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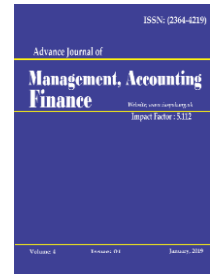
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LOOMING EXTERNAL DEBT CRISIS IN SUB – SAHARA AFRICA: THE WAY FORWARD

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Abstract

Anxiety has been increasing concerning the on-coming external debt crisis in Sub-Saharan African countries. When a similar incident occurred in the 1990s, the Paris Club and other multilaterals adopted the Multilateral Debt Relief Initiative aimed at writing off the debt owed by a group of low-income poor countries the majority of which were African. Despite the fact that that massive debt relief was conditioned on sound economic management and poverty reduction strategies, the Sub-Sahara African region is once again facing a massive debt crisis. The cardinal aim of this paper is to review the external indebtedness of Sub –Sahara African countries, particularly Nigeria, using the content analysis research design. Specifically the study seeks to examine the genesis and history of external debt in the Sub –Sahara African countries, the current external debt status of Nigeria, the drivers of external debt crisis and their consequences. This study observes that, among others, the major drivers of external debt rise in the region include the negative valuation effects associated with exchange rate depreciations, increase in the cost of debt financing in a number of countries which has led to enhanced interest payments and lack of fiscal discipline. This observation suggests that Sub-Sahara African countries should adopt and promote prudent macroeconomic principles for them to be capable of to reducing and managing rising debt servicing costs closely.

1. Introduction

Most African countries have been having external debt problem. This is considered universally as a serious global economic issues (see Coulibaly,

Gandhi & Senbet, 2019). According to Greene and Mohsin (1990), as far back as the late 1980s, several papers had been written on the subject. Some of them include the works by Humphreys and

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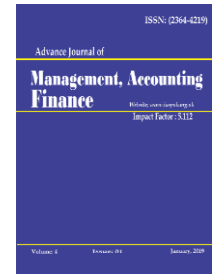
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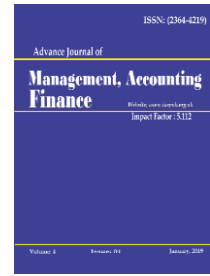
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Underwood (1988), Mistry (1988), the United Nations (1988), Helleiner (1989), Greene (1989) and Lancaster (1989) cited in Greene and Mohsin (1990). In acknowledgement of the enormity of this problem, the G-7 countries had through their resolution at the June 1988 Toronto Summit as well as the annual meetings of the International Monetary Fund (IMF) and the World Bank in September 1988, agreed to provide more extensive debt relief for very-low-income countries. In March 1989, the United States government also effected some adjustments in its own approach to debt relief. This gesture was made manifest by the Brady proposals which favoured reducing the external debt owed by commercial banks (Greene & Mohsin, 1990). According to Greene (1992) which provided an updated information on the external debt problem of Sub-Saharan Africa, the region's external debt between 1980 and 1990 more than tripled to US\$171 billion, while debt service payments and rescheduling rose by more than 150 percent to US\$20 billion. Further, the region continued to qualify as heavily debt-distressed. Greene (1992) claims that the Sub-Saharan Africa benefitted from several new debt initiatives as well as a substantial increase in debt cancellation by bilateral creditors and the general application of Toronto terms for debt rescheduling. Battaile, Hernández and Norambuena (2015) assert that the Sub-Saharan African countries as a group exhibited a considerable reduction in public and external indebtedness in the early 2000s owing to the debt relief programs, higher economic growth, and improved fiscal management for some countries. However, according to the authors, the

subsequent external debt figures two decades later pointed to a sharp rise. For instance, from an estimated US\$8 billion in 1970, the total external debt of African countries (excluding arrears) escalated to an estimated US\$174 billion at the end of 1987. This included short-term debt estimated at US\$12 (see Greene and Mohsin, 1990). This situation arose, even when the total debt-service payments by African countries grew from less than US\$1 billion in 1970 to almost US\$18 billion in 1987, net of arrears and debt relief.

In the more recent times, the situation does not appear to have changed, especially as regards the Sub-Saharan African countries. According to Mustapha and Prizzon (2018), external debt in Sub-Saharan African countries has continued to rise. Eighteen of them are at high risk of debt distress. Since the year 2013, this number has increased by more than hundred per cent. Mustapha and Prizzon report that the make-up of public debt has equally altered significantly. While concessionality has been declining, borrowing from non-traditional official and private lenders has been on the increase. Further, based on the report of International Monetary Fund (IMF) (2019), the average public debt in Sub-Saharan Africa was estimated at close to 56 percent of GDP toward the end of 2018, with wide heterogeneity in debt dynamics across countries. While the oil exporters among them became indebted, other resource-intensive and non-resource-intensive countries continued to observe increases in external debt. According to Cauwenbergh and Laleman (2018), the situation that prevailed in Sub-Saharan Africa could be summarized as follows:-



(i)The accumulation of debt had led to the highest debt ratios since the region received debt relief.

(ii) The receipts from export increased much slower than foreign borrowing - raising concerns about the capacity to repay the loans;

(iii)For some of the countries, outsized public debt build-up was caused mainly by lack of fiscal discipline and public financial management;

(iv)Government borrowing in Sub-Saharan Africa nations became more and more non-concessional;

(v)Many Sub-Saharan African countries gained access to international financial markets – a situation that exposed them to volatile market sentiment and shocks;

(vi)The borrowing in foreign currencies i exposed sub-Sahara African countries to exchange rate risks;

(vii)The profile of bilateral creditors shifted towards more non-Paris Club lenders (especially China); and

(viii)the structures of debt became increasingly complex, thereby raising transparency issues.

The main objective of this study is to review the public external indebtedness of sub –Sahara African countries, particularly Nigeria. Specifically the study seeks to trace the genesis and history of external external debt of Sub –Sahara African countries, causes and consequences.

This paper is structured as follows. Section 2 presents the review of the related literature. Section 3 traces the drivers of public external debt rise in Sub–Sahara African countries. Section 4 highlights the current status, consequences and parliatives of external debt rise in Sub-Sahara Africa while section 5 concludes the paper.

2.0 Review of the Related Literature

2.1 Conceptual Framework

2.1.1 External Debt

External debt (or foreign debt) is defined as the total debt which the residents of a country owe to foreign creditors (Wikipedia, 2020).. The debtors can be the government, corporations or citizens of that country. For Index Mundi (2020), total external debt is the debt owed to nonresidents which are repayable in currency, goods, or services. It is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt. This comprises money owed to private commercial banks, foreign governments or international financial institutions such as the IMF and World Bank .The IMF defines the key elements of external debts as the outstanding and actual current liabilities. Debt liabilities include arrears of both the principal amount and the interest thereon. External debt is generally classified into four, namely (i) public and publicly guaranteed debt,(ii) private non-guaranteed credits,(iii) central bank deposits and (iv) loans due to the IMF. The exact treatment of external debt varies from country to country.

There are various indicators for determining a sustainable level of external debt. These indicators

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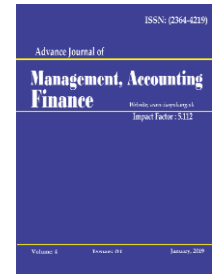
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are primarily in the nature of ratios and thus assist the policy makers in their external debt management exercise. These indicators can be thought of as measures of the country's solvency as they consider the stock of debt at certain time in relation to the country's ability to generate resources to repay the outstanding balance.

Examples of debt burden indicators include the (i) Debt-to-GDP ratio,(ii) foreign debt to exports ratio and(iii) government debt to current fiscal revenue ratio etc.

There are also some indicators that cover the structure of the outstanding debt, namely (i) share of foreign debt, (ii) short-term debt, and (iii) concessional debt. Examples of liquidity monitoring indicators include the (i) Debt service to GDP ratio,(ii) Foreign debt service to exports ratio and(iii) Government debt service to current fiscal revenue ratio

According to Atique and Malik (2012) cited in Senadza, Fiagbe and Quartey (2018),external debt constitutes a greater share of the public debt structure in developing countries. Reliance on external borrowing is not only justified on the grounds that excessive domestic borrowing could lead to financial instability and crowd out the private sector (see Panizza, Sturzenegger, & Zettelmeyer, 2010 in Senadza, Fiagbe and Quartey,2018) .

Also, it is argued in literature that developing countries are supposed to borrow externally in their early stages of development as a result of inadequacy of domestic capital for investment. The Harrod-Domar growth mode 11 succinctly explains the

importance of external borrowing in closing the savings-investment gap in developing nations.

2.1.2 Gross National Income (GNI)

GNI is the total of the value added by all resident producers , any product taxes (less subsidies) not included in the valuation of output and the net receipts of primary income from abroad(IndexMundi,2020).

2.1.3 Debt-to-GDP Ratio

Kenton (2019) defines the debt-to-GDP ratio as the metric which compares a country's public debt to its gross domestic product (GDP). By comparing the debt of a country with what it produces, the debt-to-GDP ratio reliably shows that particular country's ability to pay back its debts. Usually expressed as a percentage, this ratio can also be interpreted as the number of years needed to pay back debt, if GDP is dedicated entirely to paying back debt.

A country that is capable of continuing paying interest on its debt, without refinancing, and without holding down economic growth, is generally considered to be stable. When a country has a high debt-to-GDP ratio, it has trouble paying off its external debts. In such circumstances, creditors are inclined to demanding higher interest rates when lending. According to Kenton (2019), a study by the World Bank revealed that if the debt-to-GDP ratio of a country exceeds 77% for an extended period of time, it slows the country's economic growth.

2.2.0 Contextual Review

2.2.1 History of Debt Crises in Africa

Adeniran, Ekeruche, Bodunrin, Ali, Mandri and Tayeb (2018) report that Africa's debt crises

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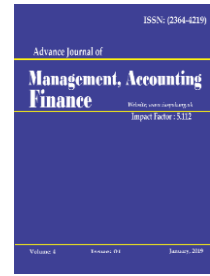
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commenced in the late 1970s at a time that many African countries were handicapped, not possessing sufficient domestic savings and relying on the boom of commodity prices, took plenty of external loans to take care of their public expenditures needs. As a result of the oil and commodity price volatilities of 1973, nations accumulated fresh debts in order to smoothen their expenditure while anticipating that the prices would eventually move up. Between 1976 and 1980, external debt increased by 187%, from \$39 billion to \$112 billion (Adeniran, Ekeruche, Bodunrin, Ali, Mandri & Tayeb, 2018)

Many countries, especially those affected by commodity price developments, sought for external debt in order to stimulate economic recovery by adopting an expansionary fiscal policy. However, lax fiscal management led to sluggish growth just as the productive sectors like manufacturing and agriculture slumped. For instance, most of the loans were used to finance consumption and non-export-oriented projects that did not have the capacity to generate revenue for debt service repayments. Another commodity shock took place between 1979 and 1980. This further depressed the non-tradable sector and worsened the overall export performance. Consequently, external debt-to-export and debt-to-gross national income ratios escalated by 218% and 110% respectively between 1980 and 1987. Increasing fiscal deficits were accompanied in short succession by hikes in foreign interest rates and a fall in net capital inflows. This situation rendered many African countries incapable of meeting their debt service obligations. This situation attracted the sympathy of development finance institutions who

responded to the 1980s debt crisis by putting in place some adjustment programmes aimed at strengthening export earnings and reducing imports alongside inflation. In 1980, the World Bank (WB) and International Monetary Fund (IMF) introduced structural adjustment lending that stipulated some economic pre-conditions for funds to be released for designated projects. These financial assistance programmes catalysed the offer of debt relief by bilateral creditors and deposit money financial institutions. Adeniran, Ekeruche, Bodunrin, Ali, Mandri & Tayeb (2018) posit that between 1980 and 1984 the Paris and London clubs offered \$10 billion in debt relief to Sub-Saharan Africa. However, in spite of the emergence of structural adjustment loans and debt relief by some bilateral creditors, the economic conditions across the continent remained pathetic. The IMF responded by establishing the Structural Adjustment Facility (SAF) in 1986 for providing assistance concessionally to low-income countries that were carrying out Structural Adjustment Programmes (SAPs). The SAPs were targeted at restructuring and diversifying the productive base of the economy, stabilizing the fiscal and balance of payments, laying the foundation for non-inflationary growth and decreasing the dominance of unproductive investments in the government sector. The SAF was modified in 1988 into the Extended Structural Adjustment Facility (ESAF). That provided additional financial assistance for the purpose of having a more significant effect on accumulated debt burdens. Contrary to expectation, however, instead of achieving the intended result, the Structural Adjustment Programs (SAPs) culminated

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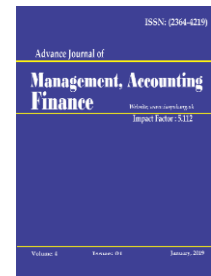
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in large current account deficits, skyrocketing inflation and depressed currencies across the African continent. By the time the SAPs ended, debt burdens had gone up even further and most of the African countries were evidently on an unsustainable debt path. This prompted the WB and the IMF to establish the Heavily Indebted Poor Countries (HIPC) initiative in 1996 to make debt relief available and reduce debt service payments for those African countries in debt distress. Those countries found eligible under the HIPC were granted an annual debt service reduction of up to 80% of their debt obligations as they became due pending the time that the committed debt relief would have been provided in full. Three parameters were used for selecting the countries that qualified for the grant, namely a debt-to-GDP ratio of 50% and above, a debt-to-export ratio of 150% and above; and a debt-to-government revenue ratio of 250% and above. As a result of the criticisms levied on the HIPC, it was modified in 1999 to enable more countries to qualify for the initiative, increase the quantum and pace of debt relief, and link debt relief to poverty reduction. In addition, in 2005 the IMF initiated the Millennium Development Goals Initiative (MDRI) to support the continent in achieving the Millennium Development Goals by making available full debt relief on eligible debts. According to literature, under the HIPC and MDRI, the eligible countries reached the completion point. This resulted in some debt relief of \$99 billion by the end of 2017. Between 1999 and 2008, the HIPC and MDRI reduced the external debt-to-Gross National Income (GNI) ratio by more than half, from 118% to 45% .

After more than ten years of debt relief, the debt profile of African countries resumed upwards movement .According to Adeniran, Ekeruche, Bodunrin, Ali, Mandri and Tayeb (2018), between 2013 and 2017, the debt-to-GDP ratio of sub-Saharan Africa rose from 30% to 46%. The situation became much worse for oil producers, where the ratio more than doubled during that same period. For instance, while in 2013 Djibouti was the only African country with a high debt risk, the situation changed by 2018 as nine countries, including eight post-HIPC countries, had moved from a low or moderate debt risk level to a high risk of debt or debt distress.

In Sub-Sahara Africa, specifically, between 2004 and 2008, the overall fiscal balance as a share of GDP stood at 0.4%, declined seriously to -5.6% in 2009, remained in negative territory after the financial crisis and reached -5.5% in 2016

After recovering slowly from the collapse in oil and other primary commodity prices in 2014–2016 and the adverse climatic conditions that affected agricultural producers in the last three years, the commodity-dependent African economies experienced not only falling revenues but also increased inflation, currency depreciation, rising unemployment and economic recession. Most of those countries resorted to additional external borrowing, While Africa's debt-to-GDP ratio jumped to an average of 50% in 2017, its tax revenue-to-GDP remained flat at 17% (Adeniran, Ekeruche, Bodunrin, Ali, Mandri and Tayeb, 2018). By 2018, Morocco had one of the highest debt-to-GDP ratios in North Africa, after Egypt and Tunisia.

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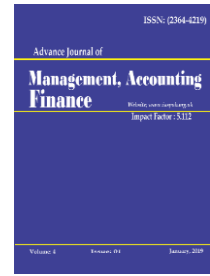
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Egypt was then undergoing reform supported by the IMF's Extended Fund Facility (EFF Arrangement) to address its economic slump following years of political and social instability.. A relative rise in current account deficits led to build-ups in external debt ranging from 21.2% of GDP in Burundi to around 50% of GDP in Ethiopia and Somalia.

Before the 1990s, Africa's debt was mostly bilateral; it was about 70% as against the multilateral debt which was 30% of the total debt received. However, Africa's debt structure changed after the HIPC and MDRI, shifting predominantly towards domestic debt and from multilateral and bilateral to private creditors, in spite of the continued concessional terms available on multilateral and bilateral debt. This change increased the cost of debt servicing as the interest rates on private sector loans was between 15% to 25%, compared to less than 5% for concessional loans (multilateral and bilateral). This partly accounted for the increase in external debt from \$329.79 billion in 2007 to about \$600 billion in 2017. According to the IMF's debt sustainability framework – which uses the Country Policy and Institutional Assessment (CPIA) score in addition to a set of threshold levels for selected debt burden indicators to estimate the debt-carrying capacity of individual countries and their ability to service the debt – only eight countries were at low risk of debt distress by 2018. These countries fell within the strong and medium CPIA. Uganda, Tanzania, Kenya and Senegal breached their debt service-to-revenue thresholds. Among the 21 countries that were at moderate risk of debt distress, Togo, Guinea, Madagascar, Benin, Nigeria, Niger, Burkina Faso

and Tunisia had breached their debt service-to-revenue thresholds while Togo, Guinea and Madagascar were likely to fall into high risk of debt distress as a result of their weak policies and institutions. Also, the CAR, Angola, Burundi, Djibouti, São Tomé and Príncipe, Cameroon, Zambia, Mauritania, Ethiopia, Ghana and Cabo Verde were at high risk of debt distress. Among these countries, only Djibouti and São Tomé and Príncipe were capable of paying off their debt as a result of the higher portion of concessional debt in their total debt portfolio. More worrisome, Sudan, The Gambia, Mozambique, Chad and Zimbabwe surpassed all debt sustainability thresholds and were experiencing debt distress.

2.2.2 Nigeria and External Debt

Based on the 2018 data from the Debt Management Office (DMO) as reported by Adeniran, Ekeruche, Bodunrin, Ali, Mandri & Tayeb (2018), Nigeria's debt profile shows a total debt stock of NGN 22 trillion (\$74.45 billion) as of March 2018. This represents a 251.4% increase from debt levels in 2004, prior to the debt forgiveness initiative. As a proportion of GDP, debt stood at 16%, which was well below the 60% benchmark recommended by the AMCP. However, the ratio of debt to revenue in 2017 was considerably higher at 361%, up from 89% in 2008. According to Census and Economic Information Center (CEIC) Data (2020). Nigeria's Government debt accounted for 16.2 % of the country's Nominal GDP in Dec 2019, compared with the ratio of 16.1 % in 2018 Nigeria's government debt to GDP ratio annual data and the external debt stocks (% of GNI) from December

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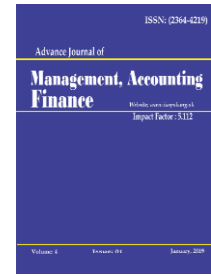
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1981 to December 2019 extracted from the by the World Bank, International Debt Statistics. by Index Mundi (2020) are presented in appendix A and B respectively. According to Index Mundi, external debt stocks (% of GNI) reached an all-time high of 120.84 % in Dec 1993 and a record low of 3.77 % in Dec 1976. The country's Nominal GDP reached 129.1 USD bn in Dec 2019 (CEIC Data, 2020).

In addition, the IMF estimated a fiscal deficit-to-GDP ratio at 3.5% and 4.7% in 2015 and 2016 respectively, which is significantly above the 3% benchmark specified by the Fiscal Responsibility Act of 2007.

Servicing these debts represented about 22.8% of total government budgetary expenditure (NGN 1.66 trillion [\$5.4 billion]) in 2017 and 21% in 2018 (NGN 2.01 trillion [\$6.6 billion]). The current

Nigeria's debt profile reveals a shift of emphasis from external to domestic debt. In 2018, domestic debt constituted 70.29% of the total debt stock at \$52.21

billion contrary to the situation that prevailed between 1986 and 2005 when only 30% of the total debt stock was

domestic. Out of the total debt stock, long term debt constituted 69% of the total debt.

Nigeria has a Debt Management Office (DMO) which coordinates its debt management strategy. Before the establishment of the DMO in 2000, the responsibilities for managing Nigeria's public debt were scattered across several agencies and operators. This led to ineffective and poor coordination of debt issues.

2.3.0 Theoretical Framework

. Krugman (1988) cited in Senadza, Fiagbe and Quartey (2018) contends that debt servicing obligations cause distortions in an economy and consequently discourages investment and economic growth. On the other hand, Eaton (1993) argues that external debt is a complement to domestic savings and investment and, hence, promotes growth. A lot of hypotheses have been advanced on the adverse effects of external debt on developing countries' growth. Some of the prominent ones include the Harrod-Domar growth model, the Debt Overhang Hypothesis, the Crowding-Out Effect, the Liquidity Constraint Hypothesis, and the Debt Laffer Curve Theory. The theories are explained briefly.

2.3.1 The Harrod-Domar growth model.

According to this model, capital accumulation in the form of savings is essential for growth. External borrowing is, therefore, considered as capital assisting to fill the financing gap in developing countries to promote growth (see Eaton, 1993).

2.3.2 The Debt Overhang Hypothesis (DOH) While Krugman (1988) defines debt overhang as "a situation in which the expected repayment on foreign debt falls short of the contractual value of the debt", Borensztein (1990) considers debt overhang as "a situation in which the debtor country benefits very little from the return to any additional investment because of the debt service obligations." The DOH has two versions, namely, the narrow (traditional) and broad versions. The traditional version assumes that debt overhang effect exists when investors anticipate an increase in the tax rate or returns to capital to service the debt, and consequently reduce

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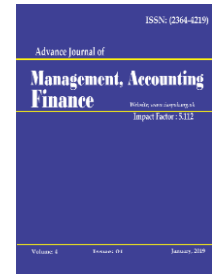
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their investment levels to avert higher future taxes (see Krugman, 1988; Sachs, 1989; Anyanwu, 1994 cited in Senadza, Fiagbe and Quartey (2018)). Neoclassical models of DOH claim that imposition of taxes for interest payment on external debt reduces individuals' disposable income and, by so doing, decreases the savings of the taxpayer. The broader version of debt overhang argues that there is a disincentive to invest when investors expect inflation, devaluation and other economic distortionary measures used to service the debt. Debt rescheduling negotiations discourage investment because it nurses uncertainty within the business environment (Claessens, Detragiache, Kanbur and Wickham, 1996).

2.3.3 Crowding Effect

External debt has a crowding-out. The debt service burden on government reduces public spending, including expenditure on social investments such as education and health which are essential for economic growth. Further, heavy debt burden implies that government short term revenue has to be employed in servicing the debt. This results in crowding out public investment into the economy (Serieux and Yiagadeesen, 2001). According to Diaz-Alejandro (1981) and Taylor (1983), a reduction in public investment can lead to a decrease in private investment since some private investments and public investments are complementary.

2.3.4 The liquidity constraint hypothesis.

The growth effect of very high debt burden through the balance of payments account is referred to as liquidity constraint hypothesis (LCH) or import compression effect (Senadza, Fiagbe & Quartey,

2018). The countries having high debt burden need sufficient inflow of foreign exchange so as to service the debt, especially when the country's currency is not tradable in the international market. Whenever a country has low exports, capital inflows as well as inadequate reserves, debt servicing becomes an issue. The country might therefore consider resorting to currency devaluation/depreciation and/or import restriction so as to attract foreign exchange inflow (Serieux and Yiagadeesen, 2001).

2.3.5 Direct Effect of Debt Hypothesis (DEDH)

The debt-growth channel can be traced to the Direct Effect of Debt Hypothesis hypothesized by Fosu (1996). Both the Debt overhang, the crowding out effect and liquidity constraint hypotheses suggest an indirect negative effect of external debt on economic growth through reductions in investment levels. In the contrary, Fosu (1996) postulates that even if external debt is inconsequential in the savings and investment function, it can still impact output growth through its effects on factor productivity and investment mix.

2.3.6 Debt Laffer Curve theory

This theory assumes a nonlinear relationship between debt and growth based on the understanding that there is an optimal level of debt that promotes growth. Beyond that threshold, additional debt accumulation would limit growth. For Cohen (1993), the Debt Laffer Curve can be used to show the relationship between the face value of debt and investment. The curve explains that as the outstanding debt increases beyond a certain threshold,

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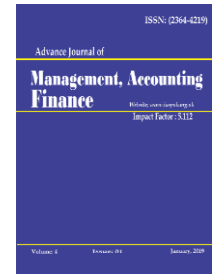
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repayment capacity begins to fall. This implies that when a country borrows to finance its budget deficit, it makes resources available for capital investment which could help promote growth objectives. However, borrowing beyond a certain level would create debt overhang and debt service problems which may delay growth (Pattillo, Poirson & Ricci, 2002).

This work is anchored on the Debt Laffer Curve theory.

2.4 Empirical Review

The studies of Warner (1992) and Jayaraman and Lau (2008) found a positive impact of external debt to growth. In the contrary, the results of the works of Geiger (1990) and Deshpande (1997) suggest that debt retards growth.

After using an augmented aggregate production function to carry out a similar study, Fosu (1996) established a nonlinear relationship between debt and growth in SSA. However, in a more recent study, Fosu (1999) found a negative effect of external debt on growth in SSA, a finding also confirmed by Iyoha (1999).

Were (2001), and Hameed and Chaudhary (2008) carried out time series analysis on Kenya and Pakistan, respectively and both found external debt to be having negative relationship with economic growth.

Reinhart and Rogoff (2010) used panel regression analysis on a sample of 20 developed nations and found that for GDP to Debt ratios below 90 per cent, the nexus between debt and growth was insignificant. However, for ratios above 90 per cent, external debt worsened the median growth by 1 per

cent and considerably more for mean growth. Musebu (2012) found that external debt does not promote economic growth in HIPC Southern Africa Development Community (SADC) nations.

On the other hand, some studies, including Chowdhury (1994), Afxentiou and Serletis (1996), Cohen (1993), Frimpong and Oteng-Abaye (2003), failed to observe any clear

relationship between external debt and economic growth.

Hagos (2011) examined the effect of external debt on economic growth using panel data for 44 Sub-Saharan African countries for a period of over 30 years. The results of the study show that external debt stock and debt services have a statistically significant and negative impact on economic growth especially at higher debt levels of debt/GDP ratio.

Mensah, Bokpin and Boachie-Yiadom (2018) investigated the impact of institutional quality on the external debt–growth nexus in SSA. The data from 36 SSA economies over the 1996–2013 periods were employed. The results from the IV-System GMM suggest that institutional quality has robust effects on the external debt–growth nexus. Thus, the impact of external debt on growth is through host nation's institutional quality. However, the mediating effect of institutional quality on this connection is up to a point. When a country is on the wrong side of the debt-laffer curve, external debt becomes irrelevant; and institutional quality will cease to be of assistance Senadza, Fiagbe and Quartey (2018). examined the effect of external debt on economic growth in Sub-Saharan Africa (SSA) in view of an upsurge in the level of external debt in many countries on the

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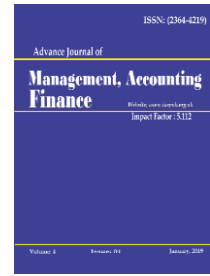
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continent. The study employed annual data for 39 SSA countries from 1990 to 2013 and used the System Generalised Methods of Moments (GMM) estimation technique. The results of the study suggest that external debt negatively affects economic growth in SSA. However, the categorization of countries based on per capita income does not affect the external debt-growth relationship, but there exists a linear relationship between external debt and economic growth.

Matuka and Asafo (2018) employed a co-integration analysis and an error correction methodology to investigate the impact of external debt on economic growth in Ghana using annual time series from 1970-2017. The estimates show that normalized long-run co-integrating growth equation coefficients do not differ from the short-run vector error correction coefficients for the study variables. The findings are that external debt inflows stimulate growth in Ghana both in the long-run and short-run. In addition, the study confirmed the crowding out effect, debt overhang effect and the non-linear effect of external debt on economic growth in Ghana.

Fagbemi and Olatunde (2019) examined the effect of public debt on domestic investment in 33 Sub-Sahara African(SSA) countries using Panel - Corrected Standard Error Estimation (PCSE) and one - step System GMM dynamic panel estimations over the period of 2000-2017. The empirical findings reveal that both debt (% of GDP) and external debt stocks (% of GNI) have a negative effect on domestic investment, implying that rising public debt tends to have adverse influence on investment levels across countries in SSA.

Devarajan, Gill and Karakulah (2019) sought to answer three questions that are being asked with increasing urgency regarding Africa's external debt status. The questions were (i) whether the quality of institutions and policies, critical to sustaining higher levels of debt improved since the debt relief era of the early 2000s, (ii) whether the debt markets would get to know emerging Africa before the next crisis and (iii) if the resolutions of defaults in Africa were orderly carried out. The authors obtained a negative response to each of those questions. The study recommends that African governments treat increases in commodity prices as temporary shocks; that in deciding how to finance public investment, governments should compare the marginal cost of funds from taxation with market terms and not finance long-term infrastructure projects with short-term money from abroad, whatever may be the conditions on which those loans can be secured.

Khan and Arif (2020) sought to empirically test the effects of military expenditure on external debt of 35 arms importing countries using the annual panel data from the year 1995 to 2016. The panel was divided into two income classes (upper-middle and lower-middle), and the basic sample was also divided into five different regions (Middle-East and North Africa, South and East Asia, Latin America, Europe and Central Asia, and Sub-Saharan Africa). The empirical results of the study suggest that military expenditure generally enhances the external debt burden in the studied countries. However, the study equally reveals that military expenditure decreases external debt in Europe and Central Asia. Further, the study reveals that the interaction term of military

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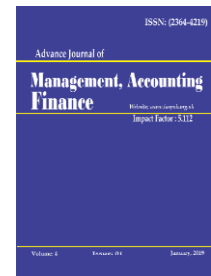
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expenditure and growth rate is positive and significant in all of the sub-samples, except upper-middle class, the Middle East and North Africa, and Latin American regions. Consequently, the authors concluded that military expenditure often increases external debt burden in countries where the debt management system is weak.

The empirical studies reviewed in this work, emerged with divergent results regarding the relationship that exists between external debt and economic growth. However, the majority of them observed negative correlation between external debt and growth.

3. The Drivers of the Rise in Public Debt Level

The rise in public debt levels in Sub-Saharan Africa are driven by increasing fiscal deficits which lead to both an accumulation of domestic and external debts. Oil exporters in the Sub-Sahara African region have experienced the highest level of increase in the public debt stock. Cauwenbergh and Laleman (2018) claim that the regional ratio of general government debt to GDP jumped from 32.2% at the end of 2014 to an estimated 45% by the end of 2017. The authors assert that the recent public debt accumulation has led to the highest debt ratios since the region received substantial debt relief arising from the HIPC initiative, Multilateral Debt Relief Initiative (MDRI) and many other bilateral debt relief programmes. Other drivers of the rise in public external debts of Sub-Sahara African countries are as follows:-

(ii) The negative valuation effects associated with exchange rate depreciations.

(iii) Increase in the cost of debt financing in a number of countries which has led to enhanced interest payments.

(iv) The take over of the liabilities incurred by state owned enterprises by many central governments.

(v) lack of fiscal discipline. In a number of Sub-Saharan African countries, this is identified as a cause of the outsized government debt build-up.

(vi) Lack of clear economic policy direction, reliable and transparent public financial management which further raises uncertainty

Adeniran, Ekeruche, Bodunrin, Ali, Mandri & Tayeb (2018) consider the factors driving Africa's rising debt as including deteriorating macroeconomic conditions and rising fiscal deficits in the era of poor growth, fluctuations in exchange rate, unfavourable climatic conditions, political instability (in some countries) and the 2014 commodity price shock of 2014.

4.0 The Profile, Consequences and Parliatives of External Debt In Sub-Sahara Africa

4.1 Widening external debt to current account receipts ratio

While Sub-Saharan Africa's external indebtedness has increased in recent years, the current account receipts of the majority of the countries have decreased since 2014 (see Table 1 in appendix C).

For the first time since 2004, the nominal external debts of Sub-Saharan Africa as a whole from 2015 vigorously outgrew export receipts (Cauwenbergh & Laleman, 2018). The region still dominantly consists of commodity-based economies, As a result of the drop in receipts from exports of goods and services mainly due to the plunge in commodity prices, the

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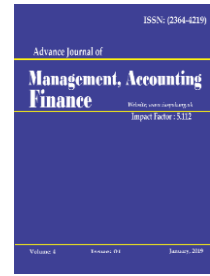
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Sub-Saharan African region's aggregate external debt to exports ratio jumped from merely 64% in 2011 to 137% by the end of 2016. This trend is also evident when analysing the number of countries in the region where the external debt to export receipts ratio is higher than 150%. While this was the case for 9 countries in 2012, the number rose to 20 countries by 2016. Furthermore, in 2018, there were already 13 countries in the region where the ratio was higher than 200%. This was the situation, even when ten of these countries had received HIPC debt relief.. In addition, there is a risk that projects with a weak return on investment are chosen. This is for example the case today in Kenya. While Kenya has already been building up external debts for a number of years, this has happened at an extraordinarily rapid pace since 2013. At the same time, the country's current account receipts have not increased since 2013. This has led to a significant jump in the gross external debt to current account receipts ratio, from around 110% in 2013 to more than 200% by the end of 2016. According to Cauwenbergh and Laleman (2018), countries like Ethiopia, Uganda, Cameroon, Mozambique and Rwanda had a similar experience.

4.2 Consequences of Debt build-up in Sub-Saharan African Countries

Currently, debt levels have been moving up at a rapid pace in many Sub-Saharan African countries. While this has pushed-up debt close to the levels that are unsustainable in some of them, it may not be a challenge for all, if the debt collection is managed efficiently. However, there exist some worrisome issues. According to Cauwenbergh and Laleman (2018), reduced transparency are likely to obstruct

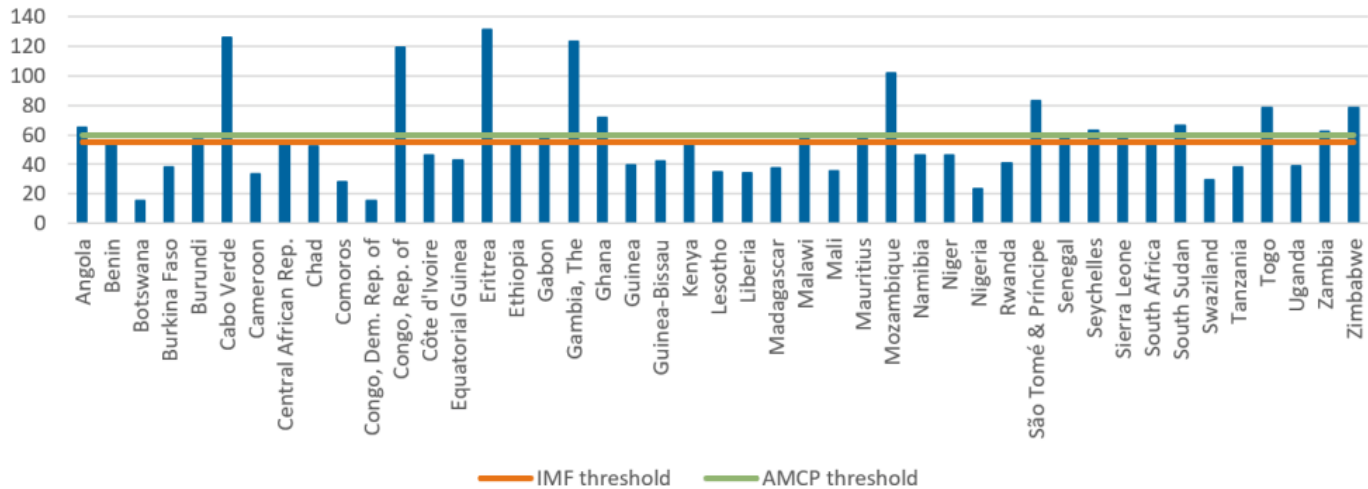
the view on country-specific debt indicators. This might increase the risk for unpleasant surprises regarding public finance sustainability. In addition, more non-concessional borrowing by African governments raises the cost of lending and creates a significant rollover risk. Further, the loans denominated in foreign currencies expose the countries to currency fluctuations. This in turn increases the possibility of external debt surging suddenly as a result of currency depreciation or devaluation.

4.3 Impending Debt Crisis in African Countries

Cameiro and Kouame (2020) report that in June 2019, the World Bank Global Economic Prospect emphasized that unsustainable accumulation of public debt had become gradually troublesome in the past years and that incentives often worked against debt transparency

According to Onyekwena and Ekeruche (2019), there are serious concerns about an impending debt crisis in Africa coming up alongside the region's growing debt levels. The authors report that as of 2017, 19 African countries had exceeded the 60 percent debt-to-GDP threshold set by the African Monetary Co-operation Program (AMCP) for developing economies, just as 24 nations had gone beyond the 55 percent debt-to-GDP ratio suggested by the International Monetary Fund. What surpassing this threshold implies is that these countries were highly vulnerable to economic fluctuations and their governments had a limited ability to provide support to the economy assuming there is a recession. Figure 1 shows the debt-to-GDP ratios of African countries

Figure 1: Government debt as a percent of GDP for African countries in 2017.



Source: IMF, 2018. *Regional Economic Outlook in Onyekwena and Ekeruche(2019).*

With regard to Sub-Saharan Africa in particular, the period 2010-18 witnessed the increase of its average public by half from 40 to 59% of GDP, making it the fast-growing debt accumulation continent far beyond other developing regions (Cameiro and Kouame, 2020)

Onyekwena and Ekeruche(2019) claim that three key factors drove the subsequent debt crisis, namely the global recession of the 1980s, the rise in interest rates in developed countries, and the decline in real net capital inflows, which occurred as a result of the real negative interest rate that existed in many countries.

Though similar to that of the HIPC era, the causes of the recent debt rising in Africa are not the same. During the 2007-2008 global financial crisis, governments engaged in countercyclical spending in

other to compensate for depressed private sector spending. There was also a huge rise in public expenditure on infrastructure—an effort aimed at closing the huge infrastructure. Of greatest magnitude was the 2014 negative commodity price shock, which dramatically reduced government revenues.

A distinctive feature of the ongoing rising debt challenge is the make-up of debt. Countries are shifting away from official multilateral creditors who bring stringent conditions and towards non-concessional debt that go with relatively higher interest rates and lower maturities. In addition, according to Onyekwena and Ekeruche (2019), private non-guaranteed debt has increased. Between 2006 and 2017, private sector external loans moved up from \$35 billion to \$110 billion. Another

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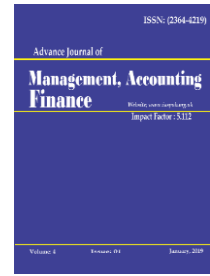
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noteworthy trend is that countries witnessing a deepening of their financial markets were increasingly borrowing from their domestic debt market. South Africa, Kenya, and Nigeria, among others, issued long-term bonds for large capital projects such as roads and hospitals. While it is advantageous to tap into the domestic debt market as that provides a sound alternative and does not expose the country to foreign exchange risk, such action has the potential of crowding out private sector borrowing and preventing the growth in investment and output.

4.4 Approaches For Managingn Africa’s debt burden in a more sustainable manner

The debt situation in Africa was at 46% of GDP in 2017. This is far from its 116% debt-to-gross national income ratio of 1995. As suggested in Battaile, Hernández and Norambuena (2015), the Sub-Saharan African nations should consider the urgency and necessity of monitoringg closely the pockets of increasing vulnerabilities of debt financing profiles and sensitivity of debt burden indicators to macro-fiscal shocks. The policy makers in the region should equally pay attention to some specific risks that their countries are facing currently such as the recent fall in commodity prices, especially oil, the slowdown in China and the sluggish recovery in Europe. dependence on non-debtcreating flows,

Futher, to enable the countries manage their debt burdens in a more sustainable mannner and reduce their debt to GDP ratios, countries in the region are advised to tate the following additional steps recommended by Adeniran, Ekeruche, Bodunrin,

Ali, Mandri & Tayeb(2018) as well as Selassie (2018):-

(i) Adopt and promote prudent macroeconomic principles in order to reduce and manage rising debt servicing costs closely.

(ii) Diversify their economy and expand revenue generation sources to reduce the effect of commodity price changes on fiscal stability.

(iii) Develop and deepen domestic debt markets in order to minimise the reliance on external loans and avert exchange rate risks, while at the same time managing the structure of debt carefully.

(iv) Look for other domestic financing alternatives, such as expanding the tax base through efficient tax collection.

(v) Establish independent, well-resourced and functional debt management offices, improve on their debt-recording systems and data transparency and invest in debt management and risk strategies.

(vi) Take advantage of the capacity-building and technical assistance offered by multilateral development banks (MDBs) so as to develop sound debt management institutions.

(vii) Increase engagement between lower-income countries and Money Deposit Banks to overcome their reluctance to access concessional loans despite the long maturity and low interest rates that are offered.

(viii) **Better debt management** [In spite of the spike in sovereign borrowing, sub-Saharan Africa’s performance in debt management has consistently declined from 3.34 in 2014 to 3.08 in 2017 (on a rating scale from 1 to 6)].

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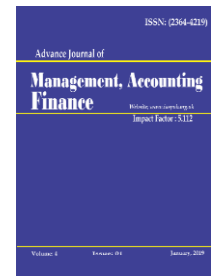
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(ix) Encourage local authorities to issue debt instruments as they can better manage the debt level.

(x) **Lend more responsibly** [A debt crisis poses risks to borrowers and lenders alike. For this reason, lenders should focus on making more responsible lending decisions following due process in authorizing loans and possibly stipulating limits].

(xi) **Streamline the lending procedures** It is very important to streamline the lending process in order to reduce the number and scope of conditions to respect national sovereignty and reduce the burden associated with accessing loans.

(xii) The eight Sub-Sahara Africa's oil exporting countries should make fiscal consolidation plans urgently. In much of the rest of the region, there should be steady increases in tax revenues in a bid to raise their tax to GDP ratios over the next few years.

(xiii) Efforts should be made to account for off-balance-sheet risks

(xiv) The prospects for private investment should be improved by governments.

(xv) Given the huge savings gaps in some of the countries, the governments should ensure that the foreign loans taken are invested in projects that would eventually generate enough returns to amortize the debt.

5. Conclusion

Transparency and information-sharing among borrowers and lenders are necessary for responsible debt management. However, this remains a problem that has been amplified by the rise of new lenders and more complex types of debt financing.

Further strengthening debt management capacity and analytical tools for debt management in sub-Saharan

Africa remains a priority, and requires up-front country ownership and political commitment, as well as commitment from donors and technical assistance providers.

Concerns are increasing concerning another trending external debt crisis in Sub-Saharan African countries. The similar crisis that occurred in the 1990s. During that period, the Paris Club and other multilaterals adopted the Multilateral Debt Relief Initiative aimed at writing off the debt owed by a group of low-income poor countries. The majority of which were African. Notwithstanding the fact that the previous debt relief was conditioned on sound economic management and poverty reduction strategies, the region is once again facing massive debt crisis. The major aim of this paper was to review the external indebtedness of Sub-Saharan African countries using the content analysis research design. Specifically the study sought to examine the genesis of external debt of Sub-Saharan African countries, its current profile, drivers and consequences. The study observes that, among others, the major drivers of external debt rise in the region include the negative valuation effects associated with exchange rate depreciations, increase in the cost of debt financing in a number of countries which has led to enhanced interest payments and lack of fiscal discipline. The study recommends among others that Sub-Saharan African countries adopt and promote prudent macroeconomic principles in order to reduce and manage rising debt servicing costs closely

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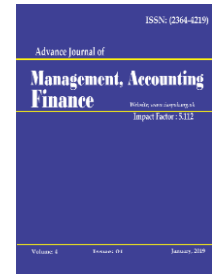
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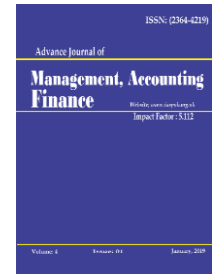
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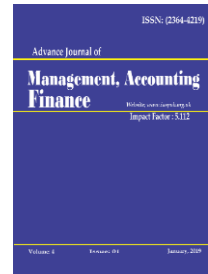
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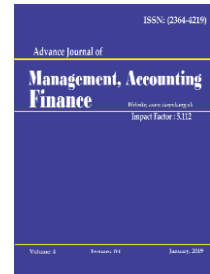
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Appendix A: Nigeri'a External Debt Profile(1970-2018)

Year	Value
1970	\$836,680,600
1971	\$960,364,900
1972	\$1,081,759,000
1973	\$1,778,978,000
1974	\$1,880,722,000
1975	\$1,687,176,000
1976	\$1,337,792,000
1977	\$3,146,444,000
1978	\$5,091,168,000
1979	\$6,244,582,000
1980	\$8,938,210,000
1981	\$11,445,500,000
1982	\$11,992,470,000
1983	\$17,577,000,000
1984	\$17,783,310,000
1985	\$18,655,380,000
1986	\$22,215,780,000
1987	\$29,024,890,000
1988	\$29,624,120,000
1989	\$30,121,990,000
1990	\$33,458,480,000
1991	\$33,526,930,000
1992	\$29,018,660,000
1993	\$30,699,260,000

Elias Igwebuike Agbo and Prof. E.O. Nwadiolor

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1994	\$33,092,280,000
1995	\$34,094,440,000
1996	\$31,414,760,000
1997	\$28,467,540,000
1998	\$30,313,720,000
1999	\$29,095,550,000
2000	\$32,374,090,000
2001	\$31,418,240,000
2002	\$31,780,090,000
2003	\$36,711,570,000
2004	\$39,898,090,000
2005	\$25,754,640,000
2006	\$9,617,377,000
2007	\$12,144,520,000
2008	\$13,128,900,000
2009	\$15,942,070,000
2010	\$15,484,220,000
2011	\$17,663,310,000
2012	\$18,127,300,000
2013	\$21,143,710,000
2014	\$24,755,950,000
2015	\$28,729,820,000
2016	\$30,688,110,000
2017	\$39,770,160,000
2018	\$46,237,680,000

Source: World Bank, International Debt Statistics cited in IndexMundi(2020)..

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Appendix B;Nigeria's External debt stocks (% of GNI)(1970-2018)

Year Value

1970	6.93
1971	11.28
1972	9.55
1973	12.62
1974	7.84
1975	6.22
1976	3.77
1977	8.82
1978	13.99
1979	13.30
1980	14.63
1981	7.03
1982	8.46
1983	18.23
1984	24.46
1985	25.65
1986	41.62
1987	57.73
1988	60.29
1989	71.86
1990	65.41
1991	71.85
1992	64.71
1993	120.84
1994	105.12
1995	81.48
1996	64.32

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1997 54.51

1998 58.55

1999 50.25

2000 51.14

2001 44.92

2002 35.59

2003 37.75

2004 31.53

2005 15.82

2006 4.16

2007 4.60

2008 4.08

2009 5.75

2010 4.50

2011 4.56

2012 4.15

2013 4.32

2014 4.50

2015 5.97

2016 7.75

2017 10.92

2018 12.20

Source: World Bank, International Debt Statistics cited in IndexMundi(2020).

Appendix C

Table 1: Gross Public Debt (% of GDP) of Sub-Sahara African Countries

	Gross Public Debt (% of GDP)	
	2016	2017
Sudan	67.4	163.2
South Sudan	65.2	65.24
Mozambique	43.3	103.2

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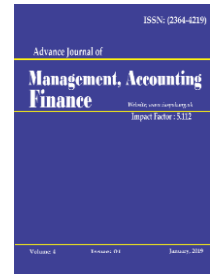
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Cabo Verde	72.4	124.6
Congo	53.4	98.5
Zambia	18.9	62.7
The Gambia	40.7	83.2
Gabon	21.3	58.2
Senegal	28.3	64.4
Malawi	29.6	61.3
Central African Republic	21.4	52.9
Angola	37.2	68.5
Equatorial Guinea	7.9	38.0
Togo	46.3	75.6
Niger	20.7	49.0
Benin	28.7	54.4
Namibia	16.0	41.5
Ghana	34.6	59.6
Chad	30.1	52.4
Cameroon	14.7	36.9
Eswatini	13.8	34.9
Nigeria	9.6	28.4
Ethiopia	40.5	59.0
South Africa	34.7	53.0
Mauritania	58.5	76.8
Uganda	22.4	39.7
Rwanda	19.3	36.5
Liberia	21.8	34.1
Sierra Leone	46.8	57.6
Kenya	44.4	54.8
Mali	25.3	35.4
Tanzania	27.3	36.
Sao Tome and Principe	79.5	88.6
Mauritius	57.1	65.2
Burkina Faso	31.2	38.4 7.
Lesotho	31.8	39.0
Madagascar	34.7	40.

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Burundi	46.9	51.7
Zimbabwe	49.6	52.9
Botswana	20.4	12.9
Cote d'Ivoire	63.0	49.8
Guinea-Bissau	68.3	53.9
DRC	31.9	15.
Seychelles	82.2	63.6
Comoros	50.7	31.8
Guinea	68.8	40.

Source: World Bank and IMF data as computed by Devarajan, Gill. and Karakulah(2019)