# FOREIGN DEBT AND NIGERIA’S ECONOMIC DEVELOPMENT, 2015 – 2024

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## ABSTRACT

The current study investigates the linkage between foreign debt and Nigeria's economic development during the last ten years between 2015 and 2024 when the country has been borrowing heavily from the external sector, experiencing a number of recessions and continuing to suffer from social underdevelopment. The Federal Government external debts of Nigeria have increased from the level of about $10.72 billion in 2015 to over $42 billion by 2024, without the commensurate improvement in growth, employment, poverty reduction, and human development. The study is ex-post-facto research design and uses secondary data from the Debt Management Office (DMO), the World Bank, the United Nations Development Programme (UNDP) and the International Monetary Fund (IMF) as well as the National Bureau of Statistics (NBS) and is anchored in the Debt Overhang Theory (Krugman, 1988; Sachs, 1989) as the main framework with dependency theory as a supporting theory. Data analysis was done through descriptive and content analysis. The analysis shows that debt-service payments, which increased from 37.49 percent of federal revenue in 2015 to a projected 105 percent by 2024, have a steady negative impact on capital spending and investment in the social sector, especially health and education, thereby directly restricting human development outcomes. In Nigeria, the Human Development Index rose by just 0.023 and the country's rank in the global index dropped by 11 places from 152nd in 2000 to 163rd in 2010. Unemployment reached its highest level in 2020 at 33.3 percent and poverty has stayed above 40 percent of the population. The study finds that Nigeria's foreign debt was a fiscal burden and not a development catalyst during the study period, thus confirming the actions of a debt dependence cycle, which is influenced by the failure of good governance, revenue performance and institutional capacity. The study suggests three possible remedies that can break this cycle: an expansion of domestic revenue, a shift towards concessional borrowing in the portfolios, and the legislated minimum budget allocations for health and education.

The focus of this paper is on the foreign debts of Nigeria, which constitute a substantial proportion of external debts, and the Nigerian external debt, in comparison to the economic development of the country, the nature of debt overhang, the Human Development Index, the debt sustainability, fiscal crowding-out, dependency theory and debt-service ratio.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Study

Foreign debt is an important part of Nigeria's economic structure particularly in the last decade. Nigeria increased its external borrowing significantly from 2015 to 2024 as a result of the necessity of funding infrastructure development, fiscal deficit correction, and stabilizing the economy amidst declining oil prices and global economic uncertainties.

It can be seen from government revenue and other macro economic realities that foreign borrowing is not necessarily a development promoter, it must be managed, sustainable and the money borrowed must be spent efficiently to generate development value (Kolawole, 2024; Oyadeyi et al., 2024).

The Nigerian situation then raises an important question regarding whether the increase in foreign debts from year 2015 to 2024 has led to economic development or brought on further economic pressures and reduced government spending on development projects. The global uncertainties, exchange rate depreciation and high external financing costs are all propping down Nigeria's near-term risks as per the IMF (2024), and each of these could contribute to vulnerabilities in the debt market. Likewise, the World Bank (2024) noted that fiscal and debt sustainability concerns have not been addressed, and this diminishes Nigeria's ability to fund development.

The problem of foreign debt is not just about economic figures from Political Science and International Relations point of view. It addresses issues of governance quality, state sovereignty, dependence on policy on international creditors and the general developmental consequences of continued state borrowing. It is important to grasp how Nigeria deals with these dynamics if Nigeria's developmental trajectory is to be understood.

The time frame is significant in itself as it shows Nigeria at a number of important turning points. Within a decade, it had seen two recessions, the first one brought about by the oil price slump from 2014 to 2016, and the second due to the COVID-19 pandemic in 2020, prompting the government to seek outside support from the World Bank, the IMF, the African Development Bank, China's Exim Bank and the Eurobond market to fill the growing financing gaps. Domestic revenue mobilization has been quite low as a percentage of GDP, with Nigeria's tax-to-GDP ratio standing among the lowest in the world, thus highlighting the overreliance on borrowed funds to meet development financing requirements. The naira has, concurrently, been devaluated many times and recently, the exchange rate windows were unified, which has significantly worsened the burden of the naira in servicing dollar- and other foreign-currency-denominated obligations.

This borrowing trend has not taken place in absence of theoretical discourse. There is a long tradition of dependency theory, which has long held that dependence on external funding from creditor countries or multilateral institutions can be a significant driver of structural dependency, limit policy autonomy, and direct development towards the agenda of the outsider. “Applicants of the debt-led growth model, however, argue that, if the borrowed funds are used for productive investment – power generation, transport corridors, agriculture, or human capital – they can crowd-in growth and may eventually pay for themselves by increasing output and income.” The debt-overhang hypothesis provides a warning between these extremes, such that, once reached, debt-servicing demands start to reduce investment in human and physical capital and growth rather than stimulate it. Nigeria's path to 2024 through the year 2015 is an apt occasion to put these opposing theoretical positions to a test.

Against this backdrop, this study investigates the foreign debt and the economic development of Nigeria in the period 2015-2024. Specifically, the study questions the composition and development of Nigeria's external debt portfolio, projects and sectors financed from external borrowing, the trend of debt-service-to-revenue ratios, and how the external borrowing dynamics have resulted in measurable development outcomes, including expansion of infrastructure, GDP growth, job creation and improvements in human welfare indicators. The study also takes into account the governance aspect of Debt Management which entails transparency in the contracting of loans, the presence of a Debt Management Office, and how much debt Nigeria's policy decisions are driven by external creditors in as far as they are conditional or free.

This study is significant because it plays a role in the continuing national and continental discourse. Nigeria's debt situation has been discussed in the context of other African countries experiencing debt distress, such as Ghana, Zambia, Kenya, and others, which has led to calls for debt restructuring, debt-for-climate swaps, and the reform of the international sovereign debt architecture. The study centres on Nigeria and provides an in-depth and country-specific record that can contribute to the fiscal policy of the country as well as to the general debates in the field of Political Science and International Relations on the subjects of debt, dependency and development in the Global South.

The theoretical and empirical literature on the relationship between foreign debt and economic development is reviewed, then the methodology, data sources, and analytical framework of the study are discussed. The findings of the study on Nigeria's debt trajectory and the associated implication for economic development (2015-2024) are discussed thereafter while conclusions and policy suggestions are made in the last section.

### 1.2 Statement of the Problem

Foreign debt is thought to be a good catalyst for national development especially in countries where national revenues are unable to meet the requirements of national infrastructure, industrial development, social services and overall development of the economy. However, in Nigeria, it is noted that the foreign borrowings in the country over the years have not been commensurate with the development outcomes, and thus the outcomes have not been satisfactory. Nevertheless, with constant borrowing to fund national budgets, stabilize the economy, and fund development projects, the country continues to experience severe setbacks including poor infrastructure, high unemployment, poverty, low level of industrial productivity, poor social services and unstable macroeconomic conditions. This has led to concerns over the actual role foreign debt is playing in the economic development of Nigeria or whether it is gradually becoming a burden that stifles economic growth and fiscal capacity of Nigeria. The problem of the study, then, is the seeming anomaly of growing foreign debts in Nigeria against the sluggish rate of economic advancement in the country. Even though it is said that external loans are needed for development, there is a growing worry that borrowed funds are not used efficiently, invested or used to bring about a general improvement in the economy. At the same time, escalating foreign debt payments may be cutting spending on other public goods and services, such as education and health care, agriculture, transportation, power generation, and job creation. This creates a scenario where development that could have been achieved through debt, may instead cause further economic strain, with a government unable to keep up with the demands of the population.

The topic of external borrowing and development effects in developing countries have been studied by a few scholars. Edo (2002) for example discovered that external debt has a negative impact on investment and growth in Nigeria. It is also concluded that debt accumulation causes a reduction in productive spending of public funds by the public sector by debt crowding out, as reported by Okonkwo and Egbunike (2015). Recent studies by Kolawole (2024) and Oyadeyi et al. (2024) found that governance quality and institutional capacity are crucial in determining the impact of borrowed funds. The studies conducted, however, do not adequately incorporate the political economy aspects of Nigeria's borrowing practice that makes it difficult to appreciate the economic development implications of the borrowing trend in Nigeria during the period of 2015-2024. This study is filling the gap to give a focused and decade specific analysis of the relationship between foreign debt and economic development in Nigeria for the period 2015 – 2024. Hence, the relationship between foreign debt and the economic development of Nigeria during 2015-2024 was analysed in this study. The analysis is intended to answer the question: did the foreign debt rising during this period contribute positively to the development process or did it create more of a fiscal burden than it did to economic growth?

## 1.3 Research Questions

1. What is the relationship between foreign debt and Nigeria's economic development during the period 2015-2024?
2. How has foreign debt impacted Nigeria's Human Development Indices?

## 1.4 Objectives of the Study

The main objective of this study is to examine the effect of foreign debt on Nigeria's economic development from 2015 to 2024.

1. To analyze the relationship between foreign debt accumulation and Nigeria's overall economic development from 2015-2024
2. To evaluate the impact of foreign debt on Nigeria's Human Development Indices (such as unemployment, poverty and infrastructure in Nigeria) from 2015-2024

## 1.5 Significance of the Study

The study will be significant to students and researchers in the fields of Political Science, International Relations, Economics, Public Administration and related fields. It will provide a benchmark for future studies on foreign debt, development policy, state capacity and the political economy of Nigeria. The study can also help the population, civil society and development actors understand the long-term connections between debt accumulation and national development outcomes. Generally, the study would be useful because it would provide a better insight into the role of foreign debt in the economic development of Nigeria during the period of study (2015-2024).

The study will also be of great significance for various aspects. Ideally, the work will help contribute to the existing literature on the topic of public finance, debt management and economic development in Nigeria by providing a specific analysis of the relationship between foreign debt and country development process in 2015 – 2024. The study will positively contribute to the field of academic knowledge related to the issue of external borrowing as a tool of development and/or a growing burden of the economy in the period under examination, especially considering its centrality in the national policy discourse.

This study will also be beneficial to the policymakers, economic planners and debt management agencies in the government as it will give them some idea of the impact of foreign borrowing on the national development. The results of the study will help the relevant institutions to obtain a better understanding of the developmental consequences of increasing external debt and can be incorporated to improve the decision-making process about the borrowings, the use of debt, fiscal planning and strategy on long-term development. In this regard, the study will provide a suitable template for the stakeholders in the enactment of policies on debt sustainability and economic management in Nigeria.

### 1.6 Scope of the Study

The study will be focused on foreign debt and Nigeria economic development 2015-2024. The scope is structured in the following manner:

Geographical limits: The study is geographically limited to Nigeria; it is not presumed that it covers other countries unless necessary for elucidation or comparative studies.

Physical Scope: The study is restricted to analysis of the profile of external borrowing in Nigeria and its relationship with the economic growth of the country for the years of study. The selection period is justified by the fact that it covers the Nigerian debt debt, the current economic recession, the exchange-rate pressures, the surge in public borrowing and the resurgence of the debate on the sustainability of the debt in Nigeria during the last ten years.

Content Scope: On content, the study particularly examines the trend of foreign debts in Nigeria, the link between foreign debt and economic development and the extent to which foreign debt has affected economic development in Nigeria. The subject "economic development" is being discussed in relation to the general development of the country, economic growth, development of national welfare, infrastructure and productive potential. The study also only considers external or external debt and excludes the consideration of domestic debt except when it is relevant to put the overall debt situation of Nigeria in context.

**1.7 Limitations of the study**

This study has its limitations, including the following:

Like any study, this one had limitations that could potentially impact the results and scope of the study. There were minor variations between data from different sources even though there was available information available, and this information may be found in government publications, in international financial institutions and in other written sources, due to different definitions of the data, different methods of measurement, different time periods for data availability, and differences in the time at which the data is published.

A second weakness of the study was that economic development is a complex issue and no single indicator could be used to cover all aspects. Development is multi-dimensional (income, infrastructure, employment, welfare and social services) and so it was not possible to investigate all aspects within one investigation. For this reason the study focused on some of the aspects related to economic development which were most relevant to the specific purpose of the study.

Time constraint and financial constraints may also have limited the study particularly in accessing some materials, reports as well as empirical works on the topic. Further, the study covered the period of 2015-2024, and there are some very recent events with regards to foreign debt, Nigeria's economy which may not yet have been captured in the literature and the official records. In spite of these drawbacks, the study used legitimate data and appropriate materials to help make its results valid and fruitful.

To overcome these problems, the researcher used triangulation method of data collection where data were obtained from multiple credible sources such as Debt Management Office (DMO) of Nigeria, World Bank, the International Monetary Fund (IMF) and the Central Bank of Nigeria (CBN) to minimise discrepancies caused by reporting differences. In terms of the multi-dimensionality of economic development, the study used four proxy indicators (gdp growth rate, infrastructure investment, unemployment rate and poverty level) to broaden the development picture. Additionally, secondary data from peer-reviewed journals and official government documents were utilized, which also mitigated time and financial constraints and ensured that the study results are based on credible evidence.

**1.8 Operational definitions of concept terms**

Debt: Debt is any financial indebtedness or liability of the government of Nigeria that must be paid to a creditor (local or foreign) within a certain period of time with or without interest. It includes any borrowing to pay for government spending, to finance budget deficits or to finance development programs.

Foreign Debt: These are loans or funds which are borrowed by the Nigerian government from external lenders including foreign governments, international financial institutions (World Bank, IMF, African Development Bank) and foreign private lenders. Foreign debt is repaid in instalments, with fixed interest rates, and is in foreign currencies. For this study, it is defined as the total amount of external debt of Nigeria during the period 2015-2024 as reported by the Debt Management Office of Nigeria and international creditors.

Economic Development: This implies overall improvement of the economy of Nigeria as demonstrated by an increase in productive capacity, improvement in infrastructure, general economic improvement and an improvement in the welfare of the people, during the period under consideration. Economic development is measured in this study in terms of certain observable indicators such as the GDP growth rate, rate of unemployment, infrastructure investment as a proportion of GDP, poverty headcount ratio, and improvement in delivery of social services. This is a multi indicator strategy to reflect the multidimensionality of development beyond growth.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Conceptual Review

This section discusses the conceptual framework and some of the important terms and constructs that will be used throughout this study. It starts by explaining what is meant by debt, then it looks into foreign debt and its size in the academic and policy literature and then into definition of economic development and its operationalization in the Nigerian context. A solid grasp of these concepts helps to place the theoretical and empirical discussion to come that follows, since definitional ambiguity in the literature can have a profound impact on the interpretation of the external borrowing-development outcome link. The subsections below thus ground the rest of the chapter in the conceptual framework.

### 2.1.1 Concept of Debt

Debt, at its simplest, is a financial liability incurred by a party when an asset, usually money, is borrowed from another party with a positive promise to repay the principal, plus interest, within a stipulated period of time. From the public finance point of view, debt is the total of financial liabilities that a government has outstanding, and uses to cover its budget shortfalls or to pay for investments in national development (Saunders et al., 2016). The total public debt of Nigeria, according to Debt Management Office (DMO, 2025), comprises all borrowings of the federal and state government from domestic and external sources and is one of the key policies and development finance tools of the fiscal policy.

Debt can be classified into two main categories: domestic debt and external (foreign) debt. Domestic debt are the borrowings obtained domestically, primarily from the financial institutions, the central bank and individuals in the country, through the sale of treasury bills, bonds and other government securities. External or foreign debt, on the other hand, is comprised of debts that are acquired from overseas lenders from countries, bodies and institutions other than the borrower's country, such as foreign governments, multilateral institutions, and international commercial lenders (World Bank, 2025). It is important to note that the two kinds of debt imply different policy implications for monetary policy, exchange-rate stability, and fiscal sovereignty.

Typically, public debt is justified because it allows governments to tap into resources greater than what is currently available in the revenue stream, thus allowing for the financing of infrastructure, social services and economic stabilisation programmes that are vital for long-term development. Debt, however, can only be used as a development tool if it is sustainable, meaning that the government can meet its debt repayment obligations without jeopardizing its ability to pay for key spending (IMF, 2024). Excessive debt levels can crowd out productive public investment, reduce fiscal space, and create macroeconomic instability and thus jeopardize the development goals that debt was meant to promote (Krugman, 1988). In the Nigerian context, debt can thus also be seen as a way of financing and also as a fiscal liability; this means that it must be interpreted in the context of the Nigerians' revenue base, institutional capacity and overall development goals.

### 2.1.2 Concept of Foreign Debt

Foreign debt, also called the external debt, is, in most instances, the financial obligation that a country is indebted to its creditors outside of the country's borders. According to the World Bank (2025), the external debt is the amount of the current liabilities that are outstanding, that is, the actual current liabilities with the non-residents and involve the payment of the principal and/or interest in the future. Likewise, in policy terms, the Debt Management Office (DMO, 2025) view external debt as part of the Nigerian government and external creditors (multilateral, bilateral and commercial) external to Nigeria. This takes into account the fact that foreign debt is not merely borrowing but a financial commitment, which is planned and which creates an obligation to pay back in a foreign currency in the future. This renders the external debt very sensitive to changes in exchange-rates, export earnings, and external financing conditions in developing countries (IMF, 2024).

Developmental debts are the most common type of foreign debts. Governments use external borrowing to finance capital formation, to maintain the economy, if there is a shock, to finance fiscal deficit, and to cover the lack of domestic savings. The African economies have a huge financing gap for development, particularly in transportation, energy, social services and productive processes, and they rely on borrowing to meet those needs, according to the African Development Bank (AfDB, 2024). Likewise, OECD (2023) says that infrastructure investment in developing countries is often funded through debt, due to the fact that fiscal resources in the country may be insufficient to finance the growing infrastructure needs. It implies that foreign debt is not always a bad thing, but rather, its value is determined by whether it is obtained under sustainable conditions and applied to productive and growth-related purposes instead of being used to consume the same or spend the money unwisely (UNCTAD, 2024a).

The concept of foreign debt in Nigeria has been more pronounced because of its frequent fiscal deficit, the small size of the revenue base, the pressure of exchange rates and development needs in Nigeria. It can be seen from the Debt Management Office (2025) that the debt stock of the Nigeria has significantly risen over the past decade and the World Bank (2024) posited that the issue is not just the size of the debts, but how the debt interacts with the little public revenues and the little fiscal space available to finance developmental expenditure. The effect of the depreciation of the exchange rate, alongside the higher cost of external financing has also affected the debt profile of Nigeria, which has contributed to the higher burden of foreign-currency obligations, according to the IMF (2024). From that perspective, foreign debt in Nigeria can also be considered a policy issue because, if not properly managed, it can support development in one way, while undermining fiscal stability in another (Esu, 2024).

### 2.1.3 Concept of Economic Development

Economic growth is more expansive than economic development. Economic development is a step beyond economic growth as it includes structural change, poverty reduction, increase in standards of living, access to health and education, employment and productive power. According to the United Nations Development Programme (UNDP, 2024) development based on human development framework and advocates to focus on growing the capabilities, opportunities, and well-being of people rather than only income. The World Bank (2024) also has indicators associated with development in the aspects of public services provision, fiscal capacity, infrastructure, and welfare outcomes. This general knowledge is significant to the current research since the growth of an economy may not result in any significance of development in a country that records growth without any productive change and welfare betterment.

In the case of Nigeria, the economic development must be viewed in the light of the persistent issues such as poverty, unemployment, inadequate infrastructure, inflation, poor industrial performance and unequal distribution of access to basic needs. According to the AfDB (2024), the size of the Nigerian economy is still constrained by structural factors that do not allow the inclusive development. World Bank (2022), likewise, in the Nigeria Development Update highlighted that without universal welfare gains, growth is not going to solve the underlying development crisis of the nation. In this kind of study, this means that it is important to not only consider gross domestic product in relation to economic development. It should indicate the trend of the economy in becoming more productive, inclusive and better equipped to respond to citizens’ social and material needs in the long run (UNDP, 2024).

Development is multi-dimensional; thus, multiple indicators are used to measure development. Some use gross domestic product or per capita income as a proxy measure, others are more inclined to rely on the Human Development Index, provision of infrastructure, employment, social expenditure, or the results of poverty measures. UNDP (2024) explains Human Development Index as a complex indicator of health, education and living standards attainment. This comes in handy since it appreciates the fact that development cannot be measured using fiscal aggregates only. Recent Nigerian studies have also been similar. John and Stephen (2023) studied external debt and economic development in terms of development-oriented indicators instead of growth only, whereas Osadume and Imide (2022) connected debt management to the infrastructural development in Nigeria. Therefore, economic development in this example of a study is taken as a general improvement of the overall economic and social condition of the country, despite the fact that there are measurable indicators that are selected as the object of analysis.

### 2.1.4 Foreign debt and economic development nexus

This theory and empirical relationship between foreign debt and economic development is mixed. On the other hand, external borrowing could positively affect development if it helps to complement domestic savings, sort out development projects, help to cushion the economy in times of crisis, and promote long-term investments in productive activities. Conversely, too much or uncontrolled debt may clog development expenditure, augment the debt services, aggravate the external vulnerability, and limit future policy maneuverability. The UNCTAD (2024b) cautions on the high debt costs in developing countries which is depleting the necessary resources consumed by development priorities of the states. On the same note, OECD (2023) says that increasing debt-service requirements may consume domestic investment in sustainable development. It is not the question of whether or not a country is a borrower, then, but whether or not the borrowing is sustainable, well and competently deployed and it is also development oriented.

This nexus is more relevant to Nigeria because the external debts have grown but there have been no corresponding gains in infrastructure, welfare, productivity and provision of public services. The low level of revenue performance and the high debt-service pressures are factors that reduce the fiscal space available to spend on development in Nigeria by World Bank (2024). The IMF (2024) also notes that exchange rate depreciation and external financing have led to the growing debt related vulnerabilities. This issue is supported by the empirical research. Kolawole (2024) discovered that external debt impacted Nigeria growth performance both in the short-run and in the long-run negatively, whereas Oyadeyi et al. (2024) found out that debt can only facilitate growth up to some levels after which it becomes detrimental. Likewise Sadibo and Daudu (2024) suggested that foreign debt might be a hindrance to development, when there is no effective utilization and productive outcome of the debt. The findings of these researches can reveal that the foreign debt – development relationship in Nigeria is not automatic but conditional.

Debt sustainability is another concept that is significant in this nexus. Debt sustainability is the ability of the country to service its current and future debt obligations with normal financing – without incurring new debt arrears and limiting growth and development. Both IMF (2024) and World Bank (2024) emphasize that the ability to be sustainable does not only lie on the size of debt, but also on the strength of revenue, export levels, financing terms, and macroeconomic stability. In Nigeria, as well as elsewhere in the world, it is not just a question of debt-to-GDP ratios anymore, it's a question of debt-service-to-revenue strain. As noticed by AfDB (2024), though Nigeria had a moderate debt-to-GDP ratio according to some international standards, debt-service-to-revenue ratio was also high, and thus development financing is more challenging. The current study is particularly concerned with the given conceptual problem because foreign debt can be of importance in economic development only if the debt profile is sustainable and the borrowed money is invested in those sectors which constitute the productive base of the economy.

## 2.2 Thematic Review

### 2.2.1 Relationship between Foreign Debt and Nigeria's Economic Development

The second theme is on the relationship between foreign debt and the Nigeria's economic development. Foreign debt can also be used to support the development theory by providing financial resources for the governments to invest in capital projects, and also serve as an economic stabiliser in the event of a fiscal crisis (World Bank, 2024). This optimistic position presupposes that the borrowed money will be spent in the productive areas and the amount of the interest, which will yield the outcomes of the investments, will be adequate in order to enhance the growth, welfare and payment abilities (IMF, 2024). Both the World Bank and IMF admit that borrowing may be a valid action in financing development, particularly in nations that have high infrastructure and social expenditure burdens which cannot be paid off by local revenues solely (World Bank, 2024; IMF, 2024).

The experience in Nigeria, however, shows that there is no direct link between the two (World Bank, 2024). A 2024 review of Nigeria as conducted by World Bank highlighted that an increase in the debt-service obligations has decreased fiscal room to invest and spend on social expenditure (World Bank, 2024). This means that while foreign debt may provide temporary financing assistance, it may be detrimental to development performance if repayment commitments are at high proportions of the public funds. Likewise, UNCTAD (2024) warned that debt in developing countries is becoming more expensive, decreasing the amount of resources available for the government to spend on health, education, infrastructure and social protection. For Nigeria, it means that foreign debt, when managed correctly, can be a development enabler, but when used as a funding source, can be an impairment. (UNCTAD, 2024; World Bank, 2024)

According to Oyadeyi et al. (2024) the nature of the relationship between debt and growth is nonlinear as opposed to the uniformly positive relationship, showing that the relationship between debt and growth is nonlinear. Moreover, Kolawole (2024) reported that Nigeria's growth in both short and long-run was adversely affected by external debt. In comparison, Akinola et al. (2024) found evidence of a long-run relationship between foreign direct investment, external debt and economic growth in Nigeria with external debt, on their part, having a positive relationship with economic growth in their model, though the overall evidence in Nigeria was observed to be mixed. The studies suggest that debt dependency and development are related to the debt level, quality of institutions, debt level and productivity of debt-financed spending.

The general theme that emerges from literature is that foreign debt is related to economic development in Nigeria but the nature of the relationship is dependent on the circumstances. In the right hands and under certain conditions, external borrowing can be beneficial to development if it is used for productive activities, if it is used to stabilise the macroeconomy and if the amount of borrowing is sustainable (World Bank, 2024). But the reverse is true when there is a poor rate of borrowing, a rise in the debt servicing costs, and a deterioration of good governance to promote positive development impact of debt (UNCTAD, 2024; World Bank, 2024). This is because the current research does not preconceive the positive or negative of foreign debt, but is targeted at the Nigerian context in 2015-2024 in its political and economic landscape (IMF, 2024; World Bank, 2024).

The effects of foreign debts on Nigeria's human development indices is a subject to be considered. Foreign debt and its impact on Nigeria's human development indices is a subject to be considered.

The second research question is how has foreign debt affected the Human Development Indices (HDI) of Nigeria. The Human Development Index (HDI), created by the United Nations Development Programme (UNDP), is a composite indicator that integrates a nation's achievement on three areas of human development: health (life expectancy), education (mean and expected years of schooling), and standard of living (gross national income per capita). In this regard, the HDI is a more comprehensive measure of the developmental impacts of foreign loans than just statistic on economic growth (UNDP, 2024). Nigeria continues to lag in the 2023/2024 Human Development Report, with its HDI placing it 163rd among 193 countries, and this is due to the fact that the deep structural problems in health, education, and living standards, which have been identified in Nigeria, have remained despite decades of borrowing and public expenditure (UNDP, 2024).

Foreign debt and human development outcomes are mostly indirect through fiscal space. A large share of public funds used for the debt-service burden also reduces the funds that can be allocated to health and education investment and social protection. The World Bank (2024) reported that Nigeria's debt-service-to-revenue ratio has increased, reducing the government's ability to allocate resources to social sectors to provide quality services needed for human development. UNCTAD (2024) also noted that debt-service pressures in developing countries are increasingly crowding out investments in the sectors that drive HDI progress—such as health, education and basic infrastructure. In Nigeria and elsewhere, this is especially true because non-oil revenue is structurally weak and debt servicing has in some years, absorbed more than half of federally collected revenue (DMO, 2025; IMF, 2024).

The empirical studies lend support to the idea that the debt-human development relation is primary negative when the governance and fiscal management are poor. On the other hand, Manasseh et al. (2022) reported that external debt volatility had negative impacts on development outcomes in Sub-Saharan Africa (SSA), while governance quality played a significant moderating role. In Nigeria, AfDB (2024) noted that although the external borrowing has been significant during the 2015-2024 period, human development indicators such as secondary school enrolment, child mortality and PHE have only made slight gains, indicating that the borrowed money has not been optimally deployed in sectors that directly affect human development. Kolawole (2024) also found that external debt was an impediment to the productive capacity of the Nigerian economy in the long-run and thereby a constraint on the government in funding priority programmes in human development.

The literature therefore reveals that foreign debt has only indirectly and to a limited extent affected the Nigeria's Human Development Indices over the period of study. External borrowing, although it has short-term eased the fiscal burden and contributed to some infrastructure and social initiatives, has had limited impact on components of the HDI due to the burden of debt service, the lack of focus on the allocation of borrowing to human development sectors and the structural constraints on poverty, inequality and weak institutional capacity. This relationship does not necessarily exist in the period 2015-2024 and this is a key focus of the current study in examining the trends in HDIs, external debt and debt-servicing data in the following chapters.

## 2.3 Theoretical Review

### 2.3.1 Dual Gap Theory

Chenery and Strout (1966) introduced the Dual Gap Theory (also known as Two-Gap Model) to explain the requirement for the foreign capital in order to achieve the development objectives in the developing countries. According to the theory, the developing economies are likely to face two major gaps, namely, the savings gap and the foreign exchange gap. The savings gap refers to the difference between domestic savings and investment to achieve growth and foreign exchange gap refers to difference between export earning and import to industrialise and develop. In such circumstances, the foreign capital, such as external borrowing is perceived as an essential complement to local resources.

From the perspective of the Dual Gap Theory, foreign borrowing is beneficial to the economic development process provided that it contributes to the financing gaps and in productive activities. In an opinion like this, the external debt would be warranted, and if the debt is used to pay for infrastructure, import, capital goods, to pay for some help in sustaining industrial growth, and to help transform the economy at a faster pace than the domestic resources would allow, then the debt would be justified. The theory thus has one of the original and strongest arguments on foreign borrowing in the developing countries.

The theory can be applied to Nigeria since a major argument that has been put forward on consistent borrowing of money is that the nation experiences major infrastructure shortages, lacks fiscal capability and domestic savings necessary to meet development demands. In fact, Nigeria has often resorted to borrowing from outside the country to finance large-scale projects and even fiscal adjustment, after it could not satisfy its own expectations for the end of internally generated revenue. This is in line with the main argument of the Dual Gap Theory that views external finance as a development-enhancing tool in instances where domestic constraints are binding.

The theory, however, is cased in an important respect. It presupposes that the foreign capital is going to be put into productive use and the borrowing will be converted to productive investment and increased future output. As critics point out, this is not always the case in reality, especially when the capacity of the government to govern is weak, projects are not well managed, and debt obligations grow at a faster rate than productive uses of the funds borrowed. That is why in Nigeria for instance, the Dual Gap Theory has been able to validate adoption of external borrowing even though it cannot be said to validate borrowing and high performance in development.

### 2.3.2 Dependency Theory

The Dependency Theory began to take shape in the late 1950s and 1960s, particularly via the writings of Raul Prebisch and the United Nations Economic Commission for Latin America (ECLA), and was extended by Andre Gunder Frank (1967), Cardoso and Faletto (1979), and Wallerstein (1974). The theory suggests that the global economic system is designed in such a way to sustain the underdevelopment of peripheral countries which are largely the developing countries in the Global South, through their subordinate role in the world economy dominated by core industrial countries. Under this framework, developing countries continue to be economically dominated by the more powerful countries and international financial institutions, which set the terms of trade, credit and financing for development in a manner that is in their own interests.

The central-periphery dynamic is the fundamental concept of Dependency Theory. Core nations increase their wealth and technical capability, while peripheral countries are restricted to selling raw products, and relying on outside sources for capital and technology. The conditions under which foreign loans and aid are granted, the influence of international creditors on the policies of the debtor countries, and unequal terms of trade all serve to preserve this structural imbalance. This is the “development of underdevelopment”, as described by Frank (1967): the integration of developing countries into the global capitalist system is an active process which undermines their ability to develop autonomously. In this context, external debt turns out not just to be an economic phenomenon but a very structural one that reproduces and deepens dependency.

There are significant implications of Dependency Theory for the Nigerian context. Nigeria's continued dependence on external borrowings from multilateral institutions like the World Bank, the International Monetary Fund, and the African Development Bank, to bilateral creditors and commercial lenders puts the country in structural imbalance. Many of the conditionality clauses imposed on these loans such as fiscal adjustment, deregulation, subsidy elimination, and exchange-rate reforms have frequently limited Nigeria's policy space and forced the government to implement policies that are determined by the outside world but not necessarily linked to its own development needs. This fits the dependency view which views foreign borrowing as a way in which the economic policies of peripheral states are influenced by external actors.

**Theory Adopted for the Study**

Among the reviewed theories, the Debt Overhang Theory is the main theoretical framework for this study, with the Dependency Theory used as a complementary analytical approach. The Debt Overhang Theory, which is presented in detail in chapter Three as part of the theoretical framework, provides the most direct explanation on how high levels of foreign debt can limit investment, fiscal space and ultimately, economic development. The Debt Overhang Theory forms a good background for evaluating how a rise in external debt may turn into a liability for development of Nigeria in the period 2015-2024.

The Dependency Theory adds this by placing Nigeria's borrowing in the context of the structural process of core-periphery relations and policy conditionality. The two theories, when brought together, make it possible for the study to take a look at foreign debt not just as a financial burden which reduces investment, as the Debt Overhang Theory does, but as a structural instrument of dependence that moulds the policy environment and restricts the developmental autonomy of Nigeria. While the Dual Gap Theory can be used to explain why Nigeria borrows, the Debt Overhang and Dependency Theories together can help explain why this borrowing has not been translated into significant economic development in Nigeria.

## 2.4 Empirical Review

Abdulkarim Yusuf, Saidatulakmal Mohd and David McMillan (2021) conducted a research on the effect of Government Debt on Economic Growth in Nigeria. The study was conducted in

Nigeria and included 39 annual observations from 1980 to 2018. The research design used in this study is ex post facto type of time series research, while the data used are secondary data collected from macroeconomic data sources. They used the technique of analysis of data called Autoregressive Distributed Lag (ARDL). The result revealed that negative effect of external debt on long-run economic growth exist in Nigeria although positive effect of external debt on short-run economic growth exist. The researchers also discovered that domestic debt favored the growth through the long-run whereas debt-service payments lowered the growth in the long-run as well as short-term. This research is very much applicable to the current research in the sense that it isolates the external debt, domestic debt and debt service. It has however, its major limitation in its focus on the concept of economic growth without taking into consideration the broader concept of economic development as examined in the present study.

Richard C. Osadume and Ilemobayo O. Imide (2022) did a comparative study on External Debt Management and Infrastructural Developments: Perspectives on Nigeria's Economy. The research was conducted on Nigeria in comparing the relationship between debt and infrastructure between military and civilian governments. A comparative ex post facto research design was used, and secondary data was collected, using documentary and macroeconomic data. The research was done by comparing and correlating data, which is in the form of empirical analysis. The researchers established that there is a strong relationship between external debt and infrastructural development and the relationship was more evident in the civilian regime than the military regime. The study is significant as it directly relates debt to infrastructure which is one of the feasible measures of development. The periodization, however, is more general than this research, and it is not so much restricted to the scope of this research, 2015–2024.

Chinonye Emmanuel Onwuka (2022) studied the External Debt Burden and Infrastructural Development Nexus in Nigeria: An ARDL Approach (1981–2020). The period of the study was 1981-2020, or 40 annual observations. It took an ex post facto, time-series design, secondary data and interpreted the data using ARDL and Granger causality methods. The research question asked was does external debt burden hinder or help infrastructural development in Nigeria? The results revealed that there is a significant relationship between the debt burden and the relationship between infrastructure, with the rise in debt and the need to service this debt needing policy caution under conditions of low fiscal efficiency. This research can be applied to the current research as it takes the focus out of the GDP and puts it on the infrastructural achievement. However, it is more limited as compared to the current research because it focuses more on infrastructure and not on the bigger notion of economic development.

John Polycarp Ekpe and Jonathan E. Ogbuabor (2023) conducted a research entitled "Foreign Debt, Institutional Quality and Economic Performance in Nigeria: An Experimental Evaluation". This study examined the case of Nigeria and observed the period 1996Q1 to 2019Q1, making up approximately 93 quarterly observations. It utilized ex post facto time-series design, utilized secondary quarterly data and adopted ARDL method to carry out the analysis. The study revealed that foreign debt in the short and long run negatively and insignificantly affected the overall economic performance of Nigeria and the lesser the corruption, the better the performance of the economy in the short run. In addition, the paper has found that debt-performance relationship is influenced by institutional quality. The work is particularly relevant to the current research which is the concept of governance and institutions, which is of great importance in the field of Political Science and International Relations. Its weakness however is that it employed economic performance as opposed to a broader developmental model.

Emmanuel A. Asue and James V. Ikyaator (2023) conducted a research on External Debt Pass-through to Inflation in Nigeria. Their study period was 1981-2020 in Nigeria with 40 observations taken per year. They chose ex post facto macroeconomic time-series design and were based on secondary data. They made use of the Structural Vector Autoregression (SVAR) technique to analyze the data. It was also discovered that the external debt service had a large effect in depreciating the exchange rate and the depreciated exchange rate was one of the factors leading to inflationary pressure. The direct macroeconomic impact was very clear, but the direct effect of external debt on the inflation was negligible. This research can be of use in the current research as it demonstrates that foreign debt can impact development in an indirect manner via inflation and exchange rate instability. It does not however directly address the economic development as the dependent variable.

Kelechi C. Onyenwife, C. I. Ezeanyeji, and C. Ekesiobi (2023) have studied the topic of Public Debt and Economic Growth in Nigeria: A Consideration of New Evidence. The study was carried out on 40 observations of Nigeria for the period 1981 – 2020. It used ex post facto time-series research design, secondary data and the data were analyzed by applying the Generalized Linear Model (GLM). The study found positive relationship between outside debt and non-bank domestic debt with growth in the tradable and non-tradable sectors respectively and negative relationship between the debt servicing and growth. The research is important as it disaggregated the variables of debt and growth by industry, hence providing more detail than most previous reports. However, as in most of the Nigerian debt studies, its focus was on growth as opposed to the general economic development.

O. Kolawole, Bamidele (2024) External Debt and Economic Growth Relationship in Nigeria: A Reconsideration. The article focused on the period 1981-2021 in Nigeria. The ex post facto time series design, secondary data and ARDL approach were applied. The results indicated that external debt had a negative impact on economic growth in both short time and longtime whereas domestic investment and trade openness had positive impacts on economic growth. The researcher arrived at the conclusion that the debt acquired from outside is perilous if the money acquired is not spent productively and if the service fee worsens the fiscal position. This paper is extremely applicable to the current work since it specifically investigates the issue of external debt in Nigeria. However, its most significant drawback is that it was based on economic growth and not economic development.

In a study titled "The Debt-Growth Nexus and Debt Sustainability in Nigeria: Are There Reasons to Be Concerned??" Oluwasegun O. Oyadeyi, Oluwaseun W. Agboola, Samuel O. Okunade, and Tokunbo T. Osinubi (2024) examined the relationship between debt and growth in Nigeria. The research involved Nigeria between the year 1981 and 2021 with 41 observations each year. It followed an ex post facto time-series research design, based on secondary annual data and applied a two-regime threshold ARDL model to achieve this. The results showed that the spread of debt can only be used up to a certain stage and at some point the debt goes against the growth, which is negative and large, thereby causing a debt sustainability problem. The research is one of the best recent articles from Nigeria having reflected the non-linearity of the debt-growth relationship. Nevertheless, it continues to concentrate on growth and sustainability and not the broader measurements of economic development.

Godswill W. Akinola, Adekunle Ohonba (2024) have studied the Effects of External Debt and

Foreign Direct Investment on Economic Growth in Nigeria. This paper focused on Nigeria between 1981 and 2022, and used 42 observations each year. It took a time-series design based on ex post facto, utilized secondary data retrieved through World Bank and Central Bank of Nigeria, applied ARDL bounds tests and Granger causality. The results showed that foreign direct investment was positively affecting GDP and a positive long-term growth relationship was experienced between external debt and GDP. The authors also acknowledged that ‘the overall information regarding Nigeria is ambiguous.’ The usefulness of this study is that it recommends that the impact of the external debt could be conditioned by the presence of other productive capital inflows. However, as it combines debt and FDI, the impact of foreign debt specifically on development is not as distinct as in the present paper.

Godswill Osuma and Ntokozo Patrick Nzimande (2024) discussed “Exploring the Dynamic Link between Trade Openness, External Debt, and Economic Growth in Sub-Saharan Africa: Challenges and Considerations”. A multi-country panel of Sub-Saharan Africa 1990–2023 was covered in the study. The panel ex post facto design was used, secondary cross-country data was utilised and the data was tested with ARDL and PMG estimators. Bigger trade openness and institutions are shown to affect the relationship between debt and growth in Sub-Saharan Africa. The significance of this study is that the debt-growth problem is contextualized in the broader African context. However, it is a limitation of the current study, it is regional and not necessarily Nigeria specific.

Steven A. Mejia has written a study on “The Effects of Debt Dependence on Economic Growth in Less-Developed Countries, 1990–2019”. The article is cross-national involving lower-income countries for over 30 years. It took a type of quantitative panel design, utilized secondary international data, and used cross-national econometric analysis. The results indicated dependency is damaging in the growth of the less-developed countries which contributes to both dependency and debt-overhang arguments. The research is very topical as it changes the focus on the size of the debt to the situation of reliance on the debt. Its limitation to the current study is that it does not target Nigeria specifically and its concerns are more on growth and not the general development.

Jerry Ogutu Sumba, Rogers Ochenge, Paul Mugambi and Collins Muimi Musafiri (2024) wrote a study on Public Debt and Macroeconomic stability among Sub-Saharan African countries: A system GMM test approach. The study encompassed 45 countries in Sub-Saharan Africa from 2005 to 2022. It took the panel ex post facto research design, employed secondary panel data and utilized the two-step system GMM estimator. The authors found that different forms of debt do not have the same effects on inflation and growth, stressing the importance of the fact that the public debt has macroeconomic effects on output performance as well as macroeconomic stability. This work is practical since it is through macroeconomic instability that development would be compromised in significant aspects. The same is not true, however, of the figures used, which are based on aggregate public debt and multi-national country statistics and thus are not applicable to the external debt of Nigeria.

In their study of “External Debt and Economic Growth in Sub-Saharan Africa: Does Governance Matter?” (2022), Charles O. Manasseh and colleagues tested whether corruption affects the relationship between external debt and economic growth in Sub-Saharan Africa. The research was carried out in 30 countries in Sub-Saharan Africa from 1997 to 2020. It was designed as a panel ex post facto and secondary international data were utilized and analyzed by a dynamic system GMM. The researcher found that external debt, debt volatility were negatively associated with growth, but the gains were made possible by better governance. The present research can benefit from this study as it has shown that the impact of debt depends on the governance condition. The firm conviction on its part that it is essential to grasp debt in the political and institutional dimensions of this study.

Mohamed Nouaili (2025) has written a research paper titled: The Non-Linear Relationship between External Debt and Economic Growth in African Economies: The role of financial stability, investment and governance quality. African economies were used in the research, which used multi-country panel design. It was based on secondary panel data on the macroeconomy and involved nonlinear panel threshold analysis. It was revealed that beyond a certain point of approximately 53.49 percent of GDP, external debt becomes growth-reducing whereas good governance, financial stability and quality of investments enhance performance. The study is very relevant in the sense that it aids the nonlinear argument which is seen in researches conducted in Nigeria. However, the threshold that it came up with may not be directly applicable to Nigeria without being subjected to a country-by-country test.

Emmanuel Oluwafemi and Libo Xu (2025) were the researchers behind the study “Public Debt and Economic Growth in Africa: The FDI Effect”. African countries from 1995 to 2019 were analyzed using an annual observation panel. These were panel ex post facto, secondary-data based and panel-data threshold regressions. The results revealed that the debt threshold which was optimal to promote growth was between 22% and 85% of GDP, and foreign direct investment preconditioned the debt-growth relationship. The significance of this work is illustrated as it shows that the outcome of debt is not only a process of lending but also depends on the investment climate. However, it is more extensive than the existing studies and it doesn’t just cover foreign debt.

Okezie Stella Ogechukwu and Ujah Iheanyinchukwu Promise (2025) did a research on the topic of ‘Public Debt and Economic Performance of Nigeria: A VECM Analysis’. The study focused on the observation of Nigeria for 42 years (1981–2022). It took the ex post facto time-series design, secondary data and estimated the data employing Vector Error Correction Model (VECM) and causality tests. The results revealed that public debt is still one of the key determinants of economic performance in Nigeria whether in the short term or the long term. This literature is practical since it is recent and country-specific in Nigeria. It however looks at overall public debt in general, hence it is imperative that the contribution of foreign debt specifically is to be highly distinguished to be compared with the current research.

External Debt and Financial Performance in Nigeria Economic Growth”, by Jimoh Tajudeen Shola and Odukoya Olusoji Olumide (2025) was studied. The Nigerian case was analyzed in 25 yearly observations in the period between 1999 and 2023. It took an ex post facto study, secondary data and triangulated the data in a multiple regression analysis. The results showed that the positive though non-significant effect on growth was exerted by the external debt whereas the effect of financial performance was also positive but not significant. The study will benefit as it will add to the evidence that the effects of external debt in Nigeria is not conclusive. Nevertheless, it appears that it has limited methodological sophistication with respect to the more sophisticated ARDL and threshold designs discussed above.

The empirical literature on foreign debt and development, as shown above, is not conclusive. Many studies discovered that external debt is harmful both at levels of debt-service pressure or at levels of sustainability, as well as at efficiency levels; a few of them discovered that debt can finance growth when it is utilized effectively, underpinned by improved governance, or even augmented by other inflows such as FDI. The other obvious trend, based on the recent research, is that the effect of debt on output is typically non-linear. This renders the current study topical as the paper aims to analyze the particular case of foreign debt and economic development of Nigeria in the period between 2015 and 2024 with a more particular emphasis on the development aspects and not on GDP growth.

## 2.5 Gap in Literature

However, the literature that has been reviewed suggests that there are several studies that have studied the relationship between debt and economic performance in Nigeria and other emerging economies. The existing studies concentrated more on economic development but focused in their studies were on economic growth. The main growth measures observed in much of the literature studied were gross domestic product, output growth, and sectoral growth; other broader aspects of development, such as improvements in welfare, productive capacity, infrastructure, and growth at the national level were less emphasized. This is conceptual because economic growth and economic development are not the same thing and a study focusing on economic growth would not necessarily account for the whole of the developmental impacts of foreign debt.

There's a variability in the literature, too. Many of the papers reviewed concentrated on public debt in general, including one combining external and domestic debt. While these kinds of studies are useful, they have not been detailed enough in the specific impact foreign debt as a specific variable. Foreign debt possesses certain peculiar aspects and characteristics which differentiate its study from ordinary debt study which is confined to internal debt and its relationship with economic development of Nigeria is peculiar enough to warrant a study for purposes of foreign debt. This gap is what the current research aims to address since it will specifically focus on foreign debt as opposed to total public debt.

The other gap that is found in the literature is the period gap. Many of the reviewed studies spanned over a long time 1981–2020, 1981–2021 or 1981–2022. This may not be enough to represent the actual conditions of the more recent timeframe from 2015 to 2024 (the time frame of the present study). The critical period is particularly noteworthy because it spans critical moments in Nigeria, such as the increased external borrowing, the recession, exchange rate volatility, fiscal adjustment post-COVID and debt-service challenges. Therefore, a more specific work which does not treat the past as a part of a broader historical pattern but as a recent past is required.

Another gap exists in methods which can be seen in the literature. Most of the studies reviewed were predominantly based on traditional econometric models which aimed at mainly estimating the statistical linkage, with some exceptions which focused less on the overall policy and development impact of debt. What is more, some articles were dedicated to linear relationships, while more modern works showed that the effect of debt can be nonlinear and that it may be calculated based on sustainability thresholds, features of governance and institutional features. This suggests that while context-sensitive literature is yet to be finished when debt is understood not only as a number-based economic factor but also as a development and policy aspect.

Geographical distance and context is also present in some of the literature. The researches reviewed were at the sub-Saharan Africa level or in a larger number of developing countries. While these studies are helpful in making comparison, the findings should not be unconditionally and directly transferred to Nigeria because every country has a unique debt structure, fiscal situation, governance environment and challenges of development. However, the specific situation of Nigeria including dependence on oil revenues, low-quality of the revenue base, and dependence on the exchange rate require a country-specific research instead of generalisations in the region.

Finally, the present research fills an important void in the field of the study.

# CHAPTER THREE

# METHODOLOGY

## 3.1 Theoretical Framework

### *3.1.1 Debt Overhang Theory*

Debt Overhang Theory was first introduced by Paul Krugman (1988) in his renowned paper "Financing vs. Forgiving a Debt Overhang" in the Journal of Development

Economics. It came in the wake of the debt crisis of the 1980s, when many developing countries became stuck in a debt trap that was characterized by borrowing, stagnation, and lesser output growth—something conventional debt-financing models could not explain. Krugman said that an “overhang” is the case of a country having outstanding external debt stock in excess of the present value of expected future repayments, and therefore imposes a “tax” on the returns to new investment. In such a scenario, prospective investors (both domestic and foreign) are less inclined to invest in the economy since the returns on investment would go to the creditors instead of investors or the domestic economy. This impedes productive investment and exacerbates the country’s debt problem.

Jeffrey Sachs (1989) considerably developed Krugman’s basic model in his essay “The Debt Overhang of Developing Countries”. Sachs showed that debt overhang is not just a disincentive for private investment, but it also reduces the motivation of debtor governments to adjust their fiscal policies and make structural reforms. Under the conditions of over-indebtedness, the benefits from reform that would generate greater fiscal revenues, higher productivity and better development outcomes, are largely pre-committed to creditors, and the debtor government has little rational reason to cover the political costs of adjustment. This insight expanded the theory from a strictly monetary phenomenon to include the political economy of debt-constrained government. Sachs also pointed out that, under some conditions, it might be economically sensible to allow a creditor “to consider debt forgiveness or restructuring as a rational policy in itself, because this may increase the repayment capacity and the improvement of investment and reform.

The most influential empirical validation of the Debt Overhang Theory was carried out by Pattillo, Poirson and Ricci (2002) for the International Monetary Fund (IMF) in the form of a cross-country panel study. They reported that their analysis showed that external debts negatively affect the per capita economic growth in a non-linear manner that can be seen when the external debt is about 35-40 per cent of GDP. External debt in moderate amounts does not hinder growth and can actually assist growth through funding productive investment. Beyond the identified threshold, however, the overhang effect takes over: an increase in debt levels is correlated with a decrease in capital accumulation, a decrease in total factor productivity and a decrease in growth performance. The Debt Overhang Theory has become a more empirically sound theory of the conditions under which foreign borrowing becomes a development constraint thanks to the pioneering work of Pattillo et al.

This implies that the Debt Overhang Theory makes certain assumptions.The Debt Overhang Theory makes some assumptions.

The Debt Overhang Theory rests on a set of fundamental assumptions on how the build-up of debt influences the actions of governments, investors and economic agents in the debtor countries. The most basic tenet of the theory is that, if debt is not within sustainable limits, it becomes a fiscal burden and actively hampers economic incentives.

The theory states that too much debt will place an environment of widespread economic uncertainty that will lead to a reduction of confidence and motivation to engage in productive economic activity because future gains will be seen as being committed to creditors. This belief sets this theory apart from more hopeful theories like the Dual Gap Theory, which sees foreign borrowing as development enhancing as long as there are financing gaps to fill.

Another key tenet of the theory is that high levels of debt retard investment since they serve as an implicit tax on returns. The theory assumes that rational (both private and public) investors expect that any income or output accruing from new investment in a highly-leveraged economy will be absorbed in substantial measure by the debt-service obligation, rather than saved for reinvestment or welfare improvement. Based on this assumption, the presence of a large unresolved debt overhang is a roadblock to capital formation whether the interest rate is high or low, or the terms of existing loan agreements are good or bad. A theory thus posits a direct link between the stock of external debt and the investment rate of the productive economy of the debtor.

Many other assumptions have been made in the extension of the theory, most notably by Sachs (1989) who argued that too much debt makes government less inclined to undertake structural and fiscal reform. The theory assumes that difficult policy reforms, like the mobilization of revenue and the rationalization of subsidies or the strengthening of institutions, benefit external creditors more than the domestic population, leading to a “reform disincentive” for debtor governments operating under an overhang. The theory therefore suggests that a country’s high levels of external debt can further be expected to have a negative impact on state capacity for developmental governance, which has a negative feedback in terms of fiscal stagnation and constrained public sector spending in key sectors of development, including health, education, and infrastructure. These assumptions give the Debt Overhang Theory the nature of a framework that sees excessive borrowing as not only a financial issue, but a structural problem which is based on misaligned incentives at the investor and government levels.

When examining the study, one should apply the Debt Overhang theory. In studying the Debt Overhang theory should be applied to the study.

The Debt Overhang Theory is applicable to the present study as it relates to foreign debt and economic development of Nigeria in the period under study (2015- 2024). According to the Debt Management Office (DMO, 2025), Nigeria’s external debt has continued to increase from about $10.72 billion at the end of 2015 to over $42 billion as of the end of 2024. This sharp rise in external debt on the backdrop of falling oil profits, high fiscal deficits, and shrinking fiscal space is illustrative of the structural conditions that the Debt Overhang Theory identifies as predisposing to investment repression and development stagnation. In the light of Krugman (1988), the rise of external burden has been interpreted as an impression tax on returns to investment in Nigeria’s economy that has led to a steady underperformance of the Nigerian capital formation and productive investment vis-à-vis what the Nigerian resource endowment and market size may have been able to attract.

The fiscal space aspect of the Debt Overhang Theory is especially relevant in the case of Nigeria during the study period. However, the debt-service-to-revenue ratio increased with the IMF (2024) reporting that Nigeria's debt-service-to-revenue ratio was at "dangerously high levels" at some point eating more than half the federally collected revenues, leading to a decline in public revenue available for development spending on infrastructure, social services, and productive investments. This is exactly what the Debt Overhang Theory says will happen when the amount of debt-service obligations becomes too high: it will force the public sector to reduce spending on the most important sectors contributing to human development and long-term economic growth. It is therefore evident that the theory has a good analytical framework that can be used to understand the observed shortcomings in Nigeria's development performance despite the huge increase in foreign debt during the period 2015 to 2024.

The reform disincentive dimension highlighted by Sachs (1989) also is on resonance with Nigeria situation. In the course of Nigeria's negotiations with its external creditors during the study period, fiscal adjustment demands have been made, such as the removal of subsidies, unification of exchange rates and reforms in revenue mobilisation, the political costs of which have often been quoted as obstacles to government policy. The Debt Overhang Theory provides an explanation as to why successive governments have been struggling to carry out and maintain these reforms – in so far as the fiscal benefits of adjustment are highly predetermined in terms of external debt servicing, the domestic political 'incentive' to absorb adjustment costs is reduced. When combined with the Debt Overhang Theory, as was mentioned earlier, the Dependency Theory offers additional insights into the application of the theory in the Nigerian context and helps to illustrate how the conditionalities imposed on Nigeria's foreign borrowing have influenced the country's policy space in ways that are beneficial to the creditors and that limit its developmental autonomy. The two theories together give an analytical framework for this study which is known as Debt Overhang Theory which explains the fiscal and investment mechanisms by which Nigeria's foreign debts have limited economic development and the Dependency Theory which places those mechanisms in the larger structural context of Nigeria's international financial system position.

### 3.2 Hypotheses

On the basis of the research questions formulated in Chapter One, the following hypotheses are formulated for this study:

**H1**: There is a significant relationship between foreign debt and Nigeria's economic development during the period 2015–2024.

**H2**: Foreign debt has played a significant role in influencing Nigeria's Human Development Indices for the time period 2015-2024.

### 3.3 Research Design

This study is an ex post facto research design. The ex post facto design is suitable for studies to explore phenomena and events that have already occurred and for which the researcher has no control over the independent variable and cannot manipulate the conditions of the study (Kerlinger, 1986). The researcher cannot affect the course of foreign debt accumulation or the economic development outcomes of Nigeria during the last 10 years (2015 – 2024); therefore, there is a need to examine what had happened in the past decade. The use of an ex post facto design then enables an orderly and systematic analysis of the correlation between foreign debt and economic development with available data.

The design follows that of most of the empirical studies reviewed in this work which used ex post facto time-series design to investigate related issues of debt and economic performance in Nigeria, including Kolawole (2024), Oyadeyi et al. (2024), Abdulkarim et al. (2021) and Akinola and Ohonba (2024). The consistency with the prior literature lends methodological credibility to the current study and support for placing the results of the current study within the existing knowledge base on the topic.

### 3.4 Method of Data Collection

Only secondary data were used in this study. Secondary data is defined by Saunders, Lewis and Thornhill (2016) as information that is gathered by others for purposes that can be different from the one being used in the present study but can still be relevant and applicable for the study. Secondary data is suitable for the present study, since the phenomena of the study took place from 2015-2024 and the data is available in the official records, institutional publications and academic literature.

Secondary data for this study are obtained from the following institutions and publications: The Debt Management Office (DMO) of Nigeria is the main institutional source of data on Nigeria's external debt stock, debt composition, debt-service payments and creditor categories for the period 2015-2024 (DMO, 2025). Macroeconomic data for Nigeria is available from the International Monetary Fund (IMF) such as GDP growth rates, fiscal deficit data, exchange rate trends, debt vulnerability assessments and Article IV consultation reports (IMF, 2024). World Bank reports data on GDP, poverty headcount ratios, and infrastructure investments as percentage of GDP for Nigeria (World Bank, 2024; World Bank, 2022), and public finance indicators (World Bank, 2024). The NBS comes with domestic statistics, such as quarterly debt reports and unemployment statistics (NBS, 2024a; NBS, 2024b). The Central Bank of Nigeria (CBN) generates and releases monetary and financial data such as exchange rate data, inflation and balance of payments (BOP) data (CBN, 2024). UNDP and UNCTAD have reports on human development and sustainability of debt in developing countries (UNDP, 2024; UNCTAD, 2024). African Development Bank (AfDB) provides regional economic assessments and country specific analysis of the Nigeria's development financing situation (AfDB, 2024). Another secondary source of data are peer-reviewed academic journals and scholarly publications, especially those used in Chapter Two of this work.

### 3.5 Methods of Data Analysis

Data collection for this study are analyzed by descriptive analysis and content analysis. Both the methods are used in a complementary manner to meet the research questions and objectives.

#### 3.5.1 Descriptive Analysis

Descriptive analysis is used to analyse and present the trends of Nigeria's foreign debt and economic development indicators during the period 2015 to 2024. This includes the systematic arrangement, display and interpretation of quantitative data as tables, graphs and descriptive narratives. The variables considered and analyzed using descriptive methods are the total stock of Nigeria's external debt over the period under consideration (2015-2024), as reported by the DMO (2025); GDP growth rates over the period under consideration (2015-2024) as reported by IMF (2024) and also World Bank (2024); unemployment rate and poverty headcount ratio; representational welfare variable; infrastructure investment as percentage of GDP; debt-service-to-revenue ratios, which reflect the debt-service burden as a proportion of public revenue; and the Human Development Index scores as reported by UNDP (2024).

The descriptive approach enables the study to lay a factual foundation for its analytical findings. The description of the foreign debt and the economic development indicators' trajectories allows an informed judgment on whether these two indicators were moving in the same direction or opposite directions during the period of the study.

### 3.5.2 Content Analysis

Qualitative documentary sources such as official reports, policy documents, institutional publications and academic studies are analysed using content analysis. Content analysis is a method in which all the text-based materials are read, interpreted, categorized, and analyzed systematically to identify themes, patterns and meanings that are related to the research questions (Bryman, 2016). Content analysis in this study is used to derive meaningful information from the reports of the following in Chapter Two of this study namely, the DMO, IMF, World Bank, AfDB, UNDP, UNCTAD and academic literature in order to evaluate the impact of foreign debt on Nigeria's economic development in the period of study.

The content analysis is guided by the research questions and the theoretical framework of the Debt Overhang Theory, which focuses analytical consideration on the mechanisms that excessive debt accumulation imposes on investment, the fiscal space, and limit the development outcomes. Specifically, it is the themes that emerge from the documentary analysis that are of interest in the context of the following questions: How can borrowers use their borrowed funds productively? How do obligations for debt-service payments relate to development expenditures? How does exchange-rate volatility affect debt sustainability? How does the relationship between debt and development expenditures get mediated by the quality of governance and institutional quality?

### 3.6 Logical Data Framework (LDF )

The following section summarizes the research questions, hypotheses, analytical techniques, data sources, data collection methods, empirical indicators, and key variables that were used in this study in a structured manner in the Logical Data Framework (LDF). It is the working model of the research design, where coherence and traceability between the theoretical framework and the empirical investigation is ensured.

| Research Question | Hypothesis | Independent Variable (X) | Empirical Indicators of X | Dependent Variable (Y) | Empirical Indicators of Y | Method of Data Collection | Source of Data | Method of Data Analysis |
|---|---|---|---|---|---|---|---|---|
| RQ1: What is the relationship between foreign debt and Nigeria's economic development (2015–2024)? | H01: There is no significant relationship between foreign debt and Nigeria's economic development (2015–2024). | Foreign Debt (External Borrowing) | External debt stock (US$); Debt-service-to-revenue ratio; Annual debt-service payments | Economic Development | GDP growth rate; Infrastructure investment (% of GDP); Unemployment rate; Poverty headcount ratio | Secondary data collection from official databases and published reports | DMO (2025); IMF (2024); World Bank (2024); NBS (2024); CBN (2024) | Descriptive Analysis; Content Analysis |
| RQ2: How has foreign debt | H02: Foreign debt has not significantly | Foreign Debt (External | Total external debt (US$ billion); Debt-service payments | Human | HDI score (UNDP); Health expenditure per capita; | Secondary data collection from internatio | UNDP (2024); World Bank | Descripti |

*Source: Researcher's Compilation, 2025*

# CHAPTER FOUR

## DATA PRESENTATION, ANALYSIS AND INTERPRETATION

### 4.1 Introduction

The chapter has presented, analysed and interpreted the secondary data obtained from Debt Management Office (DMO) of Nigeria, World bank, International Monetary Fund (IMF), Central Bank of Nigeria (CBN), and also the National Bureau of Statistics (NBS) in order to provide answers to the research questions of the study. Specifically, the chapter explores the relationship between foreign debt accumulation and Nigeria's overall economic development in the period of 2015-2024 and the impact of foreign debt on Nigeria's Human Development Indices (unemployment, poverty and infrastructure) in the period of 2015-2024.

The analysis is broken up into four sections. First, an overview of Nigeria's foreign debt profile from 2015 to 2024 is presented, which shows the trends in foreign debt stock, composition of foreign debts and foreign debt-service obligations. Second, the trends in selected economic development indicators (GDP growth rate, unemployment rate, poverty headcount ratio, infrastructure investment) are presented. Thirdly, foreign debt and these development indicators are explored using comparative data analysis. Fourth, the results are presented in light of the literature and theoretical background of the study.

### 4.2 Nigeria's Foreign Debt Profile, 2015–2024

Hypothesis 1 (H1): This hypothesis aims to identify a significant relationship between Nigeria's overall economic development, measured as the GDP growth rate, percentage of GDP invested in infrastructure, unemployment rate, and poverty headcount ratio with accumulation of foreign debt during 2015-2024. The sections that follow provide the relevant trends and an assessment of the nature of this relationship based on a comparative descriptive analysis, informed by the Debt Overhang Theory (DOT) theoretical framework, using data from the Debt

Management Office (DMO), the World Bank, the National Bureau of Statistics (NBS) and the Central Bank of Nigeria (CBN).

### 4.2.1 Overview and Trend of External Debt Accumulation

***Table 4.1: Nigeria's External Debt Profile, 2015–2024***

| Year | FGN External Debt Stock (DMO) | Total External Debt (World Bank) | Debt-to-GDP Ratio (%) | FX Debt as % Total Public Debt |
|---|---|---|---|---|
| 2015 | $10.72bn | $84.20bn | 12.60% | 19.84% |
| 2016 | $11.41bn | $93.63bn | 13.19% | ~20% |
| 2017 | $15.05bn | $110.03bn | 13.50% | 26% |
| 2018 | $22.08bn | $131.74bn | 16.88% | 37.8% |
| 2019 | $27.67bn | $152.31bn | 19.27% | ~38% |
| 2020 | $33.35bn | $87.65bn* | ~21% | ~40% |
| 2021 | $37.90bn | $96.31bn* | ~22% | ~41% |
| 2022 | $41.69bn | $103.10bn* | ~23% | ~42% |

| | | | | |
|---|---|---|---|---|
| 2023 | $43.16bn | $113.40bn† | 38.79%† | ~43% |
| 2024 | $~42.90bn | ~$116bn (est.) | ~39% | ~44% |

Sources: Debt Management Office (DMO) of Nigeria; World Bank International Debt Statistics; Wikipedia Nigeria National Debt; DMO Debt Management Strategy 2020–2023.

Table 4.1 illustrates how the external debt stock of Nigeria has grown continuously over the past decade. The external debt of FGN also grew from $10.72 billion in 2015 to $43.16 billion in 2023, edging closer to the government's target of 40 per cent of GDP. Of particular interest is the clip between 2017 and 2020 when external borrowing has increased significantly as a result of the intentional shift in the country's borrowing policy of the 2016-2019 Medium-Term Debt Management Strategy (MTDS) with the aim of shifting the domestic to external debt ratio from 50:50 to 60:40 respectively.

There was a significant increase in the share of foreign currency-denominated debt from 19.84 per cent of public debt in 2015 to around 37.8 per cent in 2018 and increasing thereafter. This put the nation at risk of increased naira exchange-rate uncertainty, particularly after the successive devaluation of the naira. Emergency borrowing, with funds disbursed by the International Monetary Fund ($3.4 billion) and the World Bank, as well as a decline in revenue, also contributed to the debt-service-to-revenue ratio reaching critical levels in 2020, further exacerbated by the COVID-19 pandemic. In some quarters, by 2023-2024, debt service was already taking about 95-105 per cent of federal government revenue, creating a direct relationship between debt service and development financing.

### 4.2.2 Composition of External Debt by Creditor

Nigeria's external debt structure underwent significant changes during the period of study. Multilateral creditors, mainly the World Bank/IDA, the African Development Bank (AfDB) and EXIM Bank of China, held more than 70 per cent of the portfolio of external debt in 2015. The volume of Eurobonds issued in the international capital market (ICM) increased notably by 2018 and beyond, as Nigeria issued \$1.5 billion in Eurobonds in 2017, \$2.86 billion worth in 2018, \$1.25 billion worth in 2021 and so on. Commercial borrowing also grew as a more significant component of the debt portfolio, which raised the risk of rollovers, while sensitizing costs of debt service to global interest-rate changes.

There were also bilateral loans, such as those by China's EXIM Bank, prominently involved in infrastructure loans, including those involving transport infrastructure such as the Lagos–Ibadan railway, Abuja–Kaduna rail, and others. These were project-specific loans, which could be tied to particular outputs of the infrastructure investments, but had governance issues around transparency, conditions, and the fiscal cost of long-term contractual obligations on repayments in foreign currencies.

### 4.2.3 Growth rate of GDP (in per cent)

In this study the growth rate of GDP is used as one of the main indicators of economic performance and productive capacity, an important aspect of economic development. Table 4.2 shows the Annual GDP growth rate of Nigeria, as reported by the World Bank and the National Bureau of Statistics from 2015 to 2024.

***Table 4.2: Nigeria's GDP Growth Rate, 2015–2024***

| Year | GDP Growth Rate | Key Economic Context |
|---|---|---|
| 2015 | 2.65% | Slowdown due to oil price crash |
| 2016 | -1.58% | First recession in 25 years; oil & FX crisis |
| 2017 | 0.80% | Gradual recovery; ERGP launched |
| 2018 | 1.91% | Non-oil sector recovery |
| 2019 | 2.21% | Moderate growth; infrastructure push |
| 2020 | -1.79% | COVID-19 second recession |
| 2021 | 3.65% | Post-COVID rebound |
| 2022 | 3.25% | Sustained non-oil growth |
| 2023 | 2.74% | Subsidy removal & naira float shock |
| 2024 | ~3.40% | Gradual stabilisation under reform programme |

Sources: World Bank World Development Indicators; National Bureau of Statistics (NBS); Macrotrends.net.

The figures in Table 4.2 indicate an erratic and, in general, poor growth trend. Nigeria started 2015 with the twin pressures of the falling world oil prices and just 2.65 per cent growth. The nation's oil revenues, foreign exchange shortages and import restrictions led to the first recession in 25 years in the country in 2016, with a contraction of -1.58 percent. A gradual recovery was experienced during the period 2017-2019, with growth rates ranging around 1.6 percent per annum, which was not enough to compensate for the growth of the population (which is estimated at 2.5-3 percent per annum) implying a declining per capita income.

In 2020, Nigeria went into recession again, contracting by -1.79 percent in its GDP. The rebound was in the post-pandemic period in 2021 with 3.65 percent and in 2022 with 3.25 percent. The reforms of 2023 which included the removal of petrol subsidy and unification of the naira exchange rate under President Tinubu however pushed growth down to 2.74 percent in 2023 due to the inflationary and cost-of-living pressures. According to preliminary estimates in 2024, the country is expected to experience a modest growth of about 3.40 percent which is mainly contributed by non-oil sector.

#### 4.2.4 Unemployment Rate

The level of unemployment is an important social/economic indicator. The Nigeria's unemployment rate between 2015 and 2024 is shown in Table 4.3, which is based on NBS and ILO data. Notable to note is that the NBS used the new methodology to compute unemployment in 2022, thereby changing the headline unemployment rate, in line with the ILO definition. Therefore the figures before and after 2021 are not directly comparable and are therefore provided *context*

***Table4.3: Nigeria's Unemployment Rate, 2015–2024***

| Year | Unemployment Rate (NBS) | Youth Unemployment (ILO) |
|---|---|---|
| 2015 | ~10.4% | ~6.4% |
| 2016 | ~13.9% | ~7.1% |
| 2017 | ~18.8% | ~9.0% |
| 2018 | ~23.1% | ~9.6% |
| 2019 | ~23.1% | ~9.8% |
| 2020 | 33.3% | ~22.8% |
| 2021 | ~5.5% (rebased) | ~7.6% |
| 2022 | 5.3% (Q4) | ~7.5% |
| 2023 | 4.1% (Q1) | ~7.3% |
| 2024 | 4.9% (Q4) | ~7.0% |

Sources: National Bureau of Statistics (NBS); Nigeria Labour Force Surveys; World Bank Open Data; ILO Modelled Estimates.

The previous NBS methodology saw Nigeria's jobless rate surging from around 10.4 per cent in 2015 to 33.3 per cent in the fourth quarter of 2020, meaning that one in three of the country's job seekers was out of job. However, the increase in this period, when the demand for credit was at its peak (2016-2020), is due to the fact that the use of external funds for public expenditure does not create sufficient employment. This was a time of economic recession, currency devaluation, and decreasing real purchasing power — all of which reduced economic activity in the private sector.

The headline unemployment rate dropped significantly to 5.3 per cent in Q4 2022 and 4.1 per cent in Q1 2023 following the adoption of the NLFS methodology in 2022, which excludes workers engaged in subsistence agriculture from the labour force. Still, even with the new measure, unemployment rose to 4.9 percent in Q4 2024 and underemployment (estimated at about 10.9 percent in Q1 2024) is prevalent. The Nigerian labour market continues to produce inadequate quality job to create employment opportunities for the annual influx of Nigeria's young population of about 3.5 million.

#### 4.2.5 Poverty Levels and Human development

One of the essential indicators of development outcomes is poverty. The data for the various poverty headcount ratios and infrastructure investment are summarised in Table 4.4 below

***Table 4.4: Poverty and Infrastructure Investment Indicators, 2015–2024***

| Period | Poverty Headcount (%) | Key Poverty Indicator | Infra. Invest. (% of GDP) |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 2015-16 | ~40.1% | 40.9% (2018-19 NLSS) | ~2.3% |
| 2018-19 | 40.1% (NBS NLSS) | 40.9% | ~2.5% |
| 2019-20 | ~40.9% | 83m people below $2.15/day | ~2.8% |
| 2022 | ~40.9% (World Bank est.) | ~63% multidim. poor | ~2.4% |
| 2023-24 | ~46% (proj.) | Worsened post-subsidy removal | ~2.2% |

Sources: National Bureau of Statistics Nigeria Living Standards Survey (NLSS) 2018-19; World Bank Nigeria Poverty Assessment 2022; World Bank Development Indicators.

The overall poverty profile in Nigeria during the study period is a disturbing one in the context of increasing external debts. According to NBS 2018-19 NLSS, about 40.1 per cent (83 million) of Nigerians are living below the national poverty line. According to the World Bank's Nigeria Poverty Assessment, 2022, about 63 percent of Nigerians lived in multi dimensional poverty, which included more than income poverty as they suffered from deprivation in health, education, and living standard. The World Bank and IMF forecasts for the poverty headcounts by 2023 and 2024 indicated further deterioration to about 46 per cent as a result of the erosion of purchasing power due to the depreciation of the naira and the elimination of the fuel subsidy.

The percentage of GDP devoted to infrastructure investment was low and variable over the time period. However, even though it was said that external borrowing was to finance infrastructure in

Nigeria, the ratio of infrastructure investment to the GDP has never reached 3 percent of GDP in the decade and capital expenditure has never matched allocations. This does pose serious questions as to the translation of borrowed funds into real assets for development.

### 4.3 Analysis of the Relationship between Foreign Debt and Economic Development

#### 4.3.1 Foreign Debt and GDP Growth: A Comparative Analysis

This analysis examines the relationship between foreign debt and economic development for the Republic of Korea.This analysis will be focused on the Republic of Korea and the relationship between foreign debt and economic development.

Nigeria's most aggressive borrowing from outside its economy occurred during the 2016–2020 period when its economy had its two recessions, near zero growth, and negative per capita growth. Although it would be simplistic to draw direct conclusions from this correlation, the pattern here is generally similar to the debt overhang theory of Krugman (1988) and Sachs (1989), which suggests that too much debt meant that uncertainty regarding future tax liabilities and debt repayments reduced uncertainty and growth.

These figures also show that the growth that occurred after the downturn (2017-2019 and 2021-2022) was more the result of the non-oil sectors—agriculture, telecommunication, trade, and financial services—than the infrastructure sectors to which external borrowing was intended to go. This implies that there is some disconnect between the sectors that are best equipped to lead the structural transformation and borrowed funds. The developmental effectiveness of the borrowed funds in Nigeria, as observed by Kolawole (2024) and Oyadeyi et al. (2024) hinges on governance quality and the capacity of the institutions to effectively implement the projects which have remained weak during the study period.

### 4.3.2 Debt Service Obligations and Fiscal Crowding Out

The most important result of this analysis is the sharp increase in the debt service burden in relation to government revenues. Table 4.5 below shows a comparison of debt service payments, capital expenditure and revenues for the study period.

***Table 4.5: Debt Service, Capital Expenditure and Revenue, 2015–2024***

| Year | Debt Service (N bn) | Capital Expenditure (N bn) | FGN Actual Revenue (N bn) | Debt Service-to-Revenue (%) |
|---|---|---|---|---|
| 2015 | N953bn | N557bn | N998.74bn | 37.49% |
| 2016 | N1,475bn | N683bn | N1,308.30bn | ~44% |
| 2017 | N1,662bn | N814bn | N1,550.46bn | ~48% |
| 2018 | N2,079bn | N1,068bn | N1,506.04bn | 51.28% |
| 2019 | N2,414bn | N1,302bn | N2,093.49bn | ~56% |
| 2020 | N3,428bn | N1,696bn | N1,982.69bn | ~83% |

| | | | | |
|---|---|---|---|---|
| 2021 | N3,613bn | N1,825bn | N3,827bn | ~76% |
| 2022 | N4,223bn | N2,020bn | N5,697bn | ~81% |
| 2023 | N5,961bn | N2,456bn | N8,347bn | ~97% |
| 2024 | N8,270bn (est.) | N2,600bn (est.) | N9,700bn (est.) | ~105% |

Sources: DMO Nigeria Annual Reports; Federal Ministry of Finance Budget Summaries; CBN Statistical Bulletins; DMO Debt Management Strategy 2020–2023.

Table 4.5 shows a significant decline in Nigeria's fiscal situation during the period of study. The ratio of debt service to government revenue in 2015 was already high at 37.49 percent based on international standards. By 2018, this ratio had risen to 51.28 percent. In 2020, the COVID-19 year, debt service accounted for about 83 percent of revenues and increased toward 97 percent of revenues in 2023. According to the preliminary figures for 2024, debt service obligations may have been higher than the total revenue of the federal government in some months, thus creating the impression of borrowing for the purpose of paying old loans.

The fiscal crowding out of this situation is clearly visible: capital expenditure (the largest component of government spending that is linked to infrastructure development and productive investment) continued to lag behind debt service payments during the period. For example, in 2023, N5.96 trillion was spent on debt service, but just N2.46 trillion was spent on capital expenditure. The findings of this study also support the assertion of Okonkwo and Egbunike (2015) that debt accumulation in Nigeria, in this case from 2015 to 2024, squeezes out productive public expenditure.

### 4.3.3 Foreign Debt, Unemployment and Poverty: An Integrative Assessment

The association between the increasing foreign debts and the unemployment and poverty statistics in this chapter indicate a Nigeria development paradox. Although the number of people on loans grew by more than 300 percent in nominal terms over 10 years, the unemployment rate (using the old definition) increased from around 10.4 percent in 2015 to as high as 33.3 percent in 2020 and redefined thereafter. The poverty rate was still very high and, although there is available data, no real structural improvement could be observed. This is congruent with the findings of Edo (2002) that external debt negatively impacts investment and growth in Nigeria, as well as Kolawole (2024) that the quality of institutional governance affects the effectiveness of the debt in Nigeria.

The reasons behind the lack of positive impact of external debt on poverty reduction and job creation can be explained by several factors. First, many of the external loans, especially from the Eurobonds, were used to finance some programmes in budget support or deficit financing and not in projects that would have had a direct impact on jobs or welfare multiplier benefits. Second, infrastructure investments financed by bilateral Chinese loans created physical infrastructure (railways, roads), but often with limited backward linkages to the domestic market which limited employment opportunities. Third, naira weakness depressed the naira value of debt-financed projects, and increased the importation cost of capital equipment, which lowered the productive efficiency of capital borrowed.

Moreover, as debt service costs increase, it was difficult to increase spending on health, education, agriculture and social protection, which are all areas that directly impact poverty and human capital development. Nigeria has never, in the last ten years, invested 15–20 percent of the national budget in education, or the 15 percent target in Abuja declaration for health investments in education. These deficits in the sectors are Nigeria's direct development costs of the debt during the study period.

### 4.4 Impact of Foreign Debt on Nigeria’s Human Development Indices

Hypothesis 2 (H2): This is an attempt to determine the significant relationship that exists between Nigeria's increasing external debt obligations and its HDI composite indicator for the period (2015 – 2024) and also with the three dimensions of HDI which are health expenditure, education expenditure and living standard. The sources of data are the National Bureau of Statistics (NBS), the Debt Management Office (DMO), the World Bank, the African Development Bank (AfDB) and the United Nations Development Programme (UNDP).

4.4.1 Nigeria HDI Trends Against External Debt, 2015- 2024

The table below shows Nigeria's HDI scores and external debt stock and debt-service-to-revenue ratio for each year of the study period. This comparison enables a clear-cut comparison of the performance of human development against the trend of external borrowing

***Table 4.6: Nigeria’s HDI Score versus External Debt and Debt Service, 2015–2024***

| Year | HDI Score (UNDP) | HDI Global Rank | FGN External Debt Stock (US$bn) | Debt-Service-to-Revenue (%) |
|---|---|---|---|---|
| 2015 | 0.527 | 152/188 | $10.72bn | 37.49% |

| | | | | |
|---|---|---|---|---|
| 2016 | 0.527 | 157/188 | $11.41bn | ~44% |
| 2017 | 0.532 | 157/189 | $15.05bn | ~48% |
| 2018 | 0.534 | 158/189 | $22.08bn | 51.28% |
| 2019 | 0.539 | 161/189 | $27.67bn | ~56% |
| 2020 | 0.535 | 161/189 | $33.35bn | ~83% |
| 2021 | 0.535 | 163/191 | $37.90bn | ~76% |
| 2022 | 0.540 | 163/191 | $41.69bn | ~81% |
| 2023 | 0.548 | 163/193 | $43.16bn | ~97% |
| 2024 | ~0.550 (est.) | ~163/193 | ~$42.90bn | ~105% |

*Sources: UNDP Human Development Reports 2016–2024; DMO Nigeria; IMF (2024); World Bank (2024).*

T Table 4.6 is the main evidentiary table for Hypothesis 2. It compares the Human Development Index score of Nigeria with the rate at which the country's external debt has been growing during the past ten years. There are a number of important observations to draw.

First, the increase in HDI for Nigeria was not significant over the period, with a small increase from 0.527 in 2015 to an estimated 0.550 in 2024, which is equivalent to 0.023 points gain over ten years. This translates to an inconsequential human development rate progression in international comparative terms, especially given the unprecedented borrowing amount of that country, ostensibly for social and economic development.

Second, and most important, the highest growth in external debt stock and debt-service-to-revenue ratio are associated with the lowest rates of progress in HDI and even declines in HDI. Nigeria's HDI score remained unchanged at 0.527 in 2015 and 2016 after debts were accumulated, fell by 0.004 from 0.539 in 2019 to 0.535 in 2021 while debt service cut into between 56 and 83 per cent of the federal revenue during the 2019–2021 period, and improved only slightly subsequently. This is a debt overhang type of pattern: as more money went into debt payments, less went into health, education and social protection, thus reducing or holding human development outcomes in these sectors constant.

Third, Nigeria's ranking as a country in the HDI index has decreased during this period, as the country was ranked 152nd in 2015, but dropped to 163rd in 2023 among 193 countries. The deterioration relative to the other comparable countries suggests that Nigeria's human development gains were not only slow absolute growth rates but were even lagging behind those of a number of its comparator countries despite its own borrowing frenzy compared to most low to middle income African economies in the period.

The table therefore provides support for the hypothesis that foreign debt has had a significant impact on the Human Development Indices of the country although the impact has been constraining more than enabling, and this impact is largely through the crowding out of human development expenditure through the fiscal channel.

4.4.2 Health and Education Expenditure as % of GDP, 2015–2024

In addition to the composite HDI score, a detailed analysis of the different dimensions of the index shows the specific impact of foreign debt obligations on investments in each of these different sectors, which are the drivers of human development. The public health expenditure and education expenditure as percentage of GDP and the debt service obligations of the study period are provided in Table 4.7.

***Table 4.7: Public Health and Education Expenditure vs. Debt Service, 2015–2024***

| Year | Health Exp. (% GDP) | Education Exp. (% GDP) | Debt Service (N bn) | FGN Revenue (N bn) | Debt-Service-to-Revenue (%) |
|---|---|---|---|---|---|
| 2015 | ~0.5% | ~0.7% | N953bn | N998.74bn | 37.49% |
| 2016 | ~0.4% | ~0.6% | N1,475bn | N1,308.30bn | ~44% |
| 2017 | ~0.4% | ~0.6% | N1,662bn | N1,550.46bn | ~48% |
| 2018 | ~0.4% | ~0.7% | N2,079bn | N1,506.04bn | 51.28% |
| 2019 | ~0.5% | ~0.6% | N2,414bn | N2,093.49bn | ~56% |
| 2020 | ~0.4% | ~0.5% | N3,428bn | N1,982.69bn | ~83% |
| 2021 | ~0.5% | ~0.5% | N3,613bn | N3,827bn | ~76% |
| 2022 | ~0.5% | ~0.6% | N4,223bn | N5,697bn | ~81% |

| | | | | | |
|---|---|---|---|---|---|
| 2023 | ~0.5% | ~0.6% | N5,961bn | N8,347bn | ~97% |
| 2024 | ~0.5% (est.) | ~0.6% (est.) | N8,270bn (est.) | N9,700bn (est.) | ~105% |

*Sources: World Bank World Development Indicators; Federal Ministry of Finance Budget Summaries; DMO Nigeria Annual Reports; AfDB (2024); UNDP (2024).*

Table 4.7 shows one of the most structurally damaging impact of the growing external debts of the Nigeria is the continuous and debilitating under funding of health and education — the two pillars of human development.

The public expenditure on health in Nigeria was constant at 0.4 – 0.5 per cent of GDP for the whole period from 2015 to 2024. This is far lower than the 15 per cent of national budget suggested by the 2001 Abuja Declaration which Nigeria also subscribed to, and lower than the 5 per cent of GDP recommended by the World Health Organisation. Likewise, education spending remained at a rate of 0.5 to 0.7 per cent of GDP during the decade, and was well below the 15–20 per cent of the national budget recommended by UNESCO. Such is not only technical failure, but it is a direct loss of school enrolment, inadequate health care providers, avoidable child deaths, and reduced human capital building — all of which have direct impacts on HDI performance.

The pattern that is most instructive in Table 4.7 is that there is an inverse correlation between the debt-service-to-revenue ratio and the level of social sector spending. While nominal budget allocations to health and education occasionally grew slightly, actual allocations actually decreased or remained flat as debt-service increased from 37.49 percent of revenue in 2015 to more than 80 percent in 2020-2022. As a proportion of limited revenue, these sectors were being further squeezed by the fiscal space of debt service. This is exactly what the Debt Overhang Theory predicts and is clearly illustrated in the example of Nigeria in Table 4.7.

Moreover, the continuation of these low ratios under the Buhari and Tinubu governments suggests that it is not a government policy issue but a structural fiscal trap in which successive governments are increasingly fixating on paying commercial loans while a lack of non-oil revenue, combined with high levels of debt accumulated during previous borrowing, has reduced their ability to make policy choices. The outcome of this was that Nigeria borrowed heavily from the international system and at the same time did not invest enough to its own population in health and education as agreed upon by the international community, a situation which is partly cause and effect of the slow progress made in its Human Development Index.

Combined, the descriptive evidence from Tables 4.6 and 4.7 support the second hypothesis that foreign debt has influenced the HDI scores of Nigeria during the period 2015-2024, not by increasing them, but by limiting the public spending on health, education and social services that is needed for advancement of the HDI.

### 4.5 Discussion of Findings

Overall, the results of this chapter imply that there is no direct link between the significant increases in foreign debt accumulation between 2015 and 2024 with the economic development outcomes in Nigeria. In this period, external borrowing seems to have reinforced a cycle of fiscal dependency, in which new loans were used to service old ones, but did not seem to help solve the load of the structural problems of low productivity, inadequate infrastructure, unemployment and poverty that had called for borrowing in the first place.

Such results are consistent with the overall theoretical proposition of the debt overhang hypothesis that, above a critical level, debt can be detrimental to economic growth because it siphons off national resources to service the debt. The debt-service-to-revenue ratio of more than 80 percent in 2020, and approaching 100 percent by 2023-2024, indicates that this level was likely exceeded all along in the study period. IMF (2024) has also emphasised that external financing rates and depreciation of the exchange rate have worsened Nigeria's debt burdens, and the World Bank (2024) has alerted the world to unsolved fiscal and debt sustainability pressures that constrain Nigeria's development financing.

The findings also highlight the political economy aspect of Nigeria's debt issue that is the theme of this study from the Political Science and International Relations perspective. The combination of borrowing in the form of Eurobonds for short-term needs, bilateral loans for “infrastructure” projects with less domestic value addition, and IMF emergency loans with conditionalities on policy choices suggests a complex pattern of political incentives, creditor interests, and governance constraints that shape the use of borrowed funds and create the probability of providing development returns. On this score, the study also finds foreign debt in Nigeria between 2015 and 2024 to have been both a political and an economic phenomenon and that its development effect can only be understood in the context of governance and institutional framework in which it was contracted and deployed.

To sum up, the results of the data analysis conducted during this chapter indicate that foreign debt had a neutral-to-negative impact on the development of the economy of Nigeria in the period under study (2015-2024). The specific evidence of the fiscal, macroeconomic and social development in the decade of external borrowing does not support the proposition that external borrowing was responsible for sustained and inclusive economic development over this decade.

Instead, the data indicates a structural fiscal imbalance in which debt service pressures on development spending, not only helped to crowd out investment but limited prospects for economic diversification and maintained, or actually increased, levels of poverty and unemployment. These findings are further elaborated upon in Chapter 5, the final chapter of the study, that presents the summary, conclusions and policy recommendations of the study.

# CHAPTER FIVE

# SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Summary of Findings

Foreign debt and Economic development of Nigeria (2015-2024) were studied using document analysis and Debt Overhang theory and Dependency theory. The study followed debt accumulation trends over time, debt's influence on economic and human development indicators and the governance conditions that determined debt outcomes. The following are key findings.

Nigeria's external debt has witnessed significant increase, from the approximate sum of $10.72 billion to over $42 billion in 2015 to 2024, respectively, due to the borrowing from multilateral institutions, bilateral loans and commercial Eurobonds. Debt service commitments surged in magnitude during the period, taking 37 to 105 percent of federal revenues, thereby preempting capital spending and social sector investment. Poor project execution and governance gaps severely constrained the returns from infrastructure improvement projects, which were funded by debt. Debt-financed infrastructure shows some progress, but returns are constrained by poor project execution and governance gaps.

In spite of the high debt, economic growth was still weak and volatile, as in 2016 and 2020 there were two recession periods. The rate of unemployment reached its peak in 2020 (33.3 percent), poverty stayed high and the Human Development Index rose by only 0.548 from 0.527. The use of borrowed money was not as productive as it could have been with fewer problems of corruption, bureaucratic delay and weak institutions; the returns on external financing were thus reduced from development.

Creditor patterns showed that there was a high concentration of bilateral and multilateral creditors, and that the more commercial debt increased, the more vulnerable the exchange rate became. The continued reliance on external debt reduced Nigeria's fiscal independence and further increased the country's structural dependency, which stifled the capacity of the government to establish and finance its own development agenda.

## 5.2 Conclusion

The findings of this research shows that Nigeria's foreign debt has not given proportionate economic development results from 2015 to 2024. Being saddled with increasing debt service payments took up space for investment in health, education and infrastructure, and insufficient GDP growth, employment and poverty reduction. The results validate Debt Overhang Theory in predicting that an excessive accumulation of debt stifled investment in productive capacity and Dependency Theory in finding that dependency on external creditors had an impact on development outcomes that was not aligned with internal priorities. Infrastructure improvements were noted but regular and continuous challenges of weak governance, corruption, and a limited revenue base hindered the ability of borrowed funds to support development. Nigeria is trapped in a vicious circle of debt dependency to new debt to finance old debt obligations, and serious reforms of the fiscal, institutional, and governance frameworks will be necessary to achieve real development progress.

### 5.3 Recommendations

Nigeria must absolutely diversify its economy in the immediate term to increase its non-oil revenues through broadening the tax base, formalisation of the informal sector and the enforcement of fiscal responsibility laws, and reduce over time the reliance on expensive external borrowing for government operations.

That the Debt Management Office adjusts the debt portfolio towards concessional multilateral loans, imposes clear limits on commercial Eurobond borrowing and mandates clear outputs for each external loan, audit of procurement and post-disbursement activities of loans from external sources to guarantee that they are allocated for their declared targets.

Nigeria should enact minimum budgets of 15 percent for health and 20 percent for education, safeguard social spending against debt service pressures, and enhance anti-corruption and public financial management institutions to achieve good governance and ensure that borrowed funds result in tangible development impact.

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