

# THE ROLE OF PRIVATE CREDITORS IN NIGERIA'S DEBT CRISIS AND THE HUMAN COST



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Finally, We hope that piece of work will enrich the capacity of all relevant stakeholders to effectively advocate for a fair, progressive and equitable Fiscal regime in Nigeria that equity, poverty eradication, service delivery and sustainable development is in place in Nigeria.

# Preface

The task of improving on the infrastructural situation of a developing country like Nigeria while continuing to provide and expand access to health care, education and other social services for a rapidly increasing population, especially in the face of dwindling revenue, poses a daunting challenge to any Government. It is therefore inevitable that successive governments would have to resort to borrowing in order to close the funding gaps in the nation's year-on-year deficit budgets. Perhaps, the framers of the nation's constitution, realizing the telling and deleterious economic implications of unbridled borrowing by the three tiers of government, and their detrimental human costs, in their wisdom, included matters of "borrowing of moneys within or outside Nigeria for the purposes of the federation or of any state" and "public debt of the federation" in the Exclusive Legislative List (see Items 7 & 50, Part 1 of the Second Schedule to the Constitution of the Federal Republic of Nigeria, as amended) as a precaution – meaning, only the National Assembly can legislate on matters of borrowing and public debt, pursuant to which the Fiscal Responsibility Act (F.R.A) No. 31 of 2007 was enacted with Parts IX & X dealing with debts, indebtedness and borrowing and clearly stating the framework for debt management and specifying the conditions of borrowing.

At the heart of the statutory provisions (through the F.R.A, 2007) for the regulation of public debt and to ensure its sustainability, is the requirement for the President, subject to the approval of the National Assembly, to set overall limits for the amounts of consolidated debt of the Federal, State and Local Governments, which limits and conditions as approved by the National Assembly, shall be consistent with the fiscal policy objectives in the Medium Term Fiscal Framework. The Fiscal Responsibility Commission was consequentially mandated under Section 42(3) & (4) to verify compliance with the limits specified and at the end of each quarter, determine the amount of the consolidated debt of each tier of government as well as publish, on a quarterly basis, a list of the governments in the federation that have exceeded the limits of consolidated debt, and indicating the amount by which the limit was exceeded. The Law equally provided for

measures that shall be taken against defaulting governments in order to make them fall in line.

The challenge of getting the limits fixed over time in spite of both a Resolution of the House of Representatives and a subsisting Order of a Federal High Court has sadly persisted and has continued to frustrate the activation of the statutorily prescribed mechanism for the control of borrowing by the three tiers of government. It is urgent and imperative, in context of the Country's escalating and spiralling debt stock, that all relevant stakeholders in the debt management space, including civil society, work together to help the Minister of Finance advise the President to fix the debt limits and forward same to the National Assembly for approval as a critical first step in order to achieve debt sustainability in Nigeria.

This laudable and strategic research initiative commissioned by the Civil Society Legislative Advocacy Centre (CISLAC) and its partners, Christian Aid on the role of private creditors in Nigeria's debt crises and its human cost, has indeed highlighted the imperative of greater accountability, transparency, and openness in the management of the country's Commercial Debt Profile and its utilization in achieving human development and for capital expenditure for the benefit of all citizens as envisaged by the Fiscal Responsibility Act (FRA), 2007 – particularly considering the very expensive nature of such borrowings.

We are gratified to note that this research effort is consistent with part of the functions of the Commission as laid out in Section 3(1)(b)&(c) of the Fiscal Responsibility Act, 2007, which is to ***“undertake fiscal and financial studies, analysis and diagnosis and disseminate such standard practices including international good practice that will result in greater efficiency in the allocation and management of public expenditure, revenue collection, DEBT CONTROL and transparency in fiscal matters to the general public”***.

Finally, I again commend and salute CISLAC and its partners for this notable research undertaking which is replete with innovative ideas that would help in tackling our nation's debt crises as well as serve as an invaluable tool for the improvement of the Country's debt management practices.

**VICTOR C. MURUAKO, ESQ.**  
**CHAIRMAN, F.R.C.**



# Introduction

Nigeria appears to be heading towards a debt crisis, with inevitable human costs. This research evidences the contributions made by private sovereign debt and the actions of private creditors.

With limited access to further financing on concessional terms, and with a growing presence and influence of private creditors in its debt profile, Nigeria's national debt is growing and increasingly putting the country in a precarious situation, with significant implications for human rights, including to education and health.

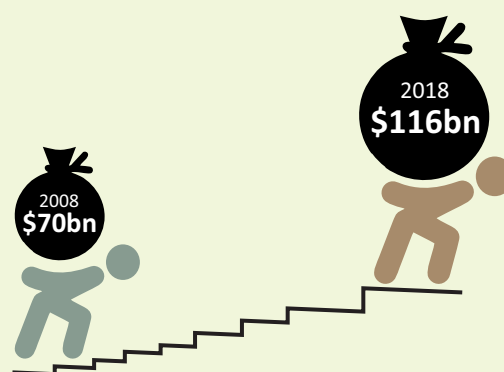
A growing proportion of external debt owed to private creditors under opaque terms and often subject to high interest rates is contributing to spiraling debt servicing costs, increasing the risks to Nigeria's economy. This trend is playing out in a context of lack of transparency in lending more generally (which is a barrier to holding governments accountable for debts they incur) alongside the deep economic impacts of the Covid-19 pandemic and the associated fiscal constraints. This report discusses the implications of this alongside other challenges, including Nigeria's low tax base and dependence on oil revenues, volatile exchange rates and need for investment in infrastructure. It outlines the risks for a people-centered recovery and for future generations, with a focus on public spending on Nigeria's health and education services.

Research Methodology

## Background

The history and roles of international finance can be adequately traced to 1944 when the two Bretton Woods Institutions - World Bank (International Bank for Reconstruction and Development, IBRD) and the International Monetary Fund (IMF) were created to respond to the global need for development finance. Specifically, they were to help restore and sustain the benefits of global integration, particularly in response to the destructive effect of

## Increase in the External Debts of Low-Middle Income Countries



the Second World War. While the World Bank was created to foster long-term investment projects, institution-building, and social, environmental, and poverty issues; the IMF was to focus on the functioning of the international monetary system, and on promoting sound macroeconomic policies as a precondition for sustained economic growth. As part of its mandate of safeguarding the international financial system, the IMF works to mitigate the negative effect of globalization on the world economy by helping individual countries take advantage of the investment opportunity offered by the international capital markets while reducing vulnerability to adverse shocks and changes in investors' sentiments<sup>1</sup>. However, in the context of the Keynesian model, the World Bank and the IMF recognized their limitations in promoting all-encompassing development assistance. They were meant to support governments of the world to achieve social goals,

1. <https://www.imf.org/external/np/exr/ib/2002/031502.htm>

but with no provision for the private sector - hence the international financial institutions were and remain intrinsically intergovernmental<sup>2</sup>.

The World Bank lending terms were determined by the rate at which it borrows from international financial markets, plus a 7% mark-up to cover its administrative cost. This has been adjudged as beyond the capacity of poor countries, thereby constraining the role of the bank in those countries. This limitation led to the idea, floated by the UN, for a multilateral trust fund to provide finance on highly concessional terms to the poorest countries. While financing the poorest countries was not the original goal of the World Bank, this international pressure led to the World Bank creating the International Development Agency (IDA) as a trust fund to expand its lending to poor countries under concessional terms. Between 1958 and 1966, the World Bank was joined in its mission by other regional international financial institutions (IFIs) such as the Inter-America Development Bank (IDB), the Asia Development Bank (ADB), and the Africa Development Bank (AfDB). In the same vein, in 1958 the newly formed European Economic Community launched a multilateral development program through the European Investment Bank to extend finance to developing countries. During this period development assistance had become a large-scale activity, particularly in the wake of the transition from colonial to independent states.

The entrance of private creditors into the international finance scene can be traced to the 1970s when financialization of sovereign debt management turned public debt into actively traded financial assets, backed by deep secondary markets and financial logics assimilated by state officials<sup>3</sup>. In the last decade, private debts markets have grown tenfold with assets under management of funds primarily involved in direct lending to the tune of \$412 billion as at the end of 2020<sup>4</sup>. This development has set the stage for a new dimension of the debt crisis that is now playing out globally and particularly among emerging and developing economies.

Since the 2008/09 global financial crunch especially, many emerging and developing economies have faced a serious challenge of public debt sustainability. The past decade has witnessed the fastest and most broad-based increase in debt in emerging and developing countries with private credits dominating the landscape of public debt portfolios in many countries. Between 2008 and 2018 external loans to low- and lower-middle-income governments increased from \$70 billion to \$166 billion. The largest increase came in loans from private lenders (up 240%). Since 2015, developing country governments' debt payment increased by 85% with a significant impact on public spending<sup>5</sup>. However, despite the various initiatives by international financial institutions such as IMF and World Bank to support substantial emergency liquidity for eligible countries, developing countries still struggle to meet the enormous socio-economic needs of their population. Large debt burdens at the start of the coronavirus crisis restricted public spending on healthcare and social protection.

An additional cause for concern is the lack of transparency on lending and borrowing particularly with private creditors and other bilateral partners, which prevents funds from being tracked and governments and lenders from being held to account. For instance, most lending governments, whether Western governments or China (an important lender), do not have a systematic way to publicize the loans they issue. Even where the existence of loans is public, crucial information such as the interest rate, other charges, and payment schedules are kept secret. This issue has been exacerbated as developed nations have pushed commercial lending toward what are described as 'frontier' markets leading to the emergence of private lenders with higher interest rates as well as conditions around 'asset collateralization' - a process that gives the creditor unreserved rights over an asset or revenue stream that would allow it, if the borrower were to default on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt<sup>6</sup> under opaque

2. <https://www.imf.org/external/np/exr/ib/2002/031502.htm>

3. Karwowski E (2019) Towards (de)finalization: the role of the state. *Camb J Econ* 43:1001–1027 <https://link.springer.com/article/10.1007/s43253-021-00058-z#ref-CR62>

4. <https://www.spglobal.com/en/research-insights/featured/private-debt>

5. International Budget Partnership (May 2020) Crippling Debt: Transparent Lending and Borrowing Must be Part of the Solution.

<https://internationalbudget.org/2020/05/crippling-debt-transparent-lending-and-borrowing-must-be-part-of-the-solution/>

6. The World Bank (January, 2020) Collateralized Transactions: Key Considerations For Public Lenders And Borrowers

<https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/02/19/Collateralized-Transactions-Key-Considerations-for-Public-Lenders-and-Borrowers-49063>

agreements and as hinted at in the case of Nigeria-China loan<sup>7</sup>.

While the need for market expansion was necessary in the face of an increased need for investment in infrastructure, the emerging creditors prey on the vulnerability of developing economies by offering loans under stringent and expensive conditions much more than the usual concessional rate of the multinationals and the traditional bilateral donors. The level of profitability from private lending as well as collateral banking has created the window of opportunity for the flourishing of private lending.

This situation presents new risks for poor countries. While private lending appears, on the surface, to be devoid of some of the conditionality that comes with multilateral borrowing, which often requires the borrowing governments to commit to policies for economic, political, and financial adjustments to minimize the need for borrowing as well as the risks of default, the actual cost of private borrowing, including the extremely high-interest rates and other related conditions make sustainability a challenge. In 2021, the Nigerian parliament approved the borrowing of the sum of \$6.1 billion for augmenting the national budget, mostly to be borrowed through Eurobonds in the international capital market at costs and with conditions that are kept secret<sup>8</sup>. The concern is that this new frontier of lending (private creditors) operates to increase the cost of debt servicing while restricting governments' fiscal strength and constraining their ability to respond adequately to social and economic emergencies brought to the fore by the outbreak of the Covid-19 pandemic. This report highlights how the debilitating effects of terms and conditions built around private debt are mostly born by poor and vulnerable citizens by documenting the impacts of debt servicing on access to health care facilities and access to education.

In the Nigerian context, about 90% of government revenue is devoted to debt servicing at the expense of development projects. The outbreak of the Covid-



19 pandemic in 2020 exposed the massive gap in government finance for social services and the near non-existence of social intervention programs to cushion the effect of the pandemic on poor citizens. This kind of situation led to the call for debt service suspension by the G20 to allow governments access funds to address some of the effects of the covid-19 pandemic. However, to the extent to which sovereigns depend on private loans to meet their budget needs, debt suspension is inadequate to address impending debt crises that developing countries are facing. It is in this context that this study therefore, seeks to examine the role of private creditors in the increasing debt burden of developing nations as well as the human cost of private debt accumulation using Nigeria as a case study.

7. <https://punchng.com/nigeria-risks-losing-assets-to-china-over-3-48bn-loan-experts-warn-fg/>

8. <https://www.vanguardngr.com/2021/07/breaking-senate-approves-buharis-n2-3trillion-foreign-loan-request/>



## METHODOLOGY

**T**he study adopted both qualitative and quantitative approaches to delivering the output of the research work. While this study focuses primarily on the qualitative approach by the use of non-numerical data generated through a comprehensive desk review of different research variables, it, however, provides evidence-based information through in-depth interviews of sector experts, surveys, and focus group discussions. The secondary data collection for this study was done through a comprehensive review of relevant literature, documents, journal and articles, and official reports from relevant government bodies such as the Debt Management Office, the World Bank, the IMF, and other international financial bodies.

The data from this source was descriptively and comparatively analyzed by drawing a pattern analysis of the Nigerian situation. The study further obtained data from primary sources through interviews of key policymakers, development experts, media professionals, academia, and members of the civil society. The study also relied on opinions from industry experts,

government agencies, and institutions relevant to the study such as the Fiscal Responsibility Commission, civil society organizations, lawmakers, and policy influencers. Primary data was analyzed using statistical tests such as simple percentage, simple average, etc which was used to analyze the effect of private creditors borrowing. Findings from the analysis were presented by charts and graphs to reinforce the descriptive and comparative analysis done to provide objective, and verifiable means of appraising the current situation on the human cost of private debts accumulation in Nigeria.

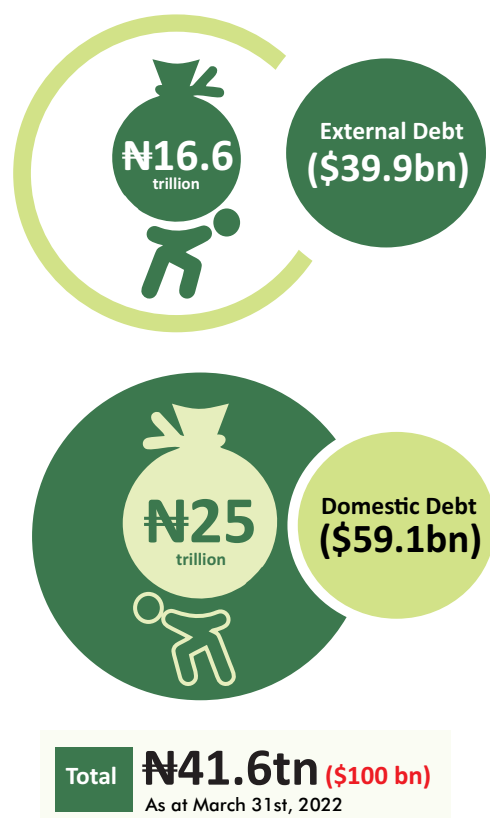
Individuals and institutions with direct links or roles in the research issues were mapped and engaged to derive content-specific data used in developing the report. Specifically the study sample was derived from the Nigeria Debt Management Office, Bureau of Statistic officials, Ministry of Finance, Ministry of Budget and National Planning; Ministry of Health; the Committee of Appropriation, Development Experts, relevant Civil Society members, and the media organization.

# Nigeria's Debt Management System

The Nigerian sovereign (or public) debt, like that of every other country, consists of debt liabilities to both domestic and foreign creditors. Most often, a nation's sovereign debt provides the basis for investors' ratings of how financially sound the country is, and is evaluated in terms of the country's Gross Domestic Product. The sovereign debt provides the basis for driving governance by sourcing funds from both domestic and external sources to fund development projects or interventions. In the Nigeria context, the Fiscal Responsibility Act (FRA) provides that the government *“shall only borrow for capital expenditure and human development, provided that, such borrowing shall be on concessional terms with low interest rate and with a reasonably long amortization period subject to the approval of the appropriate legislative body where necessary”*.<sup>9</sup> In other words, the law empowers the government to acquire debt for capital and human development purposes.

However, sovereign debt accumulation becomes an issue of concern if these debts do not translate into significant development for the nation, while the burden of repayment hinders people-centered recoveries and other social interventions by government. The FRA provides for government to borrow both from external and domestic sources, including multilateral organizations, bilateral sources and private creditors; and has informed the imperative for a formal debt management strategy, particularly, in the face of volatile macroeconomic uncertainty. Since 2012, in the wake of the global recession in 2009, the Nigerian government has taken measures to structure its debt portfolio in line with economic realities by developing a debt management strategy that would ensure that the cost and risk of public debt portfolio remains within an

## Nigeria's Sovereign Debt Profile



Source: Nigeria's Debt Management Office (DMO)

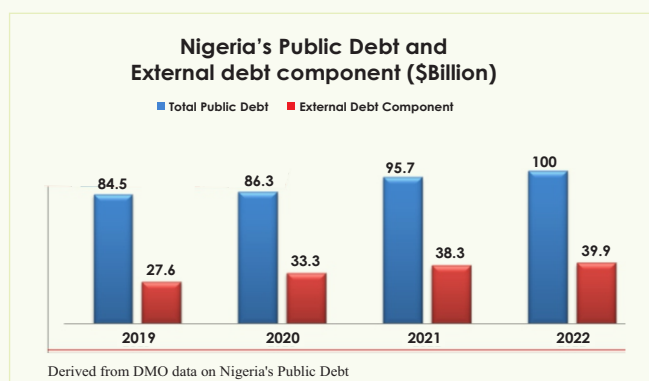
acceptable limit even in the face of macroeconomic restrictions. Thus, the Nigeria Medium Term Debt Management Strategy (MTDS), spanning the three-year periods of 2012-2015 and 2016-2019 was developed to guide the borrowing activities of the Government in the medium term.

The Nigeria Sovereign Debt profile stood at ₦41.6 trillion (\$100 billion) as at March 2022, with an external debt composition of ₦16.6 trillion (\$39.9 billion), or about 40% of the total public debt as at the first quarter of 2022.<sup>10</sup> Before the Covid-19 outbreak, in December 2019, it was ₦27.4 trillion (\$84 billion) with the external debt component being ₦9 trillion (\$27.6 billion). Comparing the external debt in 2019 and 2022, the figure rose by

9. Fiscal Responsibility Act (2007) Part IX- Debt and Indebtedness  
<http://lawsfnigeria.placng.org/laws/fiscal%20responsibility.pdf>

10. DMO (March 31, 2022) Nigeria Public Debt Portfolio As At March 31, 2022.  
<https://dmo.gov.ng/debt-profile/total-public-debt/3938-nigeria-s-total-publ>

\$12.3 billion, representing a 44% increase, making the Nigeria's external debt among the biggest in the sub-Saharan African region, along with countries like South Africa's \$173 billion external debt as of December 2021.<sup>11</sup> In terms of debt servicing to revenue, Nigeria spends 86 percent of its revenue on debt servicing while South Africa, despite a total external debt figure four times that of Nigeria, spends 30 percent of its revenue on debt servicing, therefore making Nigeria's debt servicing to revenue ratio the biggest in sub-Sahara Africa.<sup>12</sup>



## Nigeria Sovereign Debt Evolution/Nature and Composition

The history of Nigeria's external borrowing goes back to April 18, 1958 when the sum of \$28 million was secured from the World Bank for the construction of 1780 miles of railway from Kuru in Jos through Bauchi and Borno, and to improve then existing rail network.<sup>13</sup> In the years following, Nigeria continued to seek and obtain credit facilities from international creditors at mostly concessional terms (with longer repayment times and lower interest rates) including obtaining a loan of US\$13.1 million from the Paris Club of Creditor Nations for the building of the Niger Dam in 1964,<sup>14</sup> leading to a rising external debt figure of \$1.5 billion by 1970. The oil boom of 1971-1981 played a significant role in pushing up Nigeria's external borrowing and introduced an era of 'big borrowing'. Loans were acquired by various tiers of governments as Nigeria embarked on major development and reconstruction projects in the wake of the civil war. By 1975, Nigeria's external debt figure had risen sharply to \$2.5 billion as a result of decline in government revenue when the oil boom period ended.<sup>15</sup> By 1977, the situation had deteriorated with the external debt jumping to \$7.5 billion. Nigeria obtained its first major loan of \$1 billion (called the 'Jumbo Loan') from the

international capital market in 1978<sup>16</sup> and by 1980 overall debt had increased to \$8.9 billion, mainly due to the excessive borrowing of non-concessional interest rate loans from international financial agencies. By 1982, the accumulated external debt of Nigeria stood at \$13.1 billion (this was the period when oil prices crashed and it became increasingly difficult to pay back these loans).<sup>17</sup>

By 1990, Nigeria's external debt stock had risen astronomically to \$33.1 billion,<sup>18</sup> representing over 150% increase in a period of 8 years, and further rose to \$34 billion in 1995. By 1999, at the return to democracy, Nigeria's outstanding external debt stock stood at \$28.8 billion. Of this figure, \$17.7 billion (62%) comprised arrears due the Paris Club creditors,<sup>19</sup> while the balance was owed to the London Club,<sup>20</sup> multilateral creditors, private creditors and others. According to the IMF Memorandum on Economic and Financial Policy of Government, \$1.3 billion of the Paris Club arrears comprised overdue payments on loans contracted after October 1st, 1985. This implies that Nigeria's external debt increased mainly due to unpaid interest and interest on unpaid debt service which now becomes the pile of new debts the nation has consistently carried forward. By December 2004, Nigeria's total outstanding external debt stood at \$35.9 billion, making Nigeria one of the world's

11. South Africa Gross External Debt as at March 2022 <https://www.ceicdata.com/en/indicator/south-africa/external-debt>

12. <https://punchng.com/nigeria-spends-86-of-revenue-on-debt-servicing-south-africa-pays-20/>

13. The World Bank (1958) Report on the Development Program of The Nigerian Railway Corporation. <https://documents1.worldbank.org/curated/en/463831468333904473/pdf/multi-page.pdf>

14. DMO (October 6, 2005) Nigeria's Debt Relief Deal with the Paris Club <https://www.dmo.gov.ng/publications/other-publications/nigeria-debt-relief/570-nigeria-s-debt-relief-deal-with-the-paris-club/file>

15. The World Bank (1985) The External Debt of Sub-Saharan Africa: Origin, Magnitude, and Implication for Actions. <https://documents1.worldbank.org/curated/en/95851468768269528/pdf/multi-page.pdf>

16. Aare Afe Babalola (June 11, 2020) Nigeria's Increasing Debt Worrysome, use recovered loot as alternative. <https://tribuneonline.ng/nigerias-increasing-debt-worrysome-use-recovered-loot-as-alternative/>

17. DMO (October 6, 2005) Nigeria's Debt Relief Deal with the Paris Club <https://www.dmo.gov.ng/publications/other-publications/nigeria-debt-relief/570-nigeria-s-debt-relief-deal-with-the-paris-club/file>

18. Botti, I. et al (2015) Whose Burden? Examine the Growing Public Debt Crisis in Nigeria. <https://saction.org/whose-burden-examining-the-growing-public-debt-crisis-in-nigeria/>

19. IMF (February 1999) Memorandum on Economic and Financial Policy of the Federal Government of Nigeria for 1999 <https://www.imf.org/external/N>

(The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries- <https://clubdeparis.org/>)

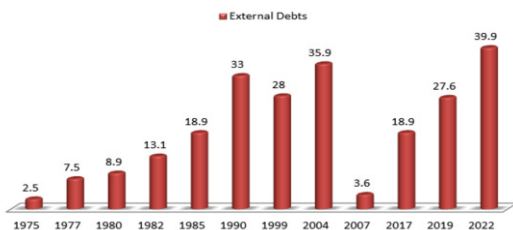
20. London Club - The members are the private banks that lend to Third World states and companies <https://www.cadtm.org/The-London-Club?lang=en>

most heavily indebted countries. According to a DMO report, 85% of this was owed to the Paris Club Creditors while 7% and 6% were owed to multilateral and private creditors respectively.<sup>21</sup>

However, in 2005, Nigeria government and the Paris Club reached an agreement for a debt relief in what was described as a 'Buy-Back-Deal' through which Nigeria saw its external debts reduced significantly when she paid the sum of \$12 billion and the balance of \$18 billion was cancelled (most of which was registered as Aid).<sup>22</sup>

### Trajectory of external debt growth in Nigeria

Nigeria's External Debts Trajectory (\$Billion)



Sources: Nigeria Debt Management Office<sup>23</sup>

This exercise was expected to provide some relief from the massive debt burden and save up some funds for social services and funding of critical sectors such as health and education. However, the relief was short lived as Nigeria's external debt rose drastically from \$3.6 billion in 2007 to \$10.7 billion in December 2015, an indication that the Nigerian Government had embarked on another borrowing spree. By the end of the first term of the President Buhari's administration in June 2019, the external debt figure had risen by 153 % to \$27.1billion. 41% of this was obtained from private creditors<sup>24</sup> and by March 2022 the private debt component of Nigeria's external debt stood at 42.3%.<sup>25</sup> A major reason adduced for the need to borrow a whopping sum of \$12.8billion in a space of 18 months was to address the challenges presented by the Covid-19 pandemic.

However, concerns have been raised over the inability of the government to service or repay these

loans in the future due to reduced inflow and weak revenue generation. Since 2016, Nigeria has consistently operated a budget deficit to the tune of N 2.1 trillion or 20 percent of the total budget in 2020,<sup>26</sup> 39.6 percent in 2021<sup>27</sup> and, 43 percent in 2022,<sup>28</sup> a situation that has meant significant increase in debt accumulation and debt servicing cost.

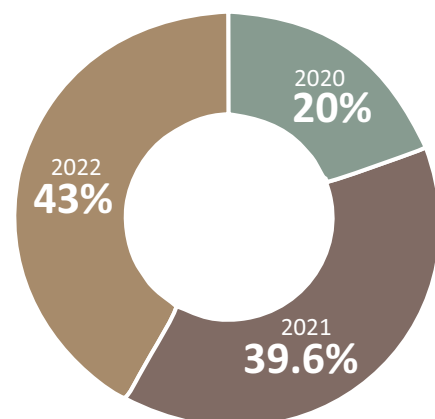
### Legal and Policy Frameworks for Public Debt Management in Nigeria

There are plethora of policy and legal frameworks that Nigeria's Government has put in place to aid effective management of its debt.

These include the **Constitution of the Federal Republic of Nigeria, 1999**, which grants the National Assembly the powers to make laws that regulate domestic and external borrowing in the country as enshrined in item 7 and 50 of the Exclusive Legislative list under the second schedule of the Constitution.

The Constitution enabled the NASS to create the Debt Management Act in 2003, an act that created the nation's Debt Management Office (DMO).<sup>29</sup>

### Nigeria's Budget Deficit Trend (2020-2022)



Source:

- 2020 National Budget Document
- 2021 Citizens Budget
- Budget Office Website

21. DMO (December 2004) Nigeria External Debt Outstanding 1983-2004 <https://dmo.gov.ng/debt-profile/external-debts/external-debt-stock/1107-external-debt-outstanding-1983-2004/file>

22. DMO (October 6, 2005) Nigeria's Debt Relief Deal with the Paris Club <https://www.dmo.gov.ng/publications/other-publications/nigeria-debt-relief/570-nigeria-s-debt-relief-deal-with-the-paris-club/file>

23. <https://dmo.gov.ng/debt-profile/external-debts/external-debt-stock?limit=20&limitstart=60>

24. DMO (June 2019) Nigeria's External debt Stock as of June 30, 2019 <https://dmo.gov.ng/debt-profile/external-debts/external-debt-stock/2944-nigeria-s-external-debt-stock-as-at-june-30-2019/file>

26. <https://budgetoffice.gov.ng/index.php/resources/internal-resources/budget-documents/2020-budget/2020-revised-budget>

27. <https://budgetoffice.gov.ng/index.php/2021-budget-citizen-s-guide?task=document.viewdoc&id=910>

28. <https://budgetoffice.gov.ng/index.php/resources/internal-resources/budget-documents?task=document>

29. Constitution of the Federal Republic of Nigeria, 1999 as Amended

## Debt Management Office Establishment Act, 2003

*The Debt Management Establishment Act is a piece of legislation that gives impetus to the management of public debt in Nigeria and the operation of the Debt Management Office<sup>1</sup> and empowers it to:*

- 1) *prepare and implement a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable level, compatible with desired economic activities for growth and development;*
- 2) *verify and service external debts guaranteed or directly taken by the Federal Government;*
- 3) *set guidelines for managing Federal Government's financial risks and currency exposure with respect to all loans;*
- 4) *advise the minister on the terms and conditions on which monies whether Nigeria's currency or any other currency are to be borrowed; and*
- 5) *establish and maintain relationships with international and local financial institutions, creditors and institutional investors in Governments debts, etc.*

Another important piece of legislation that provides a solid foundation for the management of borrowings in Nigeria and a framework for debt management during a financial year is the **Fiscal Responsibility Act (FRA 2007)**.<sup>30</sup> This provides guidelines on the basis, nature, and purpose of the borrowings permissible under the law. In section 41(1)(a), it specifically provides that all tiers of Government shall only borrow for capital expenditure and human development, provided that such borrowing shall be on concessional terms with low interest rate and with a reasonably long amortization period subject to the approval of the appropriate legislative body where necessary; and for Government to ensure that the level of public debt as a proportion of national income is held at a sustainable level as prescribed by the National Assembly from time to time on the advice of the Minister. This framework created the space for the development of policy options to further manage public debt in Nigeria.

Essentially two policy frameworks were developed, namely:

- **The Medium Term Debt Management Strategy (MTDS)**

The MTDS was developed by the Nigerian Government in compliance with the World Bank/IMF, to guide debt management decisions and operations. It outlines government borrowing plans and provides strategies to manage public debts to achieve a portfolio that reflects cost and risks preferences while creating the link between borrowing, macroeconomic policies and maintaining debt sustainability. The MTDS specifically addresses domestic and external debt management, but emphasizes the need to significantly reduce the growth rate of public debt in general and domestic debt in particular to ensure debt sustainability; and reduce the amount of debt

30. Fiscal Responsibility Act (2007) Section 41 (1)



service by substituting the relatively more expensive domestic debt with the less expensive external debt. This appears to favor external borrowing over the domestic even when in reality, the external debt and particularly the private creditors' debt is often more expensive. The policy, however, stressed the need to optimize the mix between domestic and external borrowing and arriving at a more balanced debt portfolio in ratio 60:40 for domestic and external debt respectively.

### • The National Debt Management Framework.

This looks into the Nigeria's macro-economic reality at any given time and proposes context specific strategies for ensuring fiscal management. Its main purpose is to help government meet its financing needs at the lowest possible cost and at a reasonable degree of risk while also providing guidelines for comparing alternative funding strategies available to it. It also ensures that the Government maintains a total debt burden threshold of not more than 25 % of the GDP as against the international threshold of 40 % for countries in Nigeria's peer group. The framework further states the terms or conditions under which international borrowing can be obtained, that is, concessional terms with a minimum grant element of 35%. However, the aftermath of the Covid-19 pandemic which saw a dip in revenue due to fall in crude oil price and the limited access to concessional funding from the multilateral creditors necessitated a revision of the Debt Management Strategy for the period of 2020 – 2023 to take account of the new economic reality post Covid-19 pandemic.<sup>31</sup>

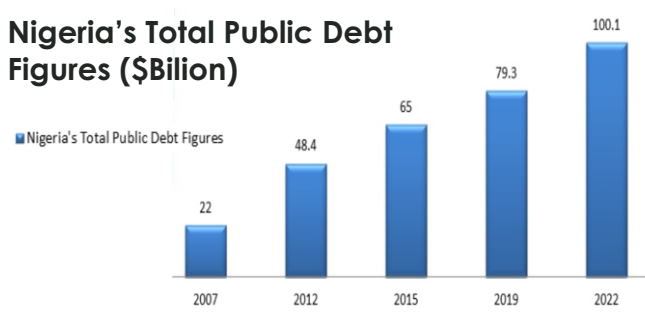
## Debt Management Trends and Implications for Development

Records from both national and international

financial and debt institutions regarding Nigeria's debt reveal a state in crisis, with Nigeria's public debt hitting N 41 trillion (\$100.1 billion both domestic and foreign).<sup>32</sup> After the Paris Club debt cancellation, Nigeria public debt profile grew exponentially from some \$17 billion in 2006 to \$22 billion in 2007 and \$48.4 billion in 2012,<sup>33</sup> to \$65 billion in 2015.<sup>34</sup> By 2019, Nigeria's public debt profile had skyrocketed to \$79.3<sup>35</sup> billion and then to the current level of \$100 billion<sup>36</sup> – an indication of a massive borrowing spree in the face of rising inflation rate of 16.17%<sup>37</sup> and 3.6% economic growth rate in 2021 from a 1.8% contraction in 2020.<sup>38</sup>

This is also despite the seemingly conscious attempt by successive Nigerian governments to manage the national debt profile using situation specific policy frameworks. From a paltry \$3.6 billion in 2006 after the debt cancellation deal, Nigeria's external debt figure had grown by 1,230% to \$39.9 billion as of March 2022. While the Nigerian external debt appears to be sustainable based on the self-imposed 40:60 % provision of the nation's legal and fiscal framework, the external debt service to revenue ratio has consistently beat the threshold of 18 % recommended by the debt management frameworks. For instance, total external debt service in 2020 and 2021 stood at \$1.6 billion and \$2.1 billion respectively,<sup>39</sup> which represented 18.8% of the N3.4 trillion revenue in 2021 and 22% of N3.9trillion actual revenue in 2021.<sup>40</sup>

### Nigeria's Total Public Debt Figures (\$Billion)



Source: Derived from DMO data

N.B: 2022 figure was as at the first quarter of the year only

31. Debt Management Office (2020) Nigeria's Debt Management Strategy 2020 – 2023 <https://www.dmo.gov.ng/publications/other-publications/debt-management-strategy/3469-nigeria-s-medium-term-debt-management-strategy-2020-2023/file>

32. <https://dmo.gov.ng/debt-profile/total-public-debt/3938-nigeria-s-total-public-debt-as-at-march-31-2022/file>

33. <https://dmo.gov.ng/debt-profile/total-public-debt/53-public-debt-stock-31-12-2012/file>

34. <https://dmo.gov.ng/debt-profile/total-public-debt/60-total-public-debt-stock-as-at-31st-december-2015/file>

35. <https://dmo.gov.ng/debt-profile/total-public-debt/2765-nigeria-s-total-public-debt-stock-as-at-december-2018/file>

36. <https://dmo.gov.ng/debt-profile/total-public-debt/3938-nigeria-s-total-public-debt-as-at-march-31-2022/file>

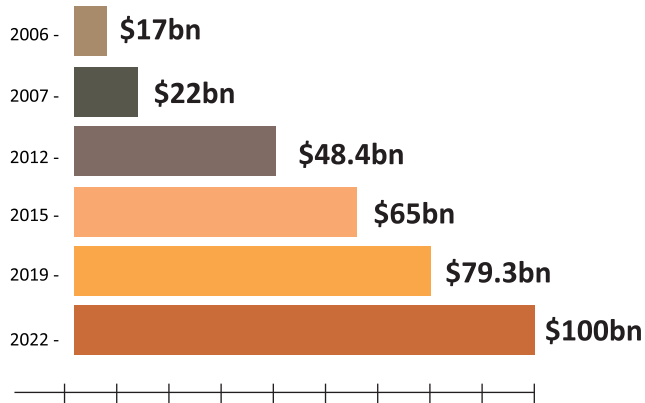
37. <https://nigerianstat.gov.ng/elibrary/read/1241134>

38. [https://www.afdb.org/en/countries-west-africa-nigeria/nigeria-economic-outlook#:~:text=Nigeria's%20economy%20grew%20by%203.6,%25%20and%20services%20\(5.6%25\).](https://www.afdb.org/en/countries-west-africa-nigeria/nigeria-economic-outlook#:~:text=Nigeria's%20economy%20grew%20by%203.6,%25%20and%20services%20(5.6%25).)

39. <https://dmo.gov.ng/debt-profile/external-debts/debt-service>

40. <https://www.vanguardngr.com/2021/10/fg-generates-73-of-its-tar>

## Nigeria's Public Debt Profile after Paris Debt Cancellation



Sources: Public Debt Stock 2012, 2015, 2018 and March 31, 2022 Debt Management Office (DMO)

Nigeria has consistently used most of its total annual revenue in debt servicing.<sup>41</sup> In 2020 and 2021, total public debt servicing was N2.4 trillion<sup>42</sup> representing 76% of annual revenue and \$2.9 trillion in 2021 representing 74% of annual %total revenue.<sup>43</sup> The World Bank in January 2022 warned that the Nigeria public debt, though considered sustainable now, is vulnerable and costly. Concern was raised about the cost of debt servicing, which according to the World Bank, disrupts public investment and critical service delivery spending.<sup>44</sup> The massive increase in external debt portfolio is a sign of poor debt management by the country's handlers.

Nigeria is not alone. The increase in the public debt profile and in particular, external debt figures of many lower income countries is premised against the background of insufficient international public finance flows and limited access to concessional resources, and this has compelled them to increasingly raise finance on commercial terms in international markets, thereby exposing them to higher risk of debt contracts. In many cases, factors such as the impact of Covid-19 pandemic and political instability have heightened the level of public debt unsustainability. The outbreak of Covid-19 pandemic in 2020 had a significant toll, contributing to massive capital outflow, reduction

## External Debt Service (EDS) to Revenue (Rev.) (2020-2021)

EDS 2020

**\$1.55bn**

Revenue 2020 - N3.4tn

Percentage of EDS to Rev was **18.8%**

EDS 2021

**\$2.132bn**

Revenue 2021- N3.9 trillion

Percentage of EDS to Rev was **22%**

Sources:

- External Debt Service, DMO
- Vanguard Newspaper October 10, 2021

in Foreign Direct Investment, sharp fall in export earnings, collapse of manufacturing industry and the eventual slump in prices of commodities.<sup>45</sup> Governments scammed for quick loans from international capital markets to meet rising public expenditure, paving the way for the rise of a new frontier of creditors – the private creditors. The domination of international finance by private creditors sets the stage for development crisis among emerging and developing economies.

Commercial loans obtained from the international capital markets come with higher interest rates and conditionality that mean repayment or servicing eat deep into national government budgets. For instance, commercial loans and promissory notes constitute about 40% of Nigeria's external debt obligations.<sup>46</sup> These borrowings or loans have serious implication on government's ability to sustain development as resources needed to engineer economic growth are used to service what

41. IMF (February 2022) 2021 Article IV Consultation—Press Release; Staff Report; Staff Statement, And Statement By The Executive Director For Nigeria <https://www.imf.org/-/media/Files/Publications/CR/2022/English/1INGAEA2022001.ashx> p.50.

42. <https://dmo.gov.ng/debt-profile/domestic-debts/domestic-debt-service>

43. <https://www.premiumtimesng.com/news/headlines/489041-inside-nigerias-debt-crisis-how-foreign-loan-under-buhari-triples-past-govts-combined-figure.html>

44. <https://punchng.com/nigerias-debt-vulnerable-costly-alerts-world-bank/>

45. <https://sdgpulse.unctad.org/debt-sustainability/>

46. <https://dmo.gov.ng/debt-profile/external-debts/external-debt-stock/3852-nigeria-s-external-debt->

### 5 Years Trend of Nigeria's Public Debt Service to Revenue 2018-2022

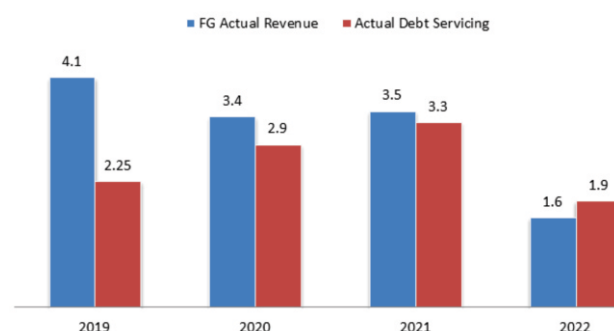
Year	Debt Service (N)	Actual Revenue (N)	% of Debt Service to Actual Revenue
2018	N 2.2tn	N 7.17tn	30
2019	N 2.3tn	N 4.1tn	55
2020	N 2.9tn	N 3.4tn	85
2021	N 3.32tn	N 3.49tn	97
2022 – as @ April	N 1.9tn	N 1.6tn	118.7
Total	N 12.62tn	N 19.76tn	63.87

are often non-performing loans.<sup>47</sup> In a bid to sustain these debts the Federal Government spends trillions of naira yearly on debt servicing to cover the repayment of interest and principal of public debt obligations. This has continued to limit government's capital spending and its ability to deliver on other social goods.

In 2016, Nigeria had a total public budget outlay of N6.6 trillion.<sup>48</sup> By way of comparison, Nigeria spent over N11 trillion on debt (domestic and external) servicing between January 2017 and March 2022.<sup>49</sup> Thus, the last five years has seen debt servicing gulp up over 60 % of the country's annual revenue and about 30 % of total budget while capital expenditure receives much less budgetary allocations. In 2018 alone, Nigeria government's total debt servicing was N2.2 trillion which represented 30 % of its total revenue of N 7.17 trillion. This is despite the fact that the government had to borrow N 1.9 trillion to make up for the budget deficit.<sup>50</sup> In 2019, N 2.3 trillion was spent on debt servicing, representing 55% of generated revenue of N 4.1 trillion;<sup>51</sup> in 2020, it had retained revenue of N3.4 trillion and debt servicing of N 2.9 trillion representing 85%.<sup>52</sup> In 2021, the

total sum of N3.32 trillion was expended on debt servicing, representing 97% of the total actual revenue of N3.49 trillion.<sup>53</sup> For the first time in Nigeria history, debt servicing surpassed its revenue<sup>54</sup> in April 2022, when Nigeria's retained earnings were N1.6 trillion but spending on debt servicing reached N1.9 trillion, representing 118.7% of the total retained revenue for the period.<sup>55</sup>

### Nigeria's Servicing to Revenue (N trillion)



Derived from Annual Budget Implementation Data  
N.B: 2022 figures was as at 1<sup>st</sup> quarter only

Perhaps even more significantly, capital allocation in each of the years under review, at between 25 and 30% of the total national budget, has suffered significant decline, suggesting debt servicing obligations compete with funds for capital expenditure. Between 2017 and 2022, Nigeria allocated a total of N19.16 trillion for capital expenditure.

According to the nation's Debt Management Office, in 2017, it spent N2.17 out of N7.44 trillion aggregate revenue as capital expenditure, or about 29 % of the total revenue in that year. In 2018, N2.8 trillion was allocated to capital projects, which was 31.5 percent of the N9.1 trillion total budget. In 2019 and 2020, N2.09 trillion and N2.14 trillion respectively were allocated capital expenditure. The figures represented 23.4% and 20.7% of aggregate expenditure for the years, which was

47. [https://www.un.org/en/ecosoc/docs/pdfs/fina\\_o8-45773.pdf](https://www.un.org/en/ecosoc/docs/pdfs/fina_o8-45773.pdf)

48. <https://www.budgetoffice.gov.ng/index.php/2016-budget>

49. <https://www.thisdaylive.com/index.php/2021/09/14/debt-service-gulps-n11-679tn-in-five-years/>

50. <https://www.budgetoffice.gov.ng/index.php/2018-budget>

51. Budget Office of the Federation 2019 Forth Quarter and Consolidated Budget Implementation Report

<https://budgetoffice.gov.ng/index.php/2019-fourth-quarter-budget-implementation-report?task=document.viewdoc&id=812> Pg 32 & 35

52. 2020 Fourth Quarter and Consolidated Budget Implementation Report <https://www.budgetoffice.gov.ng/index.php/quarterly-budget-implementation-reports?task=document.viewdoc&id=950> Pg 32&35

53. 2021 Third Quarter and Consolidated Budget Implementation Report <https://www.budgetoffice.gov.ng/index.php/resources/internal-resources/budget-documents/2021-budget>

\* As at third quarter 2021

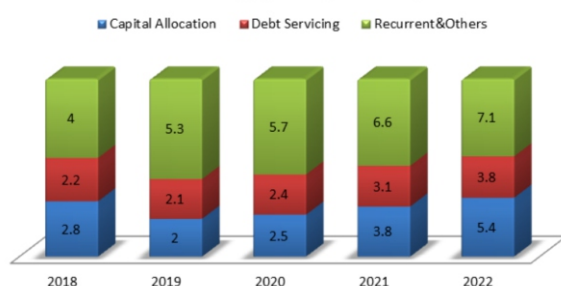
54. <https://economicconfidential.com/2022/07/just-finally-nigeria-debt/>

55. <https://www.premiumtimesng.com/news/headlines/544274-nigerias-debt-mounts-as-govt-generates-n1-6-trillion-spends-n4-7-trillion.html>

N8.92 trillion and NN10.33 trillion respectively while debt servicing for the same period was 24% and 22.9% respectively.

The amount budgeted for capital expenditure saw an increase in 2021 and 2022 as N4.99 trillion and N4.891 trillion were budgeted for capital projects, 34.2 % and 29.8% of aggregate expenditure for those years ( N14.57 trillion and N16.39trillion respectively).<sup>56</sup>

**Nigerian Budget Outlay: Capital Vs Debt Servicing (Naira, trillion)**



While loan repayment is essential, if the trajectory continues, the country may in the long run borrow more to service existing debt, while facing a serious challenge of funding infrastructural projects and other public services. The government has argued that Nigeria's debt is sustainable,<sup>57</sup> but it is important to note that for a nation that depends almost entirely on sales of crude oil for 65% of its revenue and 90% of its foreign exchange earnings, the impact of global shocks would mean that it will struggle to meet the needs of its citizens and meet existing loan obligations. Reduced government spending may also affect the aggregate economy, leading to economic stagnation or contraction, and increase poverty and widen inequality. Nigeria's public expenditure in proportion of GDP has fallen since 1970. This was confirmed by the Director General of the Budget Office of the Federation, Mr. Ben Akabueze, who showed how Nigeria lags behind its African peers in this respect.<sup>58</sup> In 2020, Nigeria expenditure to GDP was 8.7% lower than South Africa (20%), Algeria (20.1%), Congo (17.7%)

**6 Year Trend of Nigeria's Capital Expenditure to Revenue 2017-2022**

Year	Capital Expenditure (N)	Actual Revenue (N)	% of Capital Expenditure to Actual Revenue
2017	N 2.17tn	N 7.44tn	29
2018	N 2.8tn	N 9.1tn	31.5
2019	N 2.09tn	N 8.92tn	23.4
2020	N 2.14tn	N 10.33tn	20.7
2021 (Budget)	N 4.99tn	N 14.57tn	34.2
2022 (Budget)	N 4.89tn	N 16.39tn	29.8
Total	N 19.08tn	N 66.75tn	28.58

even Niger (15%).<sup>59</sup> This shows the seriousness of the Nigeria financial situation occasioned by massive debt repayment and how it has stifled government spending ability.

Debt Overhang Theory<sup>60</sup> helps explain how the high cost of servicing huge public debt in Nigeria is affecting investment in critical sectors that can sustain growth. Nigeria's debt overhang or debt-crowding is the cause of its stunted economic growth with all its real sectors bearing the brunt of low investment. High debt burden may also be a driver of capital flight by creating risks of devaluation and thus the desire to protect the real value of financial assets. Capital flight in turn reduces domestic savings and investment, thus reducing the chances of economic growth, the tax base and thus debt servicing capacity.

The diversion of foreign exchange to debt servicing in the face of growing devaluation of the naira also limits import capacity of the country, competitiveness in production, and investment in real sectors (the manufacturing/industrial sector) and by extension overall economic growth.<sup>61</sup> Examples of indicators that address the issue of debt sustainability include the public sector debt service ratio, and ratios of public debt to GDP and to tax revenue.<sup>62</sup>

56. <https://dmo.gov.ng/debt-profile/external-debts/debt-service?limit=20&limitstart=20>

57. <https://guardian.ng/news/nigeria-not-under-any-debt-stress-dmo-insists/>

58. <https://www.thisdaylive.com/index.php/2021/04/27/akabueze-nigeria-lags-behind-african-peers-in-public-expenditure-to-gdp-ratio/>

59. [https://www.theglobaleconomy.com/rankings/government\\_size/Africa/](https://www.theglobaleconomy.com/rankings/government_size/Africa/)

60. <https://documents1.worldbank.org/curated/en/929321468330044143/pdf/wps673.pdf>

61. <https://www.tandfonline.com/doi/full/10.1080/23322039.2021.1946249>

62. <https://www.imf.org/external/n>

## Debt Overhang Theory

The Debt Overhang Theory posited that large borrowing or debt leads to debt traps and has direct impact by slowing down the economy, particularly when ability to generate revenue is low. According to the debt overhang hypothesis, if future government debt is larger than the country's repayment ability, expected debt service costs discourages further domestic and foreign investment. Countries in financial distress find it difficult to raise capital for new investments because the proceeds from these new investments mostly serve to increase the value of the existing debt instead of equity leading in most cases to extreme level of borrowings including borrowing from expensive sources like private creditors. The theory further argued that the requirement to service debt reduces funds available for investment purposes; hence, a binding liquidity constraint on debt would restrain investment and further retard growth. The theory holds that both the stock of public debt and its service affect growth by discouraging private investment or altering the composition of public spending. Debt service may discourage growth by squeezing the public resources available for investment in infrastructure and human capital as it can be seen in the case of Nigeria.



# Nigeria

## Debt Profile

Government borrowing becomes necessary when government revenue sources are inadequate to finance growing government expenditure requirements. The Nigerian economy has witnessed poor revenue growth because of over-dependence on volatile oil revenue<sup>63</sup> and low tax capacity.

Nigeria Debt profile as at March 2022 stood at N41.6 trillion (\$100billion) with the possibility of further increase to N45 trillion before the end of 2022 as the Debt Management Office planned to borrow an additional N5.02 trillion (of which N2.5 trillion was domestic and N2.5 trillion foreign) to finance the 2022 budget deficit.<sup>64</sup> External debt composition as at March 2022 stood at N16.6 trillion (\$39.9 billion) representing about 40% of Nigeria's total public debt as at the first quarter of 2022.<sup>65</sup>

### Nigeria's Total Public Debt Portfolio as at March 31, 2022

	Debt Category	Amount Outstanding (US\$'M)	Amount Outstanding (N'M)	% of Total
A	Total External Debt	39,969.19	16,617,190.74	39.94%
B	Total Domestic Debt	60,100.70	24,986,866.71	60.06%
	FGN Only	48,452.26	20,144,027.72	48.42%
	States & FCT	11,648.44	4,842,838.99	11.64%
C	Total Public Debt(A+B)	100,069.89	41,604,057.45	100%

Source: DMO

According to the International Monetary Fund's (IMF) 2021 Article IV estimates, Nigeria spent 85.5% of its revenue on servicing the debt in 2021. Comparatively, South Africa spent only 20% of its receipts on debt servicing in the same year.<sup>66</sup> At the end of September 2021, it was reported, the debt-servicing-to-revenue ratio already stood at 76 %, implying that 76 kobo out of every N 1 earned by the government was spent on payment of interest on debts.<sup>67</sup> As the country's debt stock has increased considerably over the past decades, a trend generally connected with expansion of government expenditures, the associated repayment and servicing costs have diverted funds away from provision of basic infrastructures and services that benefit the poor. For 2022, aggregate Federal Government spending was projected at N 17.1 trillion, 18% higher than the 2021 budget.

Nigeria has a double challenge of a low revenue base and a huge infrastructure gap. While the government has remained committed to infrastructure development with significant improvements recorded over the years, the country's revenue to GDP ratio has remained low at 9.0% compared to comparable countries like Ghana (12.5%), Kenya (16.6%), Angola (20.9%), and South Africa (25.2).<sup>68</sup> A major challenge confronting Nigeria is revenue generation and this can strongly be linked to dwindling oil revenue which has led to increasing reliance on debt as a way of financing the country's annual budget. Despite the potential of taxes to serve as a sustainable source of revenue, Nigeria has failed to tap into the enormous window for raising its revenue due to poor tax compliance and regressive tax policies. Hence the rising public debt level that stems from borrowings to fund recurring budget deficits. These new borrowings are approved by the Federal Executive Council (FEC) and the National Assembly (NASS) as required by the Fiscal Responsibility Act, 2007, and the Debt Management Act, 2003.

63. <https://businessday.ng/energy/oilandgas/article/nigerias-oil-sector-contribution-to-gdp-among-lowest-in-opec/>

64. <https://www.thisdaylive.com/index.php/2022/05/16/amid-n6-26trn-2022-budget-deficit-fg-raises-n984-28bn-via-bonds-in-4-months/>

65. DMO (March 31, 2022) Nigeria Public Debt Portfolio As At March 31, 2022. <https://dmo.gov.ng/debt-profile/total-public-debt/3938-nigeria-s-total-public-debt-as-at-march-31-2022/file>

66. <https://punchng.com/nigeria-spends-86-of-revenue-on-debt-servicing-south-africa-pays-20/>

67. <https://guardian.ng/news/nigeria-to-spend-92-of-2022-revenue-on->

68. DMO explains Nigerias debt profile The Sun Nigeria ([sunnewsonline.com](https://www.sunnewsonline.com))

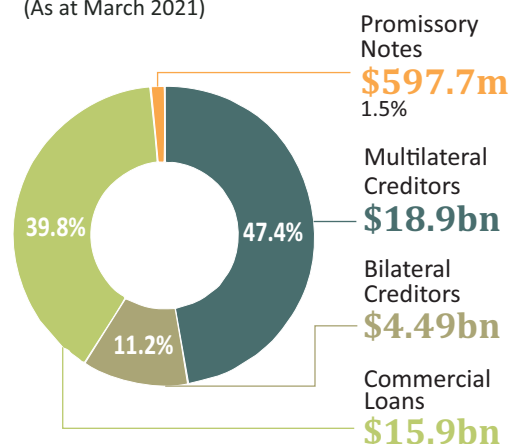


## Nigeria External Debt Profile

Nigeria's external debt is composed of multilateral, bilateral and commercial loans and debts to promissory notes holders. As at March 2022, Nigerian debt to the multilateral creditors stood at \$18.9 billion, representing 47.4% of the total external debt stock. The amount owed to bilateral creditors stood at \$4.49 billion representing 11.2% (81% of which is owed to China, which also received 95% of the interest payment to the bilateral creditors).<sup>69</sup> Commercial loans stood at \$15.9 billion (39.8%). Promissory notes stood at \$597.7 million (1.5%).<sup>70</sup>

## Composition of Nigeria's External Debt Profile

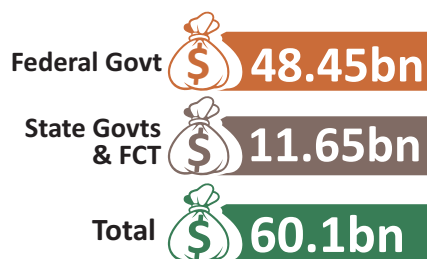
(As at March 2021)



Source: DMO

## Nigeria's Domestic Debt Profile

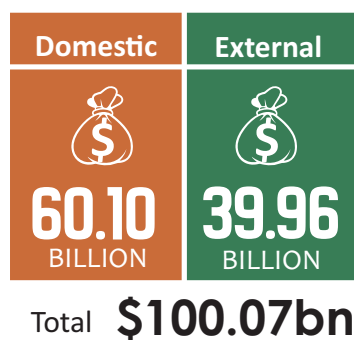
(As at March 2022)



Source: Debt Management Office (DMO)

## Nigeria's Public Debt Profile

(As at March 2022)



Source: DMO

## Composition of Debts to Multilateral Creditors

International Monetary Fund	\$3.395bn
World Bank Group (International Development Association)	\$12.23bn
World Bank Group (International Bank for Reconstruction and Development)	\$486.1m
African Development Bank Group (African Development Bank)	\$1.553bn
Islamic Development Bank	\$45.27m
International Fund for Agriculture Development	\$238.2m
<b>Total</b>	<b>\$18.96bn</b>

69. <https://dmo.gov.ng/debt-profile/external-debts/debt-service/3936-nigeria-s-actual-external-debt-service-payments-in-1st-quarter-2022/file>

70. [https://dmo.gov.ng/debt-profile/external-debts/external-debt-stock/3935-nigeria-s-external-debt-stock-as-at-march-31-2022/file\\_\\_](https://dmo.gov.ng/debt-profile/external-debts/external-debt-stock/3935-nigeria-s-external-debt-stock-as-at-march-31-2022/file__)

African Development Bank  
Group (Africa Growing  
Together Fund)

**\$4.72m**

African Development Bank  
Group (African Development  
Fund)

**\$956.2m**

Arab Bank for Economic  
Development in Africa

**\$5.7m**

European Development  
Fund

**\$43.59m**

### Composition of Bilateral Profile

China (Exim Bank of China)

**\$3.667bn**

France (Agence Francaise  
Development)

**\$567.9m**

Japan (Japan International  
Cooperation Agency)

**\$67.96m**

India (Exim Bank of India)

**\$28.33m**

Germany (Kreditanstalt Fur  
Wiederaufbau)

**\$164.1m**

**Total**

**\$4.49bn**

### Composition of Nigeria's Commercial Loans Profile

Eurobonds

**\$15.62bn**

Diaspora Bond

**\$300m**

**Total**

**\$15.92bn**

*"While loans from concessional sources such as the International Development Association (an arm of the World Bank) are relatively cheaper, as stated above, they are limited in amount. In addition, they are not available for financing infrastructure and other capital projects. Thus, Nigeria accesses concessional and semi-concessional loans **as may be available**, while issuing Eurobonds to part finance the annual budgets and the infrastructure projects contained therein."-DMO*



Nigeria's limited access to concessional loans due to its heavy indebtedness (see page 25) has forced it to take commercial loan at much higher interest rates.<sup>71</sup> According to data obtained from the Nigeria Debt Management Office (DMO), this is done through the issue of Eurobond and Diaspora Bond which have interest rates of between 5.1% and 9.2%.<sup>72</sup> This practice is against the stated objective of the Debt Management Strategy for 2020-2023, which seeks to maximize funding from multilateral and bilateral sources in order to access cheaper and long term funding.<sup>73</sup> However, in considering the alternative debt management strategy, the Strategy Document, in view of limited concessional funding options,<sup>74</sup> opted to source fund from the international capital market, a move that portends grave danger to the nation's debt sustainability and also marginally tilts its external borrowing ratio from its previous sustainable level of 40 % to 57 % in 2022 and planned to further increase it to 59 % in 2023.<sup>75</sup>

## Identity of Nigeria's Private Creditors

While Nigeria's commercial loans comprise of Eurobonds and Diaspora Bonds, there is little or no detail available as to the specifics of whom the bond holders are. Some of the Eurobond holders are private creditors but details at the time of this study had not been made available by the DMO. Data from DMO however confirmed that Nigeria owes about 41 % of its external debt to private creditors, particularly bond holders.<sup>77</sup> The European Network on Debt and Development found that Nigeria owed some 224 Private Creditors (bondholders) as at 2020. The top five included Alliance Bernstein (USA) with 12 bonds valued at \$588.5 million; BlackRock (USA) with 9 bonds valued \$324 million; TCW Asset Management Company (USA) with 6 bonds worth \$240.4 million; Amundi Asset Management Company (USA) with 9 bonds worth \$176.17 million and JP Morgan (USA) with 8 bonds valued at \$164.46 million.<sup>78</sup> This has significant implications for the amount of money spent on private debt servicing.

Nigeria's Debt Management Strategy and Targets 2020 to2023 (Source: DMO <sup>76</sup> )				
		2016-2019 Target	2019 Actual	2020-2023 Target
Portfolio Composition	Domestic: External	60:40	67:33	Max. 70:Min. 30
	Domestic Debt Mix: Long: Short	75:25	81:19	Min. 75:Max. 251
Risks ratios				
Refinancing	Debt maturing in 1 year as % of total debt	Max. 20%	13.77%	Max. 20%
Interest rate	Average Time to Maturity (Years)	Min. 10 years	10.50 years	Min. 10 years
	Variable Rate Debt as % of Total Debt	N/A	2.98%	Less than 5%
Fiscal Sustainability ratios				
	Debt as % of GDP	25%	19.00%	40%
	Deficit to GDP (%)			3%3
	Sovereign Guarantees as % of GDP	N/A4	1.98%	Max. 5%

71. <https://www.vanguardngr.com/2022/07/fg-borrowing-according-to-budget-dmo/>

72. <https://dmo.gov.ng/debt-profile/external-debts/debt-service/3936-nigeria-s-actual-external-debt-service-payments-in-1st-quarter-2022/file>

73. <https://www.dmo.gov.ng/publications/other-publications/debt-management-strategy/3469-nigeria-s-medium-term-debt-management-strategy-2020-2023/file>

74. <https://businessday.ng/news/article/eurobond-not-major-source-of-government-debt-funding-dmo/>





















75. <https://www.dmo.gov.ng/publications/other-publications/debt-management-strategy/3469-nigeria-s-medium-term-debt-management-strategy-2020-2023/file>

76. <https://www.dmo.gov.ng/publications/other-publications/debt-management-strategy/3469-nigeria-s-medium-term-debt-management-strategy-2020-2023/file> page XVI.

77. DMO.gov.ng

78. Eurodad (May2021) Sleep Now in the fire: Sovereign Bond and the Covid-19 Debt Crisis [https://www.eurodad.org/sovereign\\_bonds\\_covid19](https://www.eurodad.org/sovereign_bonds_covid19)

## List of Nigeria's Private Creditors

Managing Firm Name	USD Millions (Par)	Bonds Held
 AllianceBernstein	588.5	12
 BlackRock	324	9
 TCW Asset Management Company	240.477	6
 Amundi Asset Management	176.172	9
 JP Morgan	164.461	8
 Amundi Asset Management	153.79	6
 PIMCO	140.787	15
 Fidelity Investments	137.069	14
 Amundi Asset Management	109.588	8
 NNIP Advisors B.V.	107.102	6
 UBS Asset Management	92.759	9
 Invesco	88.344	6
 PIMCO	85.894	10
 MFS Investment Management	75.604	7
 JP Morgan	70.658	12
 TIAA Global Asset Management	70.075	9
 Fidelity Investments	66.9	10
 Lord, Abbett & Co LLC	66.852	7
 T Rowe Price Associates Inc	63.17	9
 RBC Global Asset Management Inc	62.533	3

Source: Eurodad.org (See more from appendix table)

## Differences in Interest Rates

While multilateral and bilateral debts are mostly concessional loans with interest rates ranging from 1.0% to 3%, Interest rates of private creditors, according to the data obtained from the DMO, ranges between 6 and 9%.

The differences in interest rates have important implications for Nigeria's escalating debt servicing

## Interest Paid to External Creditors 2019-2022

Creditors	2019	2020	2021	2022
Multilateral Creditors	\$80.1M	\$262.5M	\$92.9M	\$58.2M
Bilateral Creditors	\$80.2M	\$155.4M	\$103.5M	\$59.9M
Bondholders	\$787.8M	\$840.1M	\$823.2M	\$246.1M

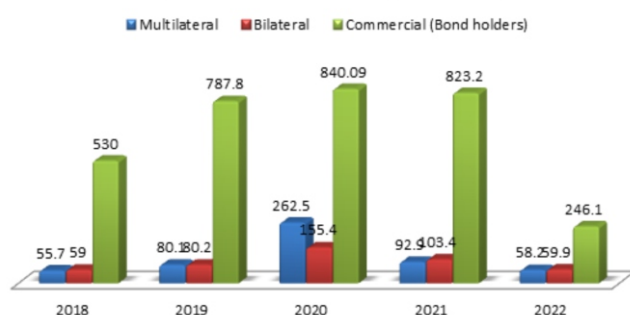
Source: DMO



costs. In 2018, Nigeria paid a total of \$55.7 million to multilateral creditors and \$59 million to bilateral creditors but paid a whopping sum of \$530 million to Euro and Diaspora bondholders, over three times more than what was paid to the other categories of creditors combined.<sup>79</sup> In 2019, \$80.1 million interest was paid to multilateral creditors, while \$80.2 million was paid to bilateral creditors.

Bondholders gulped the highest amount of \$787.8 million representing about 400 % more than payment to other categories combined. 2020 was no different as interest payments to bondholders amounted to \$840 million which is twice what was paid to multilateral and bilateral creditors combined.<sup>80</sup> The trend continues in 2021 as the total sum of \$823.21 million was paid as interest to bondholders while \$92.9 million and \$103.45 million were paid to multilateral and bilateral creditors respectively.<sup>80</sup> As of the first quarter of 2022, bondholders had received a total of \$246.1 million in interest payment while multilateral and bilateral received \$58.2 and \$59.9 million respectively.

#### Interest Payment to External Creditors by Nigeria Government (\$'million)



Derived from the calculations done on interest payment to External creditors from DMO Website

### Impact of Exchange Rate on Loan Servicing and Repayment

Exchange rates have an important impact on loan repayments, particularly as Nigeria has been

affected by excessive volatility of the naira against major currencies since the adoption of flexible exchange rate regimes in 1986.<sup>82</sup> Sustained exchange rate volatility has led to currency crises in Nigeria and in recent times has contributed to the sovereign debt crisis, particularly as foreign currencies dominate Nigeria's public debt landscape. Considering the volume of Nigeria's external debt, the length of repayment terms (some bonds have a maturity period of 20 or 30 years), and interest rates (particularly the expensive nature of commercial loans), a substantial amount of foreign earnings will be used to service and repay debt with heavy opportunity cost transferred to the future generations, who will suffer the consequences of today's debt servicing and repayment, as they are deprived access to basic social services and infrastructure in order to repay 'odious loans' taken now. Funds obtained in 2011 when the exchange rate was \$1 = ₦155.98 is now being repaid at an exchange rate of \$1 = ₦417.<sup>83</sup>

Exchange rate volatility will mean that more naira or foreign earnings will be needed to repay loans which have also grown in value, depleting the nation's foreign reserves. For example, the \$13.1 billion Paris Club loan Nigeria took in 1964, despite having been serviced to the tune of several billions in repayment, grew to \$28 billion outstanding by 2005 partly as a result of exchange rate fluctuation over the years.

Thus, foreign exchange volatility has been contributing to rise in foreign exchange component of external debt portfolio. Data from DMO shows a consistent rise in foreign exchange component of public debt since 2017 with 33 % being the highest component between 2015 and 2019.

79. <https://dmo.gov.ng/debt-profile/external-debts/debt-service/2764-actual-external-debt-service-payments-from-january-to-december-2018/file>

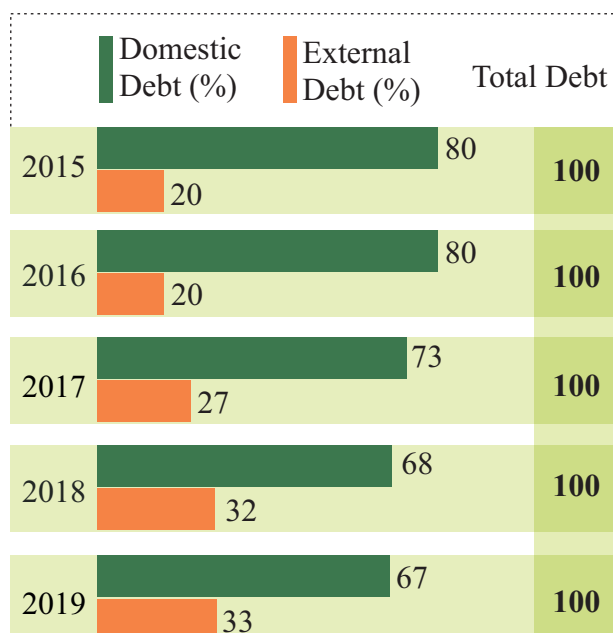
80. This was partly due to the massive borrowing from all the external sources during this period due to need to curtail Covid-19 emergency impact.

81. <https://dmo.gov.ng/debt-profile/external-debts/debt-service/3118-actual-external-debt-service-payments-from-january-to-december-2019/file>. (2019, 2020 and 2021 files)

82. [https://www.cbn.gov.ng/out/2013/sd/exchange%20rates%20volatility%20in%20nigeria\\_article%206.pdf](https://www.cbn.gov.ng/out/2013/sd/exchange%20rates%20volatility%20in%20nigeria_article%206.pdf)

83. For clarification purpose, the exchange rate used for all the analysis done in this report is the official CBN exchange rate in the particular year of the transaction.

### Trend in Foreign Exchange Component of Debt Portfolio, 2015-2019



Source: DMO

The percentage of the foreign exchange component of the debt portfolio has been on the increase since 2017. It should be noted that the higher the foreign exchange component of the debt portfolio, the higher the debt burden due to the constant depreciation of Nigeria's currency, because Nigeria will pay more than expected. This explains why the Paris Club loan of \$8 billion obtained in 1985 grew to \$31 billion (debt burden) by 2004 due to accumulated interest and penalty on one hand and devaluation occasioned by exchange rate volatility on the other hand, despite yearly servicing.<sup>84</sup> With the increasing borrowing, particularly from external sources to augment yearly budget deficit and the free fall of the naira against foreign currencies, Nigeria is more vulnerable to massive debt burden that will have pronounced and lasting effect on government future spending.

### Debt Relief Initiative and Private Creditors' Positions

The first ever debt relief initiative that Nigeria

benefited from was the Paris Club Debt buy-back deal of 2005. This arrangement was reached as a result of the continuous failure of the Nigerian government to repay its longstanding loans. With the return to democracy in 1999, Nigeria called for a debt relief package, claiming that its' spending on interest repayments, which amounted to more than spending on health care and education, was impeding the achievement of its Millennium Development Goals.<sup>85</sup> This debt relief effort yielded fruit on June 29, 2005, when the Paris Club and Nigeria agreed on a US\$18 billion debt relief package.

Barely two decades after the debt relief initiative was completed, Nigeria is again at a crossroads as its external debt burden has reached an all-time peak of \$40 billion compared to the \$3 billion outstanding in 2005 after the debt relief deal.

Rather than consolidating on the gain from debt deal by pushing forward with economic reforms to enhance national debt sustainability, Nigeria has again been enmeshed into a massive debt trap where the call for another debt relief initiative is imminent. With a total public debt burden of \$100.1 billion and a growing revenue uncertainty which has resulted in using 70-80 % of generated revenue in debt servicing coupled with limited access to concessional loans from multilateral and bilateral sources, Nigeria appears to be heading towards a serious debt crisis.

The recent surge in the level of public debt of emerging markets and increased level of non-concessional loans from private lenders and non-Paris Club members, and following the devastating effect of the Covid-19 pandemic on these countries, the World Bank, IMF and the G20 leaders packaged a debt relief program called the Debt Service Suspension Initiative (DSSI) that allowed world's poorest countries to suspend repayment of official bilateral credit in order to meet the growing needs of populations and save lives.<sup>86</sup> However, Nigeria did not at first benefit, mainly because, as one of the

84. Botti, I et al (2005) Whose Burden: Examining the Growing Public Debt Crisis in Nigeria [https://saction.org/wp-content/uploads/publications/whose\\_burden.pdf](https://saction.org/wp-content/uploads/publications/whose_burden.pdf)

85. <https://www.dmo.gov.ng/publications/other-publications/nigeria-debt-relief/570-nigeria-s-debt-relief-deal-with-the-paris-club/file>

86. <https://www.worldbank.org/en/news/factsheet/2020/05/11/debt-relief-and-covid-19-coronavirus>



World Bank's largest borrowers, it is not covered under the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries. Nigeria fell short in the Framework's Debt Sustainability Analysis (DSA) and overshot the Debt Burden Threshold and Benchmarks under the DSF (particularly using the debt servicing to revenue benchmark).<sup>87</sup> Another reason for Nigeria pulling out of the arrangement, although eligible, was the fear of a downgraded credit rating affecting its chances with private creditors.<sup>88</sup> The concern was that asking for debt relief might convey the wrong signal to bondholders and other private creditors that now constitute the bulk of its borrowings.<sup>89</sup> Although the DSSI did not cover commercial loans, Nigeria could have benefited from relief on other debt including from China, one of Nigeria's biggest creditors,<sup>90</sup> had it taken advantage of the window created by the Debt Service Suspension Initiative.

Nigeria was also unable to benefit from the Catastrophe Containment and Relief Trust (CCRT) established in 2015 during the Ebola outbreak and re-activated in 2020 to last up to June 2022, to help poor countries deal with the impact of Covid-19 outbreak. This provides grants to eligible low-income member countries that are hit by the most catastrophic of natural disasters or battling public health disasters, to pay debt service costs owed to the IMF by freeing up resources to meet exceptional balance of payments needs created by the disaster rather than having to use those resources on debt service.<sup>91</sup> Nigeria did not benefit from this debt relief initiative due to its ineligibility to borrow concessional loans.

In a bid to support countries to achieve the Sustainable Development Goals (SDG) and to contribute to the attainment of the Paris climate goals, a new debt relief package, the Debt Relief for a Green and Inclusive Recovery Initiative, proposes that the debts and debt servicing costs of developing countries are to be reduced in return for clear and measurable commitments and investments into

## Nigeria in massive Debt Trap



programs and projects towards the achievement of the SDGs and the Paris Climate Agreement. To decide eligibility, the World Bank and IMF are expected to enhance their debt sustainability analysis to include climate and other sustainability risks and needs in their assessment. If a country is adjudged to have unsustainable public debt, debt relief, equally involving public and private creditors, would be granted. To ensure private creditors' participation, multilateral agencies are to establish guarantee facilities that would facilitate debt relief negotiations and provide credit enhancements for new "green and inclusive recovery" of bonds that would be swapped for old debt.<sup>92</sup>

As developing nations look forward to possible succor from multilateral and bilateral institutions that offer debt relief programs, the future seems bleak for countries that have become heavily indebted to private creditors. The entrance of private creditors into the international finance landscape and the huge shift to non-concessional loans as a result of limited access to concessional loans by developing countries, as well as the refusal of these private creditors to participate in debt relief initiatives, means that a country like Nigeria will continue to struggle with its huge debt burden. At the moment, there is no ongoing debt relief initiative by

87. <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries>

88. Access to private finance can be, and has been, reduced for DSSI countries that requested debt suspension, because credit rating agencies downgraded their credit rating (which makes private credit too expensive or a no-go).

89. <https://economicconfidential.com/2022/03/world-bank-nigeria-couldnt-save-342-1m-with-dssi/>

90. <https://www.thecable.ng/breaking-nigeria-gets-debt-relief-from-china-g-20>

91. <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/49/Catastrophe-Containment-and-Relief-Trust>

92. <https://www.premiumtimesng.com/opinion/535950-nigeria-debt-relief-for-a-green-and-inclusive-recovery-by-luckscheiter-adeniran-okereke-kwaga.html>

private creditors. They have refused to participate in the World Bank and IMF led debt relief initiatives or any other relief citing issues such as market restrictions and sovereign debt default. The consequence of the lack of private creditor participation in the DSSI, and the lack of debt relief initiatives mean that developing countries have to continue the huge debt servicing to private creditors, with high interest rates.<sup>93</sup>

Since private credit constitutes a significant portion of public debts in most developing countries, the refusal to join the debt relief initiative therefore means that, governments of developing countries

are faced with the impossible choices between taking care of the health and basic social needs of their citizens as scarce resources will be used to pay off a host of private creditors such as Alliance Bernstein, BlackRock, JP Morgan etc. As the debt crises continue to unfold in the global South and the next wave of austerity measures looms, efforts must be redoubled at this time to include private creditors in debt restructuring and relief initiatives. The Covid-19 pandemic brought to the fore the fundamental failure of the international financial system thus, providing an important opportunity to pursue system change and offer solutions to sovereign debt workouts that do not leave private creditors out of the picture.

93. <https://www.somo.nl/will-the-g20-let-private-finance-escape-debt-relief-once-again/>



# Debt Servicing and the Human Costs

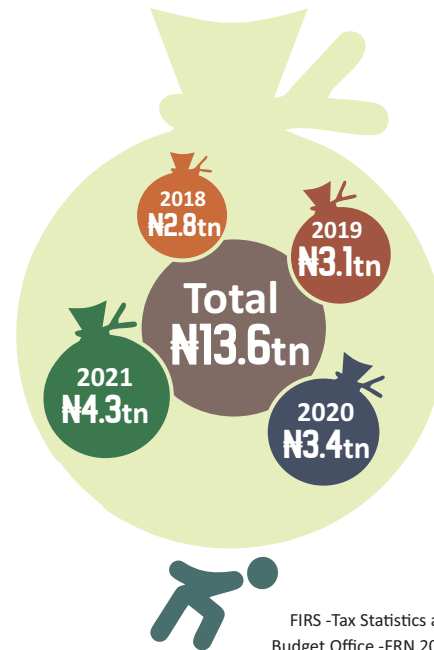
## Debt Sustainability Analysis

The 2019 DMO Report indicated that Debt Sustainability Analysis (DSA) and Stress Tests conducted in 2019 revealed that Nigeria's debt to GDP remained at a moderate risk of debt distress, but remains vulnerable to revenue and export shocks, which are major determinants of borrowing.<sup>94</sup> The government has argued that Nigeria's debt is sustainable because its debt to GDP ratio, at 22.47%,<sup>95</sup> remains within the 55% limit set for Nigeria and countries in its peer group. However, the reality of imminent debt crisis is obvious.

Nigeria's debt sustainability is better assessed on the basis of the debt service to revenue ratio, which determines the nation's debt repayment ability. In 2020, the DMO officially acknowledged that Nigeria had breached its external debt to revenue ratio limit, which had reached 21.7 percent compared to the threshold of 18 percent.<sup>96</sup>

Considering the poor revenue generation situation of the country and the endemic effect of exchange rate volatility,<sup>97</sup> issues of Nigeria's real time debt sustainability are of serious concern to everyone. Furthermore, the unwillingness of the World Bank and the IMF to oblige Nigeria more concessional loan is a pointer to the fact that Nigeria is heading towards a severe debt crisis and by extension economic crisis.<sup>98</sup>

Contribution of Non-Oil Taxes to Federal Government of Nigeria Revenue 2018-2021



Source:  
FIRS - Tax Statistics and Report  
Budget Office - FRN 2021 Budget

## The importance of effective debt management

The Nigerian Government claims to have in place mechanisms to mitigate the impact of external debt and external debt servicing on government spending, including by increasing foreign direct investment and enhancing revenues from various ongoing activities on diversification,<sup>99</sup> but the impact and the direct performance of the economy does not reflect any serious attempt to ensure fiscal sustainability. Despite having embarked on several fiscal stabilization policies through the instrumentality of the FRA Act, The Medium Term Expenditure Framework, The National Debt Management Strategy, etc., Nigeria has consistently maintained fiscal imbalances that have resulted in excessive debt, double digit inflation, poor

94. DMO (2020) Report of the 2019 Annual National Debt Sustainability Analysis <https://dmo.gov.ng/publications/reports/debt-sustainability-analysis/3679-2019-debt-sustainability-analysis-dsa-report/file>

95. <https://www.vanguardngr.com/2022/04/nigerias-debt-to-hit-44-7-of-gdp-in-5yrs-imf/>

96. <https://dmo.gov.ng/publications/reports/debt-sustainability-analysis/3876-2020-debt-sustainability-analysis-dsa-report/file>

97. According to the DMO, exchange rate inflation is at 10 per cent as at 2020 as showed in the 2020 Debt Sustainability Report <https://dmo.gov.ng/publications/reports/debt-sustainability-analysis/3876-2020-debt-sustainability-analysis-dsa-report/file>

98. <https://tribuneonline.ng/why-nigeria-is-not-getting-concessional-loans-%E2%80%95-world-bank/>

99. [https://nigeriaembassygermany.org/mosaic/\\_M\\_userfiles/Economic-Recovery-Growth-Plan-2017-2020.pdf](https://nigeriaembassygermany.org/mosaic/_M_userfiles/Economic-Recovery-Growth-Plan-2017-2020.pdf)

investment and poor performance growth. With the dwindling of federal revenue as a result of oil price volatility, the issue of sustainable fiscal operations is largely dependent on the efficacy of servicing deficit and that means there is a need for effective management of public debt.

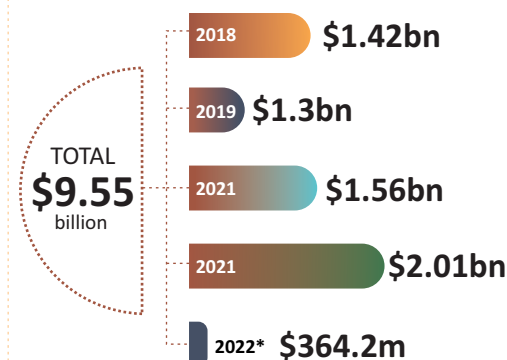
### The need for increased tax effort

Using the Government's inter-temporal budget constraints, it is expected that efforts will be in place to ensure that the present value of current and future taxes is sufficient enough to cover current and future government expenditure. Data from the Medium Term Expenditure Framework (MTEF) shows that despite policies to improve future revenue generation through corporate tax, VAT and customs duties, tax contributed less than 50% of total revenues. In 2017, non-oil taxes contributed 51% of federal revenue while total expenditure for the year was N7.2 trillion. In 2018, non-oil contribution was N2.8 trillion of projected revenue of N7.1 trillion while project total expenditure was N9.1 trillion. In 2019 and 2020, non-oil revenue was N3.1 trillion and N3.4 trillion respectively while public expenditure was N8.9 trillion and N10.5 trillion respectively.<sup>100</sup> In 2021, total non-oil revenue was N4.3 trillion while total projected expenditure was N13.08 trillion.<sup>101</sup> In terms of total projected revenue to total budgeted expenditure, Nigeria has consistently run a deficit budget even in the face of reduced revenue. This has resulted in consistent borrowing to augment the deficit. These are indications of poor fiscal management and failure to satisfy its inter-temporal budgeting constraint.

### Debt Servicing Costs compared to health expenditures

According to the DMO, in 2018, Nigeria spent \$1.42 billion in external debt servicing of which 70% was for commercial loans (bondholders).<sup>102</sup> In 2019, the sum of \$1.3 billion was spent on external

#### Nigeria's External Debt Service 2018-2022



2022\* as at March 31st, 2022

Source: DMON

debt serving of which 59% was for commercial loans;<sup>103</sup> in 2020, \$1.56 billion was spent on external debt servicing of which 54% went to servicing bondholders.<sup>104</sup> In 2021, the sum of \$2.01 billion was spent on external debt servicing and 55% was for commercial loans;<sup>105</sup> and as at end of March 2022, the sum of \$364.2 million was spent on external debt servicing representing 44.8% spent on servicing commercial loans.

#### Debt servicing to bondholders compared with other creditors (\$ billion)



96. <https://dmo.gov.ng/publications/reports/debt-sustainability-analysis/3876-2020-debt-sustainability-analysis-dsa-report/file>

97. According to the DMO, exchange rate inflation is at 10 per cent as at 2020 as showed in the 2020 Debt Sustainability Report

98. <https://tribuneonline.ng/why-nigeria-is-not-getting-concessional-loans-%E2%80%95-world-bank/>

99. [https://nigeriaembassygermany.org/mosaic/\\_M\\_userfiles/Economic-Recovery-Growth-Plan-2017-2020.pdf](https://nigeriaembassygermany.org/mosaic/_M_userfiles/Economic-Recovery-Growth-Plan-2017-2020.pdf)

100. FIRS – Tax Statistics and Report <https://www.firs.gov.ng/tax-statistics-report/>

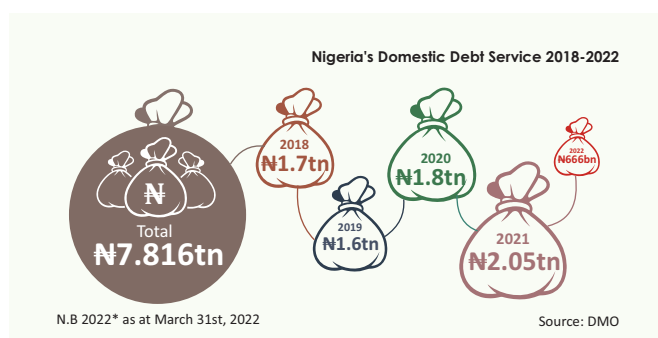
101. <https://www.budgetoffice.gov.ng/index.php/resources/internal-resources/budget-documents/2021-budget>

102. <https://www.budgetoffice.gov.ng/index.php/resources/internal-resources/budget-documents/2021-budget>

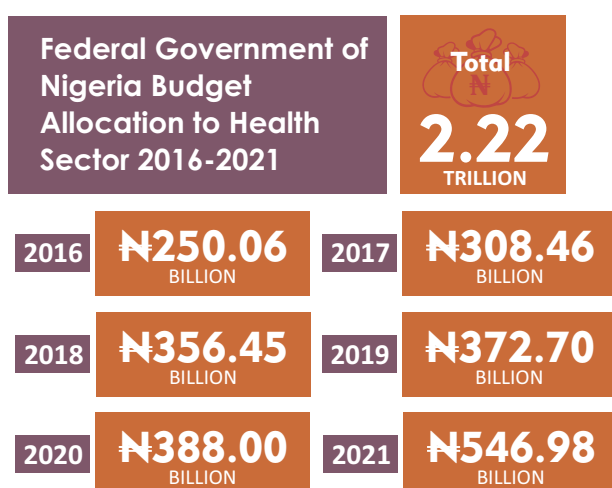
103. <https://dmo.gov.ng/debt-profile/external-debts/debt-service/2764-actual-external-debt-service-payments-from-january-to-december-2018/file>

104. <https://dmo.gov.ng/debt-profile/external-debts/debt-service/3118-actual-external-debt-service-payments-from-january-to-december-2019/file>

105. <https://dmo.gov.ng/debt-profile/external-debts/debt-service/3490-actual-external-debt-service-payments-from-january-to-december-2020/file>

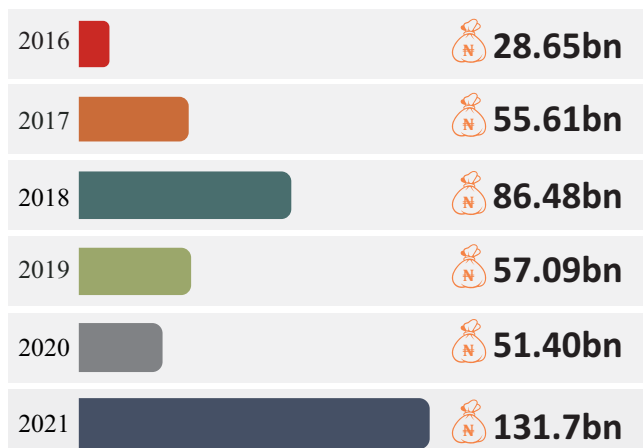


During the same period, Nigeria was also spending a significant part of its annual budget to service domestic debt, amounting to N1.7 trillion in 2018;<sup>106</sup> N1.6 trillion in 2019;<sup>107</sup> and N1.8trillion in 2020.<sup>108</sup> In 2021, a whopping N2.05 trillion was expended on domestic debt servicing;<sup>109</sup> and as of end March 2022, N666 billion has been spent so far on domestic debt servicing.<sup>110</sup> In total, Nigeria spent about N8 trillion in domestic debts servicing in 5 years. Compared to the N3.5 trillion allocated to the health sector in 11 years (2011 to 2021); out of which only N640 billion was for capital expenditure.<sup>111</sup> The table below showcase the progression and trajectory of Health sector allocations from 2016-2021.



Source: Budget Office of the Federation

### Federal Government of Nigeria Capital Allocation to Health Sector



Source: Budget Office of the Federation

The contrast between annual debt servicing and federal annual expenditure on public health is clear. Allocations to the health sector at the federal level, relative to the budget size, continue to decline, from a high of 5.97% in 2012, to 4% in 2018,<sup>112</sup> and 3.3% 2019.<sup>113</sup> In 2018, a total of N340.45 billion was allocated to the health sector which was about 5 times less than the domestic debt servicing for the year alone. It is also interesting to note that 78 percent of this amount was spent on recurrent costs (payment of salaries).

In 2020, only 4.1 percent of the total national budget was allocated to addressing the health challenges brought to the fore by the Covid-19 pandemic in 2020. Out of a total budget of N10.3 trillion, only

106. <https://dmo.gov.ng/debt-profile/domestic-debts/domestic-debt-service/2760-actual-domestic-debt-service-from-january-to-december-2018/file>

107. <https://dmo.gov.ng/debt-profile/domestic-debts/domestic-debt-service/3116-federal-government-actual-domestic-debt-service-for-january-december-2019/file>

108. <https://dmo.gov.ng/debt-profile/domestic-debts/domestic-debt-service/3499-federal-government-actual-domestic-debt-service-for-january-december-2020/file>

109. <https://dmo.gov.ng/debt-profile/domestic-debts/domestic-debt-service/3851-federal-government-actual-domestic-debt-service-for-january-december-2021/file>

110. <https://dmo.gov.ng/debt-profile/domestic-debts/domestic-debt-service/3934-federal-government-actual-domestic-debt-service-for-january-march-2022/file>

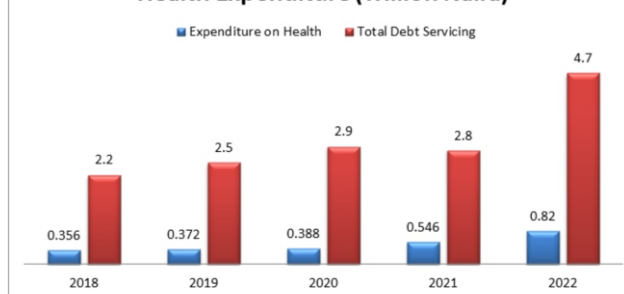
111. <https://budgetoffice.gov.ng/>

112. <https://yourbudgetit.com/wp-content/uploads/2018/04/Nigeria-Health-Budget-Analysis.pdf>

113. <https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?locations=NG>

N427 billion budget was allocated to the health sector.<sup>114</sup> Similarly in 2021, out of a total budget of N13.6 trillion, only N514 billion (3.7%) was allocated to the health sector.<sup>115</sup> Nineteen years after the Abuja Declaration in which African governments pledged to allocate 15% of their budget to health sector, Nigeria is yet to meet this threshold.<sup>116</sup> Due to poor funding, many of Nigeria's public health facilities are in a decrepit state and they lack the tools needed for adequate service provision. Importantly, public spending on sexual and reproductive health (SRH) including family planning is just 2% of the total health budget.<sup>117</sup>

**Comparing Nigeria Debt Servicing with Public Health Expenditure (Trillion Naira)**



The outbreak of Covid-19 exposed a serious gap and lack of capacity to absorb emergencies in the Nigerian health sector. Nigeria continues to lose a good number of its health professionals who migrate to other countries due to poor pay and lack of a more conducive working environment.

According to UNICEF, Nigeria's 40 million women of childbearing age (between 15 and 49 years of age) suffer a disproportionately high level of health issues surrounding birth. Nigeria currently contributes 10% of global deaths of pregnant mothers despite having just 2.5% of the world's population. Maternal mortality rate is some 576 of every 100,000 live births, the fourth highest on Earth.

It was also estimated that some 262,000 babies die at birth representing the world's second highest national total. Infant mortality currently stands at 69

## Nigeria's High Level of Birth Issues

**1** Contributes **10%** of global deaths of pregnant mothers



**2** Maternal mortality rate of **576** out of every **100,000** live births, 4th highest on Earth

**3** **262,000** babies die at birth; World's 2nd highest national total



**4** Infant mortality **69** per **1000** live births

**5** Under five mortality **128** per **1000** live births



Source: UNICEF

per 1,000 live births while under-fives is at 128 per 1,000 live births. 64 % of the under-five deaths results from malaria, pneumonia or diarrhea.<sup>118</sup> These data are despite the series of loans obtained for the purpose of basic health support, including the \$3.4 billion approved by the IMF board in April 2020 to shore up the Nigeria public health sector.<sup>119</sup> The World Bank group also provided the sum of \$1.5 billion post Covid-19 recovery loan, out of which \$750 million was to increase access to social transfers and basic services.<sup>120</sup> Despite the critical nature of investment in the health sector, the Nigeria Government continued to spend significantly more on debt servicing than on improving the health sector and particularly in addressing the challenges brought to the fore by the Covid-19 pandemic outbreak.

## Debt servicing costs and implications for education

The story is not much different in the education sector for which budgetary allocation also continues

114. <https://budgetoffice.gov.ng/index.php/revised-2020-appropriation?task=document.viewdoc&id=811>

115. <https://budgetoffice.gov.ng/index.php/resources/internal-resources/budget-documents?task=document.viewdoc&id=934>

116. <https://africanarguments.org/2020/04/19-years-africa-15-health-abuja-declaration/>

117. <https://www.premiumtimesng.com/news/headlines/540391-nigerian-govt-to-allocate-1-of-health-budget-to-family-planning.html>

118. <https://www.unicef.org/nigeria/situation-women-and-children-nigeria>

119. <https://www.imf.org/en/News/Articles/2020/04/29/nao42920-nigerias-imf-financial-assistance-to-support-health-care-sector-protect>

120. <https://www.worldbank.org/en/news/press-release/2020/12/15/world-bank-group-to-boost-nigerias-efforts-to-reduce-poverty>

to decline. In 2018 only, N605.8 billion was allocated to the education sector, representing 7.04% of the total budget.<sup>121</sup> In 2019, it was N620 billion (7.05 %).<sup>122</sup> There was sharp drop in 2020, with a budgetary allocation of N671 billion, representing just 6.7% of the N10.3 trillion total budget.<sup>123</sup> Similarly, a total of N742.7 billion was spent on education in 2021, representing 5.6% of the total budget (a decline when compared to the budget size of N13.8 trillion).<sup>124</sup> In the proposed 2022 budget, the Nigerian government allocated N1.2 trillion to the education sector. This amount represented 7.9 % of the total budget of N16.3 trillion.<sup>125</sup> Again, Nigeria's spending on education is far below the 15-20% commitment made under the Paris Declaration on funding for education.<sup>126</sup>

Budgetary Allocations to Education: 2016-2021

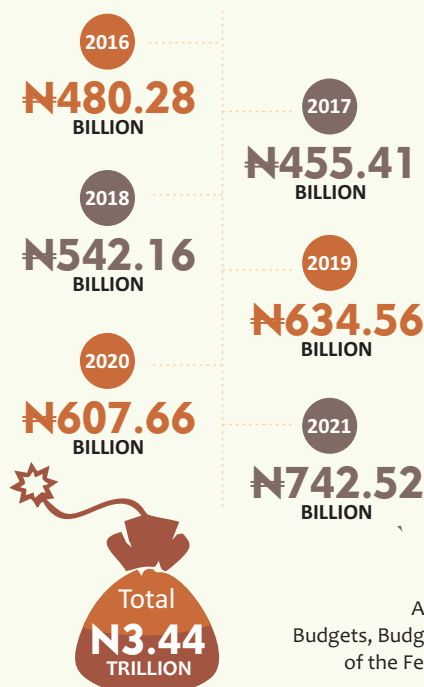
Years	Total Recurrent (N bn)	% Increase or Decrease	Total Capital (N bn)	% Increase or Decrease	Total Allocation (N Bn)	% Increase or Decrease	Education Allocation as % of Total Budget
2016	444,844,727,222		35,433,487,466		480,278,214,688		7.92
2017	398,686,819,418	-10.38	56,720,969,147	60.08	455,407,788,565	-5.18	6.12
2018	439,255,776,145	10.18	102,907,290,833	81.43	542,163,066,978	19.05	5.94
2019	575,867,253,947	31.10	58,689,905,930	-42.97	634,557,159,877	17.04	7.12
2020	532,491,493,218	-7.53	75,173,387,778	28.09	607,664,880,997	-4.24	5.62
2021	615,153,160,990	15.52	127,364,671,980	69.43	742,517,832,970	22.19	5.68

Source: Approved Budgets, Budget Office of the Federation

Comparing debt servicing figures with education spending, Nigeria spent a total of N4.68 trillion on education, just a quarter of the N16.4 trillion expended on debt servicing (external and domestic) over five years. Poor funding has continued to affect the development of education in Nigeria. This abysmal performance was despite the series of loans obtained through the International Development Agency (IDA) for improving education. In 2021, the Ministry of Education obtained the sum \$500 million to support Adolescent Girls Initiative for Learning and Empowerment in several states.<sup>127</sup>

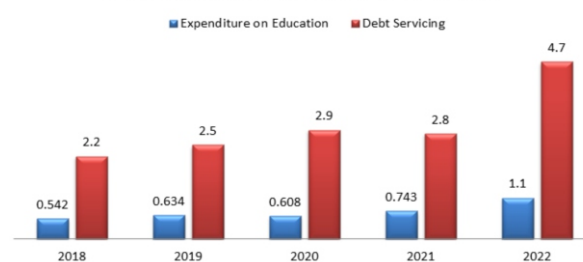
In 2020, the World Bank group approved the sum of \$75 million for Edo Basic Education Sector and Skills Transformation Operation (P169921).<sup>128</sup> In same vein, the World Bank group in 2021 approved a loan of \$500 million to Nigeria government to implement a number of education projects by the Federal Ministry of Education.<sup>129</sup> In spite of all of these, according to UNICEF, there are about 10.5 million children (aged 5-14) not attending schools and only 35.6% of children between 36 and 59 months are receiving early childhood education.<sup>130</sup>

### Federal Government of Nigeria Budget Allocation to Education Sector 2016-2021



Source:  
Approved  
Budgets, Budget Office  
of the Federation

### Comparing Nigeria Debt Servicing with Education Expenditure (Trillion Naira)



\*2022 figures are proposal

121. <https://www.budgetoffice.gov.ng/index.php/2018-approved-budget-details?task=document.viewdoc&id=681>

122. <https://www.budgetoffice.gov.ng/index.php/signed-2019-budget-vol-2?task=document.viewdoc&id=728>

123. <https://www.budgetoffice.gov.ng/index.php/signed-2020-budget-vol-2?task=document.viewdoc&id=811>

124. <https://www.budgetoffice.gov.ng/index.php/resources/internal-resources/budget-documents?task=document.viewdoc&id=935>

125. <https://www.budgetoffice.gov.ng/index.php/mdas-approved-2022-budget-details?task=document.viewdoc&id=960>

126. <https://en.unesco.org/news/unesco-member-states-unite-increase-investment-education>

127. <https://documents1.worldbank.org/curated/en/099405106302235432/pdf/P170664014fcb0ad08fae0af02342170bc.pdf>

128. <https://documents1.worldbank.org/curated/en/099410006302232048/pdf/P1699210b0eb7e02d08e040db8118b806b.pdf>

129. <https://projects.worldbank.org/en/projects-operations/project-detail/P170664>

130. <https://www.unicef.org/nigeria/education>

# Transparency and Accountability

## Availability of Information

Issues around debt transparency have raised serious concerns among stakeholders and citizens of developing countries, particularly given the current context of rising public debt levels, the emerging role of non-traditional (private creditor) lenders, increased borrowing by non-central government entities and the frequent use of complex debt instruments. While the Nigerian government through the instrumentality of its legal frameworks such as the Debt Management Act provides the bedrock for ensuring the publishing of information on its public debts, it does not have a specific policy around real time information disclosure, particularly on the conditionality of its loans.

The only available policy on publishing information on public debt administration is the Debt Management Office Establishment (ETC) Act, 2003. While providing information on the function of the DMO, the DMO Act, Part iii section 6(1) provides that DMO maintain a reliable database of all loans taken or guaranteed by the Federal or State Governments or any of their agencies; it also provides that it collect, collate and disseminate information, data and forecasts on debt management with the approval of the Board.

In line with the provision of this legal document, the DMO has consistently published information regarding the nation's debt position. It also regularly publishes reports on debt sustainability as well as a yearly debt management strategy framework; however, information concerning loan conditionality is never made available in the public domain. In most cases, citizens and groups have

had to rely on the use of Freedom of Information (FOI) requests to get information relating to public debts. On many occasions, citizens have resorted to litigation to compel the government to release certain debt information to the public. So in terms of proactive publishing of such information as the terms and conditions under which the Nigerian government obtained loans, particularly from private creditors, this does not happen.

While these two provisions of the act seem to allow publishing of information on debt administration, the provision in (1) seems to be a barrier to delivering the law as intended. Subjecting the debt information to the approval of the board in itself is not an issue but it becomes an issue when most times the management of the agency relies on that to deny citizens detail or access to certain debt information or making them wait endlessly for the information that may never be approved. At the moment, there is no information or details of the holders of Nigeria's publicly issued Eurobonds on the DMO website. Such information should be made available for citizens to access.

In 2020, there was a public outcry over purported Chinese loan conditions that appeared to threaten the sovereignty of the nation and rumors that these give China control over national assets in the event of default. This rumor generated a lot of public debate and condemnation because the citizens could not access the terms and other details of the loan. It took a press release from the DMO to clarify this before the matter was laid to rest.<sup>131</sup> The rumor could have been avoided if such information had been in the public domain. It was only after the public outcry that the facts were published. So at the moment there is no publicly accessible information on private debt conditionality and there is no policy mandating such.

The internal audit and control unit of the Debt Management Office is directly accountable to the Director General of the DMO and consequently addresses all its reports to him. However, certain

131. <https://yourbudgetit.com/wp-content/uploads/2018/04/Nigeria-Health-Budget-Analysis.pdf>



reports such as the Monthly Progress Reports, Quarterly Reports, Half Yearly Reports, Year Reports and Authority and Standards of Audit Practice are to be mandatorily made available to the Office of Accountant General of the Federation and Office of the Auditor General for the Federation. In addition, as part of the effort to promote transparency of public debt management implemented by the DMO, the DMO prepares and publishes the following reports and documents routinely, while also providing information on topical issues relating to public debt on a needs basis through publications, media interviews and press releases. *Other publications include:*

- i. Debt Management Strategy, which presents Government's financing strategy and targets that will ensure that the debt stock is sustainable;
- ii. DMO's Strategic Plan, a 4-year Plan document which spells out the Vision, Mission and Broad Objectives of the organization;
- iii. National Debt Management Framework, which contains key Debt Management Policies, Strategies and Frameworks that have been designed to ensure that government's borrowing activities are conducted in accordance with statutory provisions and regulations;
- iv. Annual Report and Statement of Accounts, which contains detailed report on Public Debt Management activities and the use of its resources;
- v. Quarterly Debt Data which provides detailed information on the Public Debt at the end of each Quarter;
- vi. Quarterly FGN Securities Issuance Calendar - a quarterly publication which

provides the public with information on the indicative amounts of Federal Government of Nigeria Securities (NTBs and FGN Bonds), to be offered to the public<sup>132</sup>

## The Need for Public Debt Auditing

The need for public debt auditing cannot be over emphasized, particularly in the face of the rising sovereign debt levels, the changing landscape of creditors and instruments, and the lack of adequate information on terms and conditions and the various contingencies that the sovereign debt is exposed to. In Nigeria, the level of opacity of loans terms and conditions reinforces the need for a strong audit process and framework that allows for ascertaining the integrity of loan processes and to determine sustainability level and risk management.

The existing framework that provides the basis for auditing debt is the National Debt Management Framework (NDMF) which covers a period of four years and is designed to ensure that government's borrowing activities are conducted in accordance with statutory provisions and regulations, as well as international best practices, which in itself is an auditing of borrowing process. The focus of the NDMF is to review the performance of the Total Public Debt Portfolio, in terms of costs and risks, with reference to its targets; and to reflect and incorporate developments in the domestic financial market and the International Capital Market.

It also reviews the External and Domestic Borrowing Guidelines for Federal, States, FCT, and their Agencies to ensure conformity with the DMO Strategic plan.<sup>133</sup> Part of its auditing strategy is to ensure attaining an optimal debt composition of 60:40 for Domestic and External debt, and 75:25 for long and short-term debts, so as to reduce the cost of debt service and roll-over risk.

132. <https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?locations=NG>

133. <https://www.dmo.gov.ng/publications/other-publications/national-debt-management-framework/2706-national-debt-management-framework-2018-2022/file>



Notwithstanding the guidelines provided by the NDMF, the Fiscal Responsibility Act 2007, Section 44 subsection 4 conferred the power to verify on a quarterly basis, compliance with the limits and conditions for borrowing by each Government in the Federation to the Fiscal Responsibility Commission (FRC).<sup>134</sup> The FRC was established by the Fiscal Responsibility Act, 2007, to ensure the implementation of its provisions. It is an agency under the presidency that is charged with a mandate to promote a transparent and accountable government financial management framework for Nigeria. The FRC has a mandate to ensure that revenue-raising policies, resource allocation decisions, and debt management decisions are undertaken in a prudent, transparent and timely fashion as provided for in the law. The FRC performs key oversight responsibilities relating to the macroeconomic environment of the country which helps to strengthen legislative oversight over the entire public finance architecture of the country and the economy in general. One of its key functions is to disseminate such standard practices including international good practice that will result in greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters.<sup>135</sup>

**In addition to the power of the FRC, the Debt Management Internal Audit and Compliance Unit is also required to work with external auditors from the Auditors General Office for the purpose of ensuring that the statutory requirement of the DMO relating to audit are complied with. All**

external creditors' bills which have been admitted by the Debt Recording and Settlement Department are vetted prior to further actions on them, to ensure they are settled in accordance with the understanding reached by all stakeholders on external debt settlement procedures. Matters relating to FGN Bond operations are not left out by the internal audit dragnet. A systems audit is also carried out to identify, evaluate inherent risks and adequacy of their mitigating controls (as established by management); and their impacts on the achievement of DMO's objectives.<sup>136</sup>

The Nigeria 1999 Constitution also empowers the Office of the Auditor General to conduct checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly. Section 85(2) of the Constitution provides that public accounts of the Federation and of all offices and courts of the Federation shall be audited and reported on to the Auditor-General who shall submit his reports to the National Assembly; and for that purpose, the Auditor-General or any person authorized by him in that behalf shall have access to all the books, records, returns and other documents relating to those accounts.<sup>137</sup> Thus the law provides for an independent body to audit the government revenue and spending as carried out by Ministries, Departments and Agencies. The reports of such audits, according to the law, are expected to be submitted to the parliament for debate. These reports are also required to be published by the Auditor General within a stipulated time period.<sup>138</sup>

133. <https://www.dmo.gov.ng/publications/other-publications/national-debt-management-framework/2706-national-debt-management-framework-2018-2022/file>

134. Fiscal Responsibility Act, 2007 Section 44 (4)

135. [https://fiscalresponsibility.ng/?page\\_id=11](https://fiscalresponsibility.ng/?page_id=11)

136. <https://www.dmo.gov.ng/about-dmo/departments>

137. Constitution of the Federal Republic of Nigeria, Section 85 (1) and(2)

138. <https://oaugf.ng/publications/reports>



# Sovereign Debt Comparative Analysis

## Models in policy and practice

The current rounds of sovereign debt crises can be attributed to the lethal combination of private capital flows and credit booms, financial engineering, and excesses of corporate and Government. The profound impact that emerging markets have on sovereign debt profile as occasioned by the integration of capital markets and the shift from syndicated bank loans to traded securities is further compounded by weak economic policy design and implementation and lack of proper debt sustainability models. There is a need to develop country-specific models that can help guarantee debt sustainability. The diversity of creditors has increased significantly the risks sovereign nations encounter concerning debt servicing capacity.

The diversity of creditors has also led to diversity of claims and interests has also made it more difficult for sovereign nations to meet the unending need for debt servicing over and above investment in public goods such as health and education. This further reinforces the need for effective public debt restructuring - one that enables sovereigns to minimize and manage the impact of creditors' diversity on the domestic economy and financial system. Effective debt sustainability models help to ensure that countries that borrow funds are on track for sustainable development; allow lenders to anticipate and measure future risks and tailor financing terms, and assist low-income countries in balancing their requirement for financing with their capacity to repay debt.<sup>139</sup> This implies that there is a need for lending models in policy and practice that

guarantee a greater degree of debt sustainability.

In the Nigeria context, the lending models are embedded in the National Debt Management Framework - a policy document which helps the nation to maintain a sustainable debt portfolio that is consistent with economic growth and development, and in line with the development agenda of the present administration. It specifically provides guidelines for sustainable External, Domestic and Sub-National debt management. The policy also includes a risk management section, designed to ensure prudent risk management and sound debt practices.

Hence, the framework seeks to rebalance the structure of the Public Debt Portfolio, as well as reduce Debt Service Costs by substituting the relatively more expensive domestic debt with less expensive external debt from both the concessional and non-concessional sources and with an external debt portfolio mix of 60:40 for domestic and external. The framework also provides for a ratio of 75:25 for long and short term debt instruments in domestic debt portfolio; keeping the average time-to-maturity for the Total Public Debt at a minimum of 10 years by 2019.

The framework also keeps the share of debt maturing within 1 year as a percentage of the Total Debt Portfolio at not more than 20%.<sup>140</sup> This is in line with the IMF/World Bank debt sustainability framework for low income countries.<sup>141</sup> The World Bank debt sustainability framework provides for countries to produce a Debt Sustainability Analysis once every year<sup>142</sup> and the Nigerian government has consistently produced since 2008.<sup>143</sup>

The National Debt Management Framework provides a basis for a debt sustainability measurement model that adequately measures the government's ability to pay its debt through sets of performance indicators that uses sets of variables such as the GDP, and the debt sustainability

139. <https://corporatefinanceinstitute.com/resources/knowledge/economics/debt-sustainability-model/>

140. <https://dmo.gov.ng/publications/other-publications/national-debt-management-framework/2706-national-debt-management-framework-2018-2022/file>

141. <https://www.imf.org/external/pubs/ft/dsa/lic.htm>

142. <https://www.worldbank.org/content/dam/LIC%20DSF/Site%20File/assets/documentation/pp122617guidance-note-on-lic-dsf.pdf>

143. <https://dmo.gov.ng/publications/reports/debt-sustainability-analysis>



indicators such as the public debt service to revenue ratio, public debt interest to revenue ratio, public debt to revenue ratio. The missing link, however, is the adherence to debt sustainability model that ensures that budget deficit is within the safety limit of 3% provided for by the Fiscal Responsibility Act. Since 2017, the Nigerian government has maintained a budget deficit ranging from 5% - 6%. As at June 2022, Nigeria's budget deficit to GDP stood at 6.1%.<sup>144</sup> This goes to show the relationship between dwindling public revenue, budget deficit, and debt burden and fiscal capacity to pay off the debts. Government experienced a deficit in the budget because its tax revenues were unable to finance all government spending, including investment in sectors important to the economy, and then had to seek funding from foreign debt to close the gap.<sup>145</sup> The consequences of these borrowings is massive debt servicing which further reduces available funds for social investment, hence the need for a model that puts into consideration revenue generation vis-a-viz government expenditure such that budget deficit beyond benchmark is minimized.

### International Mechanism for Solving Debt Crisis

With the mounting debt figures of developing countries, there is a clear sign of an imminent debt crisis. According to International Monetary Fund figures, interest payments on public debt as a percentage of public revenues are four times as high in low-income economies as in advanced economies, while the same ratio in emerging economies is twice as high. IMF data show that a decade ago, this ratio was similar across all countries. According to the World Bank, 60% of low-income countries are either suffering from debt distress or at high risk of doing so.<sup>146</sup>

This situation has necessitated the development of mechanisms for dealing with the sovereign debt

crisis. The ineffectiveness of the pre-existing international mechanisms which involved a voluntary grouping of official lenders to negotiate with debtor countries have brought to the fore the need for better ways of addressing the sovereign debt crisis in developing countries. The lack of an efficient debt restructuring process creates market volatility and risk, damaging a broad range of financial market participants, hence the need for urgent action to improve the current system.

Given the above, the IMF in 2001 developed a mechanism known as the Sovereign Debt Restructuring Mechanism. The SDRM was to facilitate the orderly, predictable, and rapid restructuring of unsustainable sovereign debt, while protecting asset values and creditors' rights.<sup>147</sup> The mechanism requires the activation of a stay on creditor action by the sovereign debtor and IMF endorsement. Such endorsement is usually based on the IMF's determination that the member's debt is unsustainable and that appropriate policies are being implemented. The SDRM mechanism provided greater predictability and timeliness to restructuring of truly unsustainable debt than would otherwise have been possible. It was anticipated that this predictability and timeliness, in turn, would enable debtors and creditors more easily to restructure 'in the shadow of the law', as happens in some domestic bankruptcies, and simultaneously speed up the debtor's recognition of the need for action and hence the restructuring process when the debt was truly unsustainable, without changing the balance of leverage between creditors and debtors.<sup>148</sup>

In more recent times and due to the impact of the Covid-19 pandemic on low income countries and developing countries in particular, the IMF developed another initiative or mechanism that seeks to address the sovereign debt crisis of low income countries known as the Common Framework for Debt Treatments beyond the DSSI. It is an agreement of the G20 and Paris Club

144. <https://businesspost.ng/economy/nigerias-budget-deficit-to-remain-at-6-1-of-gdp-imf/>

145. <https://eudl.eu/pdf/10.4108/eai.27-7-2021.2316847>

146. <https://www.as-coa.org/articles/stemming-sovereign-debt-crisis>

147. <https://www.imf.org/external/pubs/ft/exrp/sdrm/eng/sdrm.pdf>

148. [https://aei.pitt.edu/15123/1/101109\\_BP\\_Debt\\_resolution\\_BP\\_clean\\_01.pdf](https://aei.pitt.edu/15123/1/101109_BP_Debt_resolution_BP_clean_01.pdf)



countries to coordinate and cooperate on debt treatments for some 73 low-income countries that are eligible for the Debt Service Suspension Initiative (DSSI). Debt treatments under the Common Framework are initiated at the request of a debtor country on a case-by-case basis. The framework is designed to ensure the broad participation of creditors with fair burden sharing. Importantly, it includes not only members of the Paris Club but also G20 official bilateral creditors such as China, India, Turkey or Saudi Arabia that are not members of the Paris Club.

The Common Framework is used to address a wide range of sovereign debt challenges of DSSI-eligible countries. For countries where public debt is not sustainable, it can provide a deep debt restructuring, with a reduction in the net present value of debt sufficient to restore sustainability. For countries with sustainable debt but liquidity issues, it can provide a deferral of a portion of debt service payments for some years that can ease financing pressures. This type of treatment is often referred to as rescheduling or re-profiling. Such a debt treatment can also benefit countries where high debt service payments are a source of debt vulnerability.<sup>149</sup> However, a major setback of this mechanism is that it does not capture the private creditors.

## Conclusions and Recommendations

**T**he Nigeria public debt situation appears to be heading towards another major crisis, particularly after the successful debt cancellation deal that saw Nigeria exiting one of its biggest debts in history – the Paris Club debt. Barely two decades after the debt deal saw Nigeria's public debt reduced significantly and its external debt obligations almost eliminated, Nigeria's sovereign debt has reached an all-time high of over \$100 billion with its external component currently at 1,333% of what it was in 2006. A major debt trap is the increasing dependence on private creditors' loan which is gulping more than 80% of government

revenue. This study therefore identifies issues around borrowing terms which are considered less favorable, sources of the borrowings and their implications, as well as the use of public debts, as the key challenges in the Nigeria public debt management system. The study also identified other issues as responsible for the current level of debt crisis to include the following as outlined below while also recommending possible options for forestalling what appears to be a looming major financial and public debt crisis in Nigeria.

### *Findings:*

1. Despite the plethora of legal and policy frameworks aimed at managing the nation's sovereign debt, Nigeria's public debt figure, even though not the biggest among countries in sub-Saharan Africa, represents a significant burden on its economy, as its servicing takes about 90% of government revenue and even in more recent times surpasses government revenue, a breach of the IMF/World Bank benchmarks. The issue is more of non-adherence to the provisions of the laws and other legal frameworks intended to regulate the borrowing and keep public debt at sustainable level. A review of the various legal frameworks shows that if successive governments in Nigeria had adhered strictly to guidelines provided in the legal framework, Nigeria public debt would not be at risk of public debt distress.
2. Nigeria currently, due to its high level of indebtedness and limited access to concessional loans, has shifted its borrowing focus to the new frontier of credit (private creditors), hence, the new drive for high-interest commercial loans, majorly through the Eurobond and Diaspora Bond. Private creditors' loans currently constitute 40% of the external debt stock, and due to the high-interest rate, 70% of external debt servicing goes to commercial creditors with Eurobond holders taking 55% of its debt

149. <https://www.imf.org/en/About/FAQ/sovereign-debt#g20q1>



servicing. This again shows a clear breach of the Fiscal Responsibility Act, which provides that governments should only borrow at concessional terms and low-interest rates.

The study also noted poor revenue mobilization, through taxes and other means as a major driver of the high level of borrowing and how it is seriously impacting governance i.e. government's ability to deliver on public goods and services such as health and education. Poor implementation of fiscal policy has continued to hamper government's ability to generate revenues. Tax policies should be strengthened and made progressive such that more taxable Nigerians are brought into the tax net while corporate tax is strengthened to capture more corporations into the tax net. The use of about 90% of the government's revenue on debt servicing has reduced available funds for the government to implement people-focused interventions or pursue any meaningful development agenda, hence the need to improve tax regimes to shift attention away from oil and gas revenue.

3. The report also noted a lack of transparency as a key driver of fiscal recklessness on the part of the government, particularly with regards to public disclosure of terms and conditions for public loans taken. While multilateral and bilateral creditors have in place a mechanism for publishing the terms and conditions of loans granted to the government of developing countries, there is absolute opacity around the terms and conditions of commercial loans. Private creditors do not have in place a mechanism for ensuring transparency of their transactions with developing countries and therefore making it difficult for citizens to hold the government accountable for the management of such loans. The inability of the IMF/World Bank to bring the private creditors under its direct supervision and regulations means that information

regarding lending by private creditors will remain solely their affairs and kept secret from the public.

4. The lack of a specific public debt auditing mechanism is another factor affecting the effective management of public debt in Nigeria. While there are provisions within the laws and policies of government fiscal management in Nigeria through public sector auditing, there are no deliberate efforts at auditing specifically its public debt and determining the impact of the debt component of every government spending. This makes it difficult to monitor the performance of government borrowings, review and account for its utilization or concretely tie debt to known development projects, particularly in a situation where debt servicing cost is equal to the amount borrowed to augment budget deficit.
5. The impact of exchange rate volatility is also identified as a major contributor to the increase in sovereign debt profile. The adoption of a flexible exchange rate system by the Nigerian government has led to the free-fall of the naira against major trade currencies of the world which are mostly creditors' currencies. Adopting the time value of money formula in foreign exchange situations, volatility in the exchange rate of local currency leads to accumulated value interest on borrowed funds. In other words, for every \$1 borrowed, local exchange rate volatility will increase the amount of interest paid or be paid on such loans because of a fall in the future value of the local currency. Foreign exchange volatility has been contributing to the rise in the foreign exchange component of the external debt, thus higher debt burden results from the constant depreciation of the local currency.
6. Poor legislative oversight and scrutiny of borrowing proposals, obtaining process (terms and conditions) and the eventual utilization of loans is another factor



identified as contributing to the looming debt crisis. The legislators have the prerogative power to approve the government's loan requests after careful consideration of the terms and conditions under which such loans will be obtained, however, over the years, the situation has

seen some hasty approvals of loans by the legislators without proper scrutiny including an objective analysis of repayment plans, leading most times to hidden harmful clauses that increase the nation's debt burden.



# Recommendations

Given the above findings, the following recommendations are put forward as a way of forestalling future debt crises and ensuring effective management of sovereign debt:

1. Boost Government revenue generation and improve inter-temporal budget constraints: poor revenue generation has been identified as a major driver of debt accumulation and therefore there's a need to improve revenue generation through taxes. All over the world taxes have been acknowledged as the most sustainable sources of government revenue, so the Nigerian government must see and explore progressive taxation as a means of boosting revenue and ensuring current and future tax revenues can meet the current and future government's people-centered expenditure.
2. Reduce reliance on borrowings from the international capital market or commercial loans. There is a need to strictly adhere to the provision of the law on maintaining concessional loans as these pose limited debt risk and incorporate a mechanism to work out effective restructuring and negotiate debt relief initiatives which are quite impossible with commercial creditors. Private creditors' loans are expensive for a nation such as Nigeria that struggles with revenue generation and as such this frontier of borrowing should be discouraged.
3. Maintain a realistic Debt Management Model to help improve debt sustainability and fiscal prudence. An effective debt sustainability model will help to ensure that countries that borrow funds are on track for sustainable development, assess risk and allow lenders to anticipate and measure future risks and tailor financing terms, which will help in balancing the government's requirement for financing with its capacity to repay debt. It is recommended that Nigeria develop an adherence to debt sustainability models that ensures that the budget deficit is within the safety limit of 3% provided for by the Fiscal Responsibility Act. Models that adequately measure a government's ability to pay its debt through a careful analysis of variables using the GDP-Debt sustainability indicators such as the public debt service- revenue ratio; public debt interest-revenue ratio; and public debt-revenue ratio.
4. Establish a specific Debt Performance Auditing Mechanism to effectively monitor the impact of public debt on the country's development as well as determine how debt is contributing to human security. It will also help to monitor trends of risk and how to manage future borrowings to eliminate the possible future crisis. There should be a regular audit of Nigeria's sovereign debt by an independent body to track loan performance and impact.
5. Strengthen the Foreign Exchange Policy to reduce the impact of volatility on loan repayment and thereby reduce the public debt burden that arises from local currency devaluation.
6. Improve public borrowing transparency and accountability. The need for public debt transparency is born out of the imminent danger of public debt crisis as brought to the fore by the high sovereign debt figure and the roles of private creditors in the scheme of



things. Public disclosure of critical information such as terms and conditions of loans, particularly those of private creditors will help the country stay alert to any hidden danger in exploring such loan frontiers. The Debt Management Office should include on its website sectors where loan terms and conditions can be proactively published including names and details of bondholders.

7. Improve legislative oversight - loan approvals should carry out proper scrutiny, with lawmakers subjecting such requests to public hearings and input. Then such loans can be approved after all requirements for approval have been satisfactorily met and repayment plans have been convincingly proved to reduce the future debt burden. The legislators should place a moratorium on existing loans and call for debt relief programs while also carrying out a detailed investigation of how the previous loans have been utilized.
8. Establish an independent committee that comprises civil society representatives, the Auditor General Office, the Ministry of Finance, and the DMO to carry out an independent review of all future loan requests with the view to determine their variability and importance.
9. Urgently prioritize a debt workout agenda, championed collectively and deliberately by CSOs and the media, through a carefully designed engagement plan that provides a holistic analysis of cost-benefit analysis of all proposed loans.
10. Adhere strictly to regulatory and legal frameworks such as the FRA which provides a framework for prudent spending that does not justify taking loans for recurrent costs, subsidies and poorly designed or inflated capital expenditures to ensure that borrowing entities stay in single digit rates, following variable considerations.
11. Strengthen legislative review/approval processes to ensure that only concessional loans are approved as this will force the government to explore other options such as drawing from the “Special IMF Drawing Rights” which helps strengthen external positions of countries like Nigeria, reduce its liquidity and default risk, and free up resources to meet the Sustainable Development Goals (SDGs)



