such entity will not be able to take on new debt to fund new projects. Debt overhang reveals a state of affairs in which a country’s debt becomes disproportionately huge beyond what the country can repay (Burhanudin, Muda, Nathan, & Arshad, 2017).

Also, the IMF (1989) stated that “the debt overhang hypothesis does not describe a situation where foreign debt is merely large, but one in which the existence of foreign debt distorts the relevant margins considered for production and investment decisions.” (IMF, 1989 p. 63)

Eduardo, (2009) concluded that debt overhang occurs where the debtor nation benefits very little from the returns on additional Investment due to huge debt service obligations.

Application of the theory

Debt overhang theory is widely applied to the understanding of public debt and its implication for an economy. It implies that uncontrolled borrowings lead to high

public debt and can compromise the ability of the economy to generate enough resources for its repayment.

Among the Less Developed Countries (LDCs), Nigeria has one of the largest debts in sub-Saharan countries. The country has faced persistent difficulties servicing its debt. Debt services in the period under review have maintained an upward trend since 2015. Reacting, the Lagos chamber of commerce and industry expressed worry over the country's debt burden, especially in the face of stunted revenue growth, in the large presence of decaying infrastructure and the unsustainable burden of oil subsidy overhang. They concluded that the ratio of debt service to government revenue remained alarming and unsustainable. It said that both capital and interest payments on borrowed sums exposed the country's fiscal vulnerabilities and that the government should, as a matter of urgency, emphasize strategies for revenue growth while blocking leakages. (Damilola 2023) Not only has this, Bamidele & Joseph, (2013) related the concept of debt overhang to Nigeria's debt situation. They state that the debt service burden has prevented rapid growth and development and has worsened the social issues. Nigeria's expected debt service is seen to be increasing function of her output and as such resources that are to be used for developing the economy are indirectly taxed away by foreign creditors in form of debt service Payments. This has further increased uncertainty in the Nigerian economy which discourages foreign investors and also reduces the level of private investment in the economy. It is important to note that Nigeria's increasing debt profile has been a cause for concern, as it raises questions about the country's ability to service its debts and invest in critical infrastructure and social services. Nigeria's debt over the years has been used for various purposes, including

financing infrastructure projects, funding the budget deficit and servicing existing debts.

The government has had to borrow to pay off interest on existing loans and to refinance maturing debt. In 2020, Nigeria spent about 32.5 percent of its revenue on debt servicing. It is worth noting that while borrowing can be a useful tool for financing development, excessive borrowing can lead to debt distress, which can have adverse effects on the economy. Therefore, it is important for the Nigerian government to strike a balance between borrowing to finance development and ensuring that the country's debt levels remain sustainable.

Nigeria is indebted to several creditors, and this does not augur well for the overall wellbeing of her economy. Irrespective of the size of public debt accumulated by an economy, a critical empirical question that confronts researchers and policy makers relates to the point beyond which such debt accumulation becomes injurious to economic growth.

3. Methodology

This research adopted qualitative research method by producing narrative and textual description of the effect of external debt and infrastructural development spanning the period of 2015-2021. To be more specific, this type of research is majorly explanatory.

The population of this study is thirty-four (34). Seven (7) from the management staff of the Debt Management Office, eight (8) from the Infrastructure Concession Regulatory Commission as well as nineteen (19) management staff of the Federal Ministry of Finance Abuja. The justification for these agencies of government is because they are primarily responsible for managing Nigeria's external debt and Infrastructural development.

The study adopted Purposive sampling techniques. The reason for adopting a purposive strategy is to allow the researcher to gather qualitative responses, which leads to better insight and more precise research outcome from knowledgeable people. The study sample respondents twelve (12) from Debt Management Office, Federal Ministry of Finance and The Infrastructure Concession Regulatory Commission. Specifically, Four (4) were from the Debt Management Office, four(4) from Infrastructure Concession Regulatory Commission and four (4) from the Federal Ministry of Finance. The purpose of selecting these categories of staff is based on their position in their various organizations. This will present the researcher with different views from the respondents in the listed agencies and avail an in-depth understanding of the subject matter. ‘

The study generated both primary and secondary data. Secondary data was obtained from books, journals, articles, magazines, newspapers, dissertation, thesis and reputable sources such as the World Bank, International Monetary Fund (IMF), Central Bank of Nigeria, National Bureau of Statistics and other official government publications and other relevant materials discussing external debt and Nigeria’s infrastructural development. Secondary data was complemented with data, which was elicited using Key Informant Interview (KII). The method of data presentation used for the study was thematic approach.

The study used Key Informant Interview (KII) method to complement the secondary data which is the bulk of this research. Key Informant Interview was used because it gives the researcher the opportunity to conduct of qualitative in-depth interviews with people who have extensive experience and understanding of Nigeria’s external debt and infrastructural development. The interview was

conducted using face to face and telephone interviews.

4. Results and Discussion

Effects of External Borrowing on Infrastructural Development in Nigeria from 2015-2021

Government has the basic objective to provide basic infrastructure to its citizens across the nooks and crannies of the country. Generally, the existence of infrastructure facilitates socio-economic development. If these facilities and services are not in place, development will be very difficult and in fact can be likened to a very scarce commodity that can only be secured at a very high price and cost. Adequate access to social welfare services, such as medical services, education, potable water supply, roads, electricity and employment opportunities are strong indices development. Public borrowing is a form of economic tool used by many countries to grow and develop their economics. Unfortunately, many tales of woes have followed Loans. The reason is that, when a loan is received, it becomes a debt and when debts are not serviced, they accumulate and become “burden”. Consequently, such debt constrains and burden the economy in general and infrastructural development in particular by promoting poverty, unemployment, inflation, bad road, epileptic power supply, lack of potable water and associated health related disease (Osundina, 2014).

External borrowings are a major source of public receipts. The accumulation of external debt should not signify slow economic growth. It is a country’s inability to meet its debts obligations compounded by the lack of information on the nature, structure, and magnitude of external debt. Soludo (2003) opined that countries borrow for two broad categories: macroeconomic reasons to either finance higher investment or higher consumption and to circumvent hard budget constraints.

This implies that an economy borrows to boost economic growth and alleviate poverty. He argued that when debt reaches a certain level, it begins to have adverse effect, debt servicing becomes a huge burden and countries find themselves on the wrong side of the debt-laffer curve, with debt crowding out investment and growth.

In 2015, the Buhari administration inherited an economy facing challenges, including inadequate infrastructure. To address this, external loans were sought to fund crucial projects. The effects of external borrowing on infrastructural development in Nigeria can be analyzed in several aspects. It is pertinent to note that most indebted countries of the developing world are trapped on a debt treadmill as they are forced to take new loans to pay old ones and run the risk of economic collapse. Whereas borrowing is not a bad thing, excessive debt has been a barrier to long-term economic progress and poverty reduction, and as a result, many developing countries, notably those in Sub-Saharan Africa, have experienced major economic crises because of their crushing debt burden (Hadlek & Mrad, 2014). Evidence has revealed that public debt owing to non-residents repayable in foreign currencies has a higher severity of debt burden than private debt (World Bank, 2018). Foreign loans are ostensibly for the aim of development, industrial growth, or enhancing the quality and quantity of food production. The most important goal is to raise the general population's standard of living.

External debt can have both positive and negative effects on an economy generally and on infrastructural development particularly. On the positive note, external debt can provide countries with increased funding, Improved infrastructure quality, the necessary funds to invest in infrastructure projects such as roads, bridges, schools, and hospitals. This can

lead to improved transportation networks, better access to education and healthcare, and overall economic development. The Director International Economic Relations Federal Ministry of Finance in collaborating the above held that:

One of the advantages of borrowing is that it will unlock the potentials of the economy for instance if there are roads, evacuation of food and other things can be easily done, access to solid minerals can be easily done the advantage of borrowing money is that it can boost the economy. For instance, we have borrowed money to build the rail system, the airports and seaports, the rail system that we developed can boost economic activities, the airports can boost trade, generate employment and promote international trade and the returns from this can pay back the loans. External borrowing allows governments to access additional financial resources that can be allocated towards infrastructure development. As a result, it can help bridge the financing gap required for large-scale projects. External borrowing can be an important tool for long-term infrastructure finance, given the limited domestic resources available for capital expenditures (Interviewee, 9).

Not only this, borrowed funds can expedite infrastructure development by providing instant capital injections. This can lead to the timely completion of projects, improving the quality of life for the citizens. The IMF (2019) held that external borrowing can help to increase investment and accelerate economic development, facilitate the transfer of technology and expertise from lenders to borrower countries. This, in turn, can enhance the capacity to plan, implement, and maintain infrastructure projects effectively. External financing promotes technology transfer, capacity building and development of local skills creating employment opportunities, both directly in construction and indirectly in related industries. This can help reduce unemployment rates and stimulate

economic growth (Adam, 2022). Collaborating the above, the Director of Transportation Department, Infrastructure Concession and Regulatory Commission (ICRC) posited that:

The construction, expansion and reconstruction of the Second Niger Bridge, the East-West Road, the Lagos-Ibadan expressway, the Mambila Power project, and the Kaduna-Abuja Highway in Nigeria, are often cited as a successful infrastructure project that are linked to external borrowing. The Lagos-Ibadan Expressway has become a success story in terms of successful execution and delivery. The project, which was completed in 2021, has significantly improved connectivity, reduced travel time, and enhanced trade between Lagos and other parts of Nigeria. The Abuja-Kaduna Railway, inaugurated in 2016, has been recognized as a successful infrastructure project in Nigeria. The railway line connects Abuja Kaduna, providing a reliable and efficient means of transportation. It has facilitated the movement of people and goods and stimulated economic activities (Interviewee, 5)

Nigeria, like most developing countries throughout the world, relies heavily on external finance to fund development projects. External loans are the most common kind of external funding. Agreeing with the above submission, the Director Contract Compliance Department, Infrastructure Concession and Regulatory Commission (ICRC) held that: The construction of the Lagos-Ibadan Standard Gauge Rail started in 2017 the China Exim bank Loan funded the project in 2016. The Construction of the Lagos-Ibadan Standard Gauge Rail was completed in 2021, making it the first standard gauge rail project to be started and completed by the same administration, in the history of Nigeria. Traditional procurement might not be able to achieve this type of massive work within a short

period of time. Successful infrastructure projects like this demonstrate Nigeria's commitment to improving key sectors and promoting sustainable development. They have contributed to enhanced connectivity, economic growth, and improved service delivery. The issue we have in Nigeria is Strategic planning, effective execution, and proper maintenance of these infrastructural projects (Interviewee, 8)

Despite the positive effect of external borrowing to infrastructural development in Nigeria, there are contrary opinions on Nigeria's current standing as far as the negative effect of debt is concern. Already, the World Bank has ranked Nigeria among the top 10 countries with the highest debt risk exposure, sitting in the fifth position with \$11.7 billion debt exposure, behind India (\$22 billion), Bangladesh (\$18.1 billion), Pakistan (\$16.4 billion), and Vietnam (\$14.1 billion). The huge debt and low revenue base are impacting negatively on Nigeria's sustainability as debt service obligations gulped 97 per cent of the country's total revenue in 2020. In the meantime, another N3.3 trillion has been set aside for debt servicing in the assented 2021 budget, which is about a quarter (24.3 percent) of the entire N13.6 trillion total expenditure. Though the debt to GDP is at 33%, and still within sustainable level, the major problem is the low revenue base. According to IMF debt sustainability framework, the debt becomes unsustainable when debt to GDP crosses the 40% threshold, and at the pace of borrowing, Nigeria debt will soon cross this sustainability threshold. (Yusuf & McMillan 2021)

Also, Nigeria's 2022 record budget of 16.39 trillion naira (\$39.8 billion) already has an inbuilt deficit of 6.26 trillion naira, or 3.39% of GDP which is expected to be funded by new borrowing, proceeds from privatizations and draw downs on loans secured for specific projects (Felix & Chijioke 2021). The implication of the

growing debt service is that the government is expending nearly all its revenue in servicing recurrent expenditure and debts, with very little or any development, which of course pushes the Federal Government to resort to more foreign loans which will continuously increase the nation's external debt profile. According to Wilson Erumebor, a senior economist at Nigerian Economic Summit Group, Nigeria is confronted with rising expenditure with relatively small growth in revenue thus always experiencing a wide fiscal deficit that will still be financed by borrowing. Wilson Erumebor estimated that Nigeria's total debt could be as high as N48.7 trillion when AMCON's liabilities and CBN's ways and means are factored into the total debt (Ojekunle, 2021). Corroborating the above, the Director Revenue, Investment and Project Finance Department, Infrastructure Concession Regulatory Commission (ICRC) held that: Over-reliance on external borrowing can lead to a significant debt burden for the borrowing country. Repaying borrowed funds, especially if not managed efficiently, can divert resources from other important sectors, including infrastructure development. Heavy external borrowing can saddle countries with unsustainable debt, limiting their capacity to invest in infrastructure especially as we have seen in Nigeria, Poor governance and limited accountability mechanisms can result in mismanagement and corruption, leading to the misallocation of borrowed funds. This can undermine the intended purpose of financing infrastructure development. In fact, it has been said that External borrowing increases the opportunity for corruption and mismanagement, undermining effective infrastructure development (Interviewee, 7)

Furthermore, Osa-Brown and Onu, (2021) posit that the consequence of high debt stock and debt service ratio is financial and currency crises as seen in the

perpetual deteriorating dollar-naira exchange rate. Nigerian exchange rate was N22 to a dollar at the turn of the current democratic transition in 1999. By 2015, when President Buhari came in, it was exchanging at N197.87 to the dollar. The Dollar exchanged for N430 in 2021 at the official platform, while it was exchanging for between N530-N 550 at the parallel market as of November 2021. The central bank has devalued the currency three times since March 2020 after lower oil prices put pressure on dollar reserves and prompted the regulator to ration foreign exchange. Agreeing with this position, the Director International Economic Relations Department, Federal Ministry of Finance held that:

The disadvantage of external borrowing is the fiscal pressure, the exchange rate pressure, the debt service pressure. You find out that these crowds out other social services like education, health. Because you are using almost 70-80% of your internally generated revenue to services debt. As the government spends most of its revenue on debt servicing, very little is left for development purposes, it means that you may not be able to have additional resources for other things (Interviewee, 9) In his submission on the negative impact Ajiboye, (2021) held that despite the ballooning debts by government to develop the economy and the wellbeing of its citizens, Nigeria dropped three spots to 161 in 2019 from 158 in 2018 among 189 countries in the 2020 Human Development Index (HDI) he held further that another fallout of the high debt stock is the increasing unemployment rate of 33.3% which indicates that one in three of the 69.7 million-strong labor force in Nigeria either did nothing or worked for less than 20 hours a week, making them unemployed, according to the Nigerian definition of unemployment. Another 15.9 million worked less than 40 hours a week, making them underemployed (Ajiboye, 2021).

Amieyeofori (2022) in a similar way explained that inflation was in single digits in 2014 through 2015, compared to its current value of 17.75% in 2021. This high inflation has driven more Nigerians into poverty as according to the World Bank, seven million Nigerians have been driven into poverty due to the 22% increase in the price of food, and food prices contribute about 60% to the current inflation rate. The rising food prices exacerbated the present poverty as it reduces the real purchasing power of households and shifts expenditures away from essential items such as health, education and housing. Onyeiwu (2021) asserted that the average Nigerian household spends about 56% of income on food, the highest in the world, whereas countries like US, UK, Canada, and Australia spend 6.4%, 8.2%, 9.1%, and 9.8%. Nigeria's high expenditure on food implies that a slight increase in food prices would push more people into multidimensional poverty. Multidimensional poverty measures poverty by income, and by the access people have to health, education and living standard indicators, which include sanitation, drinking water, electricity, and housing. By this measure, World Bank estimates that 47.3% Nigerians, or 98 million people, live in multidimensional poverty

5. Conclusion and Recommendation

Conclusion

Nigeria, like most developing countries throughout the world, relies heavily on external finance to fund development projects. External borrowings are a major source of public receipts in Nigeria. External debt has both positive and negative effects on Nigerian economy generally and on infrastructural development particularly. On the positive note, external debt provides the country with increased funding, Improved infrastructure quality, the necessary funds

to invest in infrastructure projects such as roads, bridges, schools, and hospitals. This led to improved transportation networks, better access to education and healthcare, and overall economic development. However, Nigeria is trapped on a debt treadmill as they are forced to take new loans to pay old ones and run the risk of economic collapse if nothing is done to manage Nigeria the excessive debts. Borrowing is not a bad thing, but excessive debt has been a barrier to long-term economic progress and poverty reduction Nigeria.

Recommendation

The study recommended that should introduce tool charges or fees on infrastructure provided by foreign loans in order to use the proceed for charges or fees in loan repayment.

References

- Ajiboye, A (2021): *Inflation targeting in Nigeria*,
<https://mixtafrica.com/inflation-targeting-in-nigeria/>
- Amieyeofori V. (2022). *The economic implications of High debts profile to a Developing nation: emphasis on Nigeria*. *International Journal of Social Science and Humanities Research ISSN 2348-3164 (online) 10(1)*, pp: (233-253). www.researchpublish.com
- Bamidele, T. B. & Joseph, A. I (2013). *Financial crisis and external debt management in Nigeria*. *International Journal of Business and Behavioural Sciences*, 3(4): 16-24.
- Burhanudin, M. D. A., Muda, R., Nathan, S. B. S., & Arshad, R. (2017). *Real effects of government debt on sustainable economic growth in Malaysia*. *Journal of International Studies*, 10(3). CBN (2000). *Proceedings of the 10th annual conference of the Zonal Research*.



- Lagos; 12 – 16 June. CBN (2014). Statistical bulletin.
- DMO (2023). *Nigeria's external debt stock report* reports. <https://www.dmo.gov.ng/>
- Hadlek Z., & Mrad F. (2014). *Debt and Economic Growth*. International Journal of economics and Financial Issues, 4 (2), 440–448.
- Krugman, P. (1988). Financing vs. forgiving a debt overhang,” *Journal of Development Economics*, Elsevier, vol. 29(3), pages 253-268.
- Leedy P & Ormrod J (2005). *Practical Research: Planning and Design*. Prentice Hall, Upper Saddle River, NJ.
- Muhammad A. (2021). *Debt burden and infrastructural development in Nigeria's Fourth republic*. Lapai International Journal of Administration LIJAD.
- Noamane C. (2022). *The sovereignty of developing countries: the challenge of Foreign aid*. *OECD; the economist* 45/22 Abuja.
- Osae-Brown A., & Onu E. (2021). *Nigeria Signals Preference for Weaker Naira Exchange Rate*. <https://www.bloomberg.com/news/articles/2021-11-23/nigeria-signals-preference-for-weaker-naira-exchange-rate>.
- Oti, Peter. A., Ben E., & Odey I. (2016). *Nigeria's Debt Burden and Development Tangle: The SocioEconomic and Political Implications*. *Journal of Economics and Sustainable Development* www.iiste.org. ISSN 22221700 (Paper) ISSN 22222855 (Online) 7.(20) 2016.
- Ojukwu & Chioma O. (2021). *External Debt and Sustainable Development: Empirical Evidence from Nigeria*. Gusau International Journal of Management and Social Sciences, Federal University, Gusau, 4 (2), July 2021.
- Pattillo, Catherine, Hélène P., & Luca R. (2002). *External Debt and Growth*. IMF Working Paper 02/69 (Washington: International Monetary Fund).
- Richard C. O & Israel O. (2022). *A comparative assessment of External debt management and Infrastructural developments: Perspectives on Nigeria's economy, 1979–2020*. *Journal of Money and Business*, Vol. 2 No. 2, pp. 199-212. <https://doi.org/10.1108/JMB-03-2022-0013>
- Soludo C.C. (2003). Debt, poverty and inequality In Okonjo-Iweala, *the debt Trap in Nigeria*. Africa World Press NJ, Pg 2374.
- Siddique, A. Selvanathan, E.A. & Selvanathan, S. (2015). *The impact of external debt on economic growth: Empirical evidence from highly indebted poor countries*. Discussion Paper 15.10. University of Western Australia Department of Economics.
- Udeh S., Ugwu J., & Onwuka I. (2016). *External Debt and Economic Growth: The Nigeria experience*. *European Centre for Research Training and Development UK* (www.eajournals.org)
- World Bank (2014). *World Development Report 2014- Infrastructure for Development*, Oxford University Press, New York.
- World Bank (2021). *World Development Indicators Database*. (Accessed: June 11, 2023).