

FOREIGN DEBT MANAGEMENT AND NIGERIA'S DEBT PROFILE 2015-2023: A CRITICAL ANALYSIS

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ABSTRACT: This study examined Nigeria's external and domestic debt management from 1980 to 2023, focusing on the implications of the country's increasing debt burden on its economic stability and development. By 1980, Nigeria's external debt had reached nearly US\$28 billion, largely accumulated under the import-licensing regime. The Federal Government's domestic debt also accounted for a significant portion, representing about 60 percent of the total debt and approximately 10 percent of the country's health and education budgets. Despite efforts to reduce the debt burden, including during President Olusegun Obasanjo's administration in 1999, Nigeria's debt continued to rise, with a debt-to-GDP ratio reaching 38.6 percent by 2023. By June 2023, Nigeria's total public debt had surged to N87.38 trillion (USD 113.42 billion), comprising N54.13 trillion (USD 70.26 billion) in domestic debt and N33.25 trillion (USD 43.16 billion) in external debt. Although Nigeria experienced economic growth, persistent inflation, corruption, poor infrastructure, and ineffective policies hindered financial recovery, worsening the debt crisis. The study used a historical research design and qualitative descriptive analysis to assess Nigeria's debt trajectory, analyzing secondary data from sources such as the Central Bank of Nigeria (CBN), the World Bank, and the Debt

Management Office (DMO). The findings revealed that Nigeria's debt crisis was driven by an overreliance on borrowing, ineffective debt management practices, and inconsistent economic policies. Despite financial reforms and debt restructuring, their impact was limited due to systemic challenges. The study recommended the adoption of a comprehensive debt management strategy, focusing on reduced borrowing reliance, improved revenue generation, better governance, and investment in critical sectors such as healthcare, education, and infrastructure to ensure sustainable economic development.

Keywords: *External debt, domestic debt, debt management, economic stability, development, fiscal policy, debt crisis, public debt, financial reforms.*

Introduction

Foreign debt has long been a persistent issue for African nations, including Nigeria, where it has become both an internal and external challenge. The internal drivers of Nigeria's debt crisis are deeply rooted in the country's reliance on imports, foreign aid, and widespread corruption, which have led successive governments to seek loans to finance national development. Externally, global economic crises, fluctuations in oil prices, and changing market conditions have further exacerbated Nigeria's debt situation. The roots of Nigeria's debt challenges can be traced back to the 1970s, during President Obasanjo's first administration, when the government took an N600-million loan in 1977, followed by another N734-million loan in 1978. These early borrowings marked the beginning of a growing reliance on foreign loans, which worsened over the decades. By 2005, Nigeria's external debt reached a staggering \$35 billion, while its domestic debt surpassed N187 trillion. Despite efforts to manage and reduce the debt, the country continued to allocate large portions of its budget to servicing this growing debt (Fasan, 2006; Usman, 2007).

The rationale for borrowing, particularly external borrowing, has often been to promote national development, similar to the approach taken by European nations after World War II. Countries like Germany were able to rebuild their infrastructure and economy with loans under the Marshall Plan, which served as a model for developing countries, including Nigeria, to seek external financing for post-

independence development. Nigeria, like many other African nations, relied on external loans to address its macroeconomic needs and promote the socio-economic development of its citizens. However, this heavy reliance on foreign loans, while initially seen as a solution, has undermined Nigeria's socio-economic growth and damaged its international standing due to unfavorable lending conditions, poor policy management, and administrative inefficiencies (Obaseki & Bello, 1995).

By the 1980s, Nigeria, along with much of Africa, found itself mired in an overwhelming debt burden. This situation prompted the International Monetary Fund (IMF) and other international donors to introduce corrective economic programs, which included deregulation, privatization, and liberalization. However, these reforms failed to significantly alleviate Nigeria's debt crisis. By 1999, Nigeria was spending over \$2 billion annually just to service its debt, and by 2006 and 2007, the government sought relief from the Paris Club, which granted Nigeria debt reduction agreements that wiped out nearly 60% of the country's public debt—approximately \$301 billion. This debt relief was intended to free up funds for national development and economic growth. Yet, by 2024, Nigeria's total external and domestic debt had risen to \$91.46 billion (N121.67 trillion), reflecting a 24.99% increase from the previous quarter (The Daily Sun, 2024), raising concerns about the long-term effectiveness of the country's debt management strategies.

Despite these efforts, Nigeria's debt levels continued to rise. By 1980, the external debt had reached approximately \$28 billion, with a significant portion accumulated under the import-licensing regime. This was compounded by growing domestic debt, which consumed approximately 10% of the 1980 health and education budget (Debt Management Office, 2010). Over time, Nigeria's debt load continued to escalate, particularly as successive administrations continued to borrow both externally and domestically. By 2023, Nigeria's total public debt had reached N87.38 trillion (USD 113.42 billion), with external debt alone accounting for N33.25 trillion (USD 43.16 billion) and domestic debt at N54.13 trillion (USD 70.26 billion) (DMO, 2023). This marked a significant increase in debt levels, signaling that the country's reliance on both foreign and domestic borrowing was not sustainable. In the years following Nigeria's debt relief, the country's debt management situation remained precarious.

Despite the reduction in debt, inflation and other economic factors persisted, preventing sustained growth. The reduction in debt alone proved to be insufficient in stimulating long-term economic recovery, and Nigeria's continued borrowing, especially from domestic sources, led to rising concerns about the impact of such debt on the private sector and economic development (Okonjo-Iweala, 2010). By 2023, Nigeria's external debt had surpassed USD 7.3 billion, while domestic debt had risen to N8.4 trillion, highlighting the growing fiscal challenges the country faces (DMO, 2023).

This paper seeks to critically investigate the extent to which Nigeria's foreign debt profile has impacted its development initiatives as well as to evaluate the effectiveness of the debt management plans implemented by the Nigerian government in controlling and reducing foreign debt.

Review of Conceptual Literature

a. Concept of foreign Debt Management

Foreign debt management refers to the process by which a government or nation manages its external borrowing obligations to ensure that they are sustainable, cost-effective, and do not hinder economic development. This concept encompasses a range of strategies and policies aimed at balancing the need for external finance with the capacity to repay loans without undermining the country's financial stability. Foreign debt management includes planning, executing, and controlling external debt to minimize risks such as excessive debt burden, debt servicing, and the potential for default.

Foreign debt management is essential for countries that rely on external borrowing to finance development projects, trade, and infrastructure. Effective management helps in achieving fiscal discipline and maintaining the country's creditworthiness in international markets. For developing countries, managing foreign debt is crucial for ensuring that the borrowing does not stifle domestic growth or lead to unsustainable debt levels. A key objective of foreign debt management is to maintain an optimal debt-to-GDP ratio, which reflects the country's ability to service its debt without adversely affecting its growth prospects (Osei & Boateng, 2022).

Foreign debt management includes the following key components:

Debt Issuance and Borrowing Strategy: Governments must decide on the terms of borrowing, including the mix of short-term and long-term loans, interest rates, and repayment schedules. A well-structured borrowing strategy aims to minimize borrowing costs while ensuring that loans are available when needed for development purposes (World Bank, 2015).

- i. **Debt Sustainability Analysis:** This involves assessing the country's ability to meet its debt obligations without compromising economic stability. Debt sustainability analysis considers factors such as the country's economic growth rate, exchange rate volatility, inflation, and export performance. It is crucial to determine the borrowing limits beyond which the country's debt could become unsustainable (IMF, 2019).
- ii. **Risk Management:** Governments must assess and manage risks associated with external debt, including exchange rate risk, interest rate risk, and refinancing risk. Effective risk management strategies help mitigate the potential negative impacts of these risks on the economy and ensure that external debt remains manageable (Adeoye, 2022).
- iii. **Debt Service Management:** This includes monitoring and managing the repayments of interest and principal to ensure that the debt servicing does not crowd out critical government spending, such as in health, education, and infrastructure development. Efficient debt service management is crucial to avoid fiscal crises (Obaseki & Bello, 1995).
- iv. **Debt Restructuring and Relief:** In cases where a country faces significant debt distress, foreign debt management may involve negotiations for debt restructuring or debt relief. Debt relief programs, such as those provided by the Paris Club, can help reduce the burden of debt servicing and provide fiscal space for development programs (Omemma, 2008).

Effective foreign debt management helps countries achieve balanced growth by using borrowed funds for productive investments while ensuring that debt

obligations are serviced without destabilizing the economy. However, failure to properly manage foreign debt can lead to a vicious cycle of borrowing, rising debt, and eventual default, undermining a nation's financial stability and growth prospects (Adeoye, 2022).

Concept of a Debt Profile

A *debt profile* provides a detailed overview of a country's outstanding debt obligations, highlighting key elements such as the amount borrowed, the repayment terms, and associated risks. For countries like Nigeria, a debt profile serves as an important indicator of fiscal health, illustrating how much is owed, the timing of repayment, the interest costs, the composition of the debt (external versus domestic), and how these factors interact with the country's ability to service the debt over time (Osei & Boateng, 2022). Debt management is crucial for ensuring that borrowing is sustainable and does not undermine other critical national priorities such as infrastructure development, health, and education (Fasan, 2006).

The debt profile is typically broken down into several key components:

- i. **Debt Stock** refers to the total amount of debt at any given time, broken into external and domestic debt. It provides a snapshot of how much the country owes, helping track debt accumulation over time (IMF, 2019).
- ii. **Debt Service** represents the total cost of servicing the debt, which includes both interest payments and the principal repayments. This component is crucial as high debt service obligations can limit the government's fiscal capacity, creating constraints on development spending (Usman, 2007).
- iii. **Maturity Structure** is another critical part, describing when the debt needs to be repaid. Countries with a high proportion of short-term debt are more vulnerable to refinancing risks, while long-term debt may increase the burden over time if interest rates rise (World Bank, 2015).
- iv. **Currency and Interest Rate Risks** pertain to the mix of foreign versus local currency debt and the type of interest rate (fixed or floating). Borrowing in foreign

currencies exposes the country to exchange rate risks, while floating interest rates make the debt more susceptible to changes in global interest rates (IMF, 2020).

- v. **Debt Sustainability Indicators** include metrics such as the debt-to-GDP ratio or debt-service-to-revenue ratio, which assess whether a country's debt levels are sustainable or whether the country risks default. A rising debt-to-GDP ratio, for instance, signals increasing vulnerability (Obaseki & Bello, 1995).

A well-structured debt profile ensures that the country's debt obligations align with its repayment capacity, enabling it to manage the debt without endangering economic stability. However, a poorly managed debt profile characterized by a reliance on short-term borrowing, excessive foreign currency debt, or high debt servicing costs can lead to fiscal distress and compromise economic growth (Omemma, 2008).

In the case of Nigeria, the total public debt comprising both external and domestic borrowing has been on a steady rise. According to the Debt Management Office (DMO), as of the first quarter of 2024, Nigeria's total public debt stood at ₦121.67 trillion (~US\$91.46 billion), a significant increase from ₦97.34 trillion in the previous quarter. This increase was mainly driven by both external and domestic borrowing, with external debt around ₦56.02 trillion (US\$42.12 billion) and domestic debt at ₦65.65 trillion (US\$49.35 billion) (National Bureau of Statistics, 2024). This marked a clear shift in the country's borrowing patterns, showing a rise in the total debt and an increasing share of domestic debt relative to external debt. By Q3 of 2023, the external debt had reached ₦31.98 trillion (US\$41.59 billion), while domestic debt stood at ₦55.93 trillion (US\$72.76 billion), reflecting a more than 63% dominance of domestic debt (National Bureau of Statistics, 2023). Historically, Nigeria's debt-to-GDP ratio has been climbing. For instance, by June 2023, it had risen to approximately 38.4%, signaling increasing debt dependency relative to the country's GDP (Wikipedia). The rapid growth in Nigeria's debt profile is a result of continuous borrowing to address fiscal shortfalls and finance developmental projects, but this comes with significant risks. As the country increasingly relies on domestic borrowing, the risks associated with inflation, interest rate hikes, and crowding out of private sector investments grow (Obaseki & Bello, 1995).

Key Features of the Profile

- i. **Split between Domestic and External Debt:** Domestic debt has grown to represent a larger portion of Nigeria's total public debt. This shift raises concerns over risks related to inflation, crowding out of private sector credit, and rising interest burdens (Adeoye, 2022).
- ii. **Rapid Growth Trend:** The jump from ₦97 trillion to ₦121 trillion in just one quarter (Q4 2023 to Q1 2024) signals an acceleration of borrowing, which may reflect economic pressures, currency devaluation, or increased costs of debt servicing (Fasan, 2006).
- iii. **External Debt as a Moderate Portion:** While external debt is large, it remains a relatively smaller share compared to domestic debt. However, it still poses risks due to foreign currency obligations and the need for servicing in international markets (IMF, 2019).
- iv. **Debt Sustainability Concerns:** The continuous rise in debt, particularly the increasing proportion of domestic borrowing, raises questions about Nigeria's ability to maintain debt sustainability without compromising economic growth and investment (Omemma, 2008).

Foreign Debt Management and Nigeria's Development: An Overview

Obadan (2004) reveals that since the late 1970s, Nigeria has been experiencing external debt problems related to the tumbling cost of oil in the global market hence lessening the foreign exchange earnings of the country. The increase in the amount of Nigerian debt can be explained by the growth of borrowing of the International Capital Market (ICM) and multilateral organizations, bilateral sources; trade arrears; default charges on late allocated payments; unpaid interest capitalization and depreciation of dollar.

Most of the loans disbursed during the pre-structural adjustment period were given to fund development projects. The borrowing in the name of balance-of-payments support was a very common occurrence, because of implementation Structural Adjustment Program (SAP). However, during the earlier times, the sourced funds

would go into an acquisition of imports that had to be acquired in the support of development projects. Most of the World Bank borrowed funds in Nigeria are directed towards agriculture, water supply, road networks, education sector, development of port facilities, ventures in small- and medium-size industries, urban development, and other infrastructural developmental areas (Debt Management Office, 2010).

The use of the international capital markets to obtain funding marked the beginning of careless borrowing by subsequent governments that followed which in turn resulted in the significant deterioration in the domestic debt position of the nation leading to payments crisis and thus giving rise to the need to reschedule and refinance.

The International Monetary Fund (IMF) and the World Bank have become the most influential stakeholders in Nigeria with the fact that when Nigeria adopted the structural adjustment programme (SAP) its commitment to the policy prescriptions of these bodies was made clear. Adeyemi (1996) contends that the philosophical base of the programme was the demand management whose principle was to further reduce external imbalances through a restrictive policy. It had the general purpose of obtaining non inflationary growth and also to encourage domestic production of goods which could be traded. The programme also aimed at having a sustainable pattern of servicing the external debt, thus providing a platform to facilitating higher savings and investment at the domestic level in addition to attracting the inflow of external funds. This external debt burden increased between 1985 (\$ 19.5 billion) and 1991 (\$ 34.4 billion) due to new buying and combined effects of rising foreign-interest-rates, capitalization of accumulated but unacknowledged interest charges and European and Japanese currencies rise against the United States dollar. Its debt service ratio, which had averaged 16.3 percent every year between 1982 and 1985, increased to 26.7 percent between 1986 and 1994 thus posing a huge burden on the foreign exchange earnings of Nigeria.

In spite of this, Udoka (2010) argued

That Structural Adjustment Programme (SAP) brought in severance; missing foreign exchange, rising inflation, and worsening unemployment and deteriorating quality of health services and education and all this accompanied stagnated real wages. The subsequent rise in the cost of living dissipated the wellbeing of the citizens (Udoka, 2010: 5).

The arrival of the Bretton Wood institutions and the global capital markets, which have been in existence since 1988, has affected macro-economic environment in Nigeria with a sweeping negative effect. There have been shrinking real income, rising cost of living, increasing inflation rate, a massive poverty, unemployment and social inequality as well as degrading critical services such as mass transportation and clean water supply (Ifesinachi, 2008). Arguably, these shifts were foreseeable according to Akpuru-Aja (2000) who reported the damage caused by the embrace of the IMF conditionality and the Structural Adjustment Programme of the Buhari and Babangida regimes. Arikawe (2003) indicated the dire result of this to the economy as well as to social welfare by indicating that in order to service its large level of external debt at times to the detriment of development expenditure and anti-poverty efforts. Negative repercussions are that it may attract less inflow of foreign investment as long as the debt-service burden remains to be the key consideration.

A total of \$ 8,943.45 million was paid as external debt service in 2005, which is the highest amount paid in the country so far (DMO, 2005). It follows that the Obasanjo regime took a series of conscious actions to counter this financial burden: it has pursued bilateral relations with creditor countries to receive a quick but equitable external debt relief. The key tools used were the widening of productive dialogue with international financial institutions, arbitrating the most beneficial debt-rescheduling terms and taking advantage of traditional relief mechanisms in the short to medium run as well as the setup of more weighty cuts within the medium term (Arikawe, 2004).

Even though, the elimination of the debt service load would definitely increase the possibilities of developing the country, the perspectives given by Obadan (2004) and Muhtar (2005) emphasize this possibility. Obadan (2004) argues that a huge slash on the debt obligations is vital so that the excess of foreign exchange could be spent on economic recovery programs and thus the borrowing of new debilitating loans would be non-requisite. According to Mulitar (2005), removing this debt overhang would help Nigeria regain investor confidence, attract more foreign direct investment and conduct trade easily with other countries by having easier access to such facilities of export credit guarantee agencies. The biggest issue, though, is that of avoiding onerous debt. The heavy payments of debt service in Nigeria and the other developing world has long restricted their scope of development and deepened external vulnerability. Debt proliferated at the same time the external reserves failed to meet the rate of increasing debt services, an aspect that worsened the efforts of debt repayment in Nigeria. The country has been forced to spend up to 3 billion dollars (close to 30 percent of its annual revenue) in servicing a foreign debt whose original amount was 17 billion dollars between 1980 and the year 2003 (Okonjo-Iweala et al., 2003).

In the world of foreign debt burden, Chief Obasanjo introduces a response:

that attempts to point out that relatively small portion of the people are the cause of the problem. These people had enough power and access to use the opportunity, where they sanctioned various deals at very high interest rates. They embezzled the money obtained on development pretexts, released foreign lines of credit without much hauling of any project to its successful completion, and at times diverted or otherwise misused national development funds (Obasanjo 2006: 23).

As the person being interviewed says, the main reasons behind the accumulation of foreign debt in Nigeria are political corruption, pernicious leadership, abuse of office and power, criminal corruption, mismanagement and waste, misplaced priorities, fiscal indiscipline, poor control and tolerance of corruption and extra legal means of primitive accumulation by society as a whole. The country, therefore, seems to be

prone to debt trap in case it keeps borrowing without an internal institutional restructuring that will discourage fiscal indiscipline and mismanagement.

Commenting on the Nigeria Daily Independent, Dr. Maiyakin would subscribe to the views that debt relief has the potential of turning Nigeria into an industrialized sovereign state. He asserts that freeing up of debt would empower the National Economic Empowerment and Development Strategy (NEEDS). In addition the accruals can be directed to impoverished areas like education, housing, and other poverty alleviation schemes to enhance the lives of the citizens.

On the contrary, some scholars imply that given the treatments by analyst critics that claim that throughout the reign of President Obasanjo, there was consistent foreign economic pressure that forced the government to continue spending significant funds repaying the outstanding 5 billion dollar debt to other nations at a time when the domestic claims against the government in terms of back wages, pension, and salaries amounted to 875 billion, as well as 160 billion due to Lagos State government (Aluko, 2007). This rerouting of funds, coupled with the lessened activity of governments in the economy has led to the intensification of suffering of the people. Therefore, most of the citizenry is economically worse off compared to when the Obasanjo presidency started in May 1999. According to this angle of view, despite the debt relief given to Nigeria in 2006, the local economy has not been stimulated in the measurable sense. The analysis also shows how international financial institutions during and after the relief measures make them more entrenched in the mechanism of dependency as they add numerous conditionalities attached to relief measures which further enslave the states like Nigeria into the trap of debt cycle.

It is well known that public debt has been used as a means of funding government consumption but at the same time has caused a decline in external assets as well as driven down the average productive capacity of the national economy. Such developments have significant macroeconomic, social, human consequences. According to the (UNICEF) report released in 1990, Africa had lost an estimated one thousand people because of the debt burden in the continent (The Daily Times Editorial, 2023).

Debt Management Plan and Nigeria's Foreign Debt

The phrase external debt management as outlined by Ajayi (2021) touches on all the international and technical arrangements where a government assembles its external obligations so that the debt-service burden remains within the limits that the economy can properly support. The technical dimension entails computation of how much of the debt the economy is able to service, bargaining of favourable terms of financing and assuring that at the end of the day debt-service payments match that capacity. The institutional dimension addresses administrative, organizational, legislative, book-keeping and surveillance activities centred in the management of new contracting of loans and the current holdings of the debts. In either dimension the key goal will be to decrease the debt-service burden or at least, stabilize it.

Some of tasks involved in managing external debt are: (1) forecasting of foreign-exchange earnings; (2) identification of the external sources of financing; (3) estimation of returns on investment that will be funded by these loans; (4) schedule of repayment and debt-service burden; (5) selection of most appropriate debt instruments; (6) quantity to be borrowed; (7) currency mix of debt; and (8) viability through debt-service terms. The government should also first evaluate its ability to pay up the current debt and then make a decision whether taking additional loans would be desirable.

The Federal Government had set up the Debt Management Office (DMO) in 2000 to play an increased role in managing commercial debt to promote its sustainability in the debt-management policy. Before the creation of DMO, the debt operations of the government were characterized by systematic and structural shortcomings and they included:

- i. Weaknesses in preparation on redesigning of debts .
- ii. Lack of fine-coordination amongst debt issuing agencies.
- iii. Weak comprehension of the character of debt and the obligations attached to it Go socially redistributive absence of Ball, being honoured by the loss of Go redirected to the kitchen to fill the debt required.

- iv. Unpreparedness to face financial costs through restructuring of debts, is atrocious .
- v. Inadequate analytical instruments with which to forecast and gauge debt serviceability.
- vi. Weakness to take advantage of the favourable market situations to rebuild debt.
- vii. Doubts about issuing of debt by the system
- viii. M&R systems bedeviled by Poor information sharing between the issuing agencies of the debt Inadequate information sharing between the agencies involved in the issuance of the debt

The formation of the Debt Management Office (DMO) is going by a structural phased programme. The first step focuses on centralisation and consolidation of the functions of external debt management that, so far, have been performed by Federal Ministry of Finance and the Central Bank of Nigeria. When these external functions have been established, the second stage will involve managing domestic debt, so that there is close interaction between the operations of the DMO and overall fiscal and monetary policy goals. It is the most recent report of the Director-General of the DMO who said that a lot had been done in auditing of the loan portfolio, updating and computerisation of the debt database and completing reconciliation of figures. At the same time, there are attempts to reinforce the external debt servicing practices and thus make them more efficient, timely, and strengthen control rigidity of the process.

In cooperation with different governmental establishments, the DMO cooperates on multiple activities such as Debt Sustainability Analysis (DSA), management of debt payment and settlement and the alignment of macro, fiscal, and monetary policy. These are the Federal Ministry of Finance, National Planning Commission (NPC), National Bureau of statistics (NBS), Central Bank of Nigeria (CBN), Office of the Accountant General (Federal Government) (OAGF), Bureau of Public Enterprises (BPE), Office of the Senior Special Assistant to the President on Millennium Development Goals (OSSAP-MDGS) and the Budget Office of the Federation (DMO, 2008).

As part of its vision, Nwankwo (2011) expresses the managing of the debt of Nigeria in the interest of growth, development, reducing poverty mode of management. In terms of its mission, the office will strive to utilize a quality motivated highly trained workforce and exploiting the power of technology to work and establish itself as one of the top ten agencies dealing with debt management in the emerging markets, known by its conformance with best practices, by the year 2012.

In national debt strategy, the core objective would be to ensure that it has a sustainable debt profile as well as sustained growth with the well-designed debt portfolio. Despite the changes that debt management techniques have undergone over the years as a result of the changing external environment, preservation of the stock of debt and managing the debt services remains the aim of those techniques. This can be evidenced through the reduction in the debt burden experienced by Nigeria as recorded by the Debt Management Office (2008), hence developing the ability of the country to repay its international debtors. Especially focused on products were:

- i. The debt conversion scheme, which opened the doors to foreign investment and increased employment and at the same time reducing national debt stock.
- ii. A ban on fresh lending, controlled so that foreign borrowing should be reduced to the bare minimum and the total amount in arrears contain.
- iii. Renowned debt service whereby a quarter of export receipts was diverted to the local improvement.
- iv. Debt restructuring which was done by way of refinance, buy, issuance of collateralized bonds and arrangement of new funds.

On the basis of Paris Club Agreed Minute IV, the Debt Management Office has entered into bilateral negotiations with the fifteen creditor countries to conclude negotiated agreements. These negotiations revolved around reconciliation of acceptable claims on debt as well as arrangements of the rescheduling of the outstanding debt amount which is to be coupled with the interest terms (Debt Management Office, 2004). In the year 2004, the DMO captured the three major measures or strategies through which creditors have tried to help the developing

countries and they are matters of the Traditional Approach, the HIPC (Heavily Indebted Poor Countries) initiatives, and the Evian Approach (DMO 2004).

Nigeria External Debt Profile (US \$Million)

Year	Multilateral (\$ million)	Paris Club (\$ million)	London Club (\$ million)	Promissory Notes (\$ million)	Others (\$ million)	Total Debt (\$ million)
2013	3,933	20,507	2,043	1,486		28,038
				65		
2014	3,460	21,180	2,043	1,447	144	28,274
2015	2,798	22,093	2,043	1,292	121	28,347
2016	2,961	25,381	1,442	1,153	56	30,993
2017	3,042	27,470	1,442	911	52	32,917
2018	2,824	30,847	1,441	783	47	35,942
2019	2,512	15,412	1,441	649	461	20,475
2020	3,080	0	0	509	184	3,773
2021	3,080	0	0	0	184	3,264
2022	3,172	0	0	0	182	3,354
2023	3,093	0	0	0	182	3,272

Source: (1) Debt Management Office, Annual report, 2017p.52.

(2) Report of the Annual Debt Sustainability Analysis, 2023, p.20.

The nature of the external debt of Nigeria changed significantly soon after the country left the Paris Club system in 2019. However, debts to the London club still remained pegged at around US\$1.4 billion; multilateral debts were US\$2.7 billion, promissory notes worth 80.6 billion naira and the remaining non-Paris Club debts stood at US\$9.1 billion. As such, the country foreign debt was US\$3.5 billion by the end of 2006. Nevertheless, by 2020, this amount fell to the level of US\$3.6 billion, which can be also estimated as a significant drop in comparison to approximately US\$35 billion noted in 2017. In 2021, the external debt stood at up to US\$53.67 billion.

CBN quarterly report shows the fact that after 2019, Nigeria has added more external debt, the total amounting to US\$5 billion at year end 2009. Debt stock grew by a small margin of US\$3.72 billion at the end of 2008 and to US\$4.3 billion as at March 2010. Although the Excess Crude Account did not grow as the global oil prices rose, its balance decreased by the end of the year 2019 compared to the beginning of 2008 from US\$20.1 billion to US\$7.8 billion (The Nigerian Compass, 2020).

The Domestic Debt Profile

On the domestic front, the aggregate domestic debt of Nigeria is more than US \$22 billion. In line with Debt Management Office (DMO), about 85 percent of the local borrowing in the country is funded within the country, marginal 15 percent is externally funded (DMO. 2010). The consequences are moral and can trigger a lapse into a debt crisis. The stock of domestic debt increased between 2007 and 2009 to 2.1 trillion naira and today, it is 3 trillion naira (2010). There have been concerns over this steep rise by some eminent commentators including the former Governor of the Central Bank of Nigeria (CBN), Prof. Charles Chukwuma Soludo, and the former Finance Minister and Managing Director, world bank, Dr. Ngozi Okonjo-Iweala, who warn of the prospective economical and political outfall.

Nigerian Domestic Debt Outstanding (₦ Million)

Year	Treasury Bills (₦'000)	Treasury Certificates (₦'000)	Treasury Bonds (₦'000)	Development Stock (₦'000)	Others (₦'000)	Total (₦'000)
1999	361,758.4	0.0	430,608.2	2,440.0	0.0	794,806.6
2000	465,537.7	0.0	430,608.2	2,110.0	0.0	898,255.9
2001	465,535.8	0.0	430,608.2	2,830.0	0.0	1,016,974.0
2002	733,761.5	0.0	430,608.2	1,630.0	0.0	1,166,007.0
2003	825,054.5	0.0	430,608.2	1,470.0	72,560.0	1,329,692.7
2004	871,577.0	0.0	424,938.2	1,250.0	72,650.0	1,370,325.1
2005	854,828.4	0.0	419,268.2	980.0	250,300.0	1,525,906.6

Sources: Adapted from D.A Omenma, *Debt Crisis and Underdevelopment in Nigeria: An Assessment*. Department of political science, university of Nigeria, Nsukka, 2005, p.31.

On careful examination of the above table, it is quite observable that there has been a continuous growth pattern in both the issuance of government bonds and treasury bills. Such growth seems worrying as it is already reported that way back in 2008 and 2009 state governments managed to accumulate a gross domestic debt of 490 billion ringgit a whopping amount- ostensibly without proper legislative endorsement. The assumed justification of these issuances was to facilitate mostly non-tangible purchases that lacked easy quantifiable and measurable returns. These kinds of lending can affect wider economic growth. However, several reasons have been quoted to explain why the domestic debt landscape has swelled: low levels of budget balances, the low rates of output growth, high levels of expenditure, high inflation rates and a limited tax base that were caused by the consequent plummeting oil prices at the international market in the year 2010.

Nigeria's Foreign Debt and Servicing Obligations

In Nigeria, the onset of debt-service payments in the year 1958 started with an elasticity that over the years became a rigid commitment. In 1950s, the average annual debt-service commitment of the country stood at about 3.2 million Naira (Obadan, 2004), which is equivalent to 0.2 percent of gross domestic product. The outflow stayed small over most of this time. In 2003, however, the country found itself in an even more burdensome situation because its major creditor at the time the Paris Club was demanding over 53 billion Naira every year in servicing its debts a value that was held unsustainable (Okonjo-Iweala. 2005).

Consequently, Dr. Ngozi Okonjo-Iweala involved the Paris Club and later the country reached agreement with the engagement of Nigeria to pay 1.7 billion Naira annually. Though this arrangement lowered the short-range impact, the balance of 1.3 billion Naira was charged on top of the principal amount and made to earn even more interest. The resultant effect was a debt load that was ever increasing (Vanguard, 2005).

As at before final settling of the Paris Club debt in 2005, the cumulative obligations of foreign debt-services were as follows, taking principal payments as \$978.38 million, interest due as 389.17 million and commitment charge as 978.38 million

giving a total of 1367.54 million dollars. The total debt-service cost of late 2005 exceeded the 8.9 billion Naira mark with phase I and phase II of the Debt Reduction Program that included an extra 7,575.92 million Naira (Debt Management Office, 2005). Out of this amount, the government paid the Note holders of promissory notes the sum of 476.60 million, equivalent to 46.63 percent, and multilateral creditors 38.43 percent representing 392.77 million dollars. The rest of the 14.94 percent or about 1.2 billion was utilized on bilateral lenders (Debt Management Office, 2005).

In the period under consideration, pay it to London Club creditors was US\$102.59 million, which constituted 10.04 percent of total debt service. US\$27.48 million, which was 2.69 percent of the entire sum, was divided amongst the non-Paris club bilateral creditors whereas US\$22.60 million which was 2.21 percent of the overall sum was divided among other creditors.

External Debt Service Payment (2015-2023) (US \$ Million)

Creditor Category	2015	2016	2017	2018	2019	2020	2021	2022	2023
A. Official									
1. Bilateral Paris Club	644.05	813.14	1,273.62	161.58	1,020.18	994.44	8,072.55	4,519.87	0.00
Non-Paris Club	35.67	2,101.00	33.81	75.86	13.26	11.65	15.83	25.56	27.48
2. Multilateral	659.25	623.37	491.48	192.12	509.23	487.28	471.66	426.62	392.77
Non-Paris Club	NA	NA	121.21	0.43	55.55	0.018	-	-	-
Sub-Total Official	760.97	1,438.61	1,788.91	709.54	1,542.66	1,493.37	8,560.06	4,972.05	420.25

B. Private									
1. Promissory Notes	259.75	150.20	195.18	192.12	176.42	171.23	213.55	170.84	476.60
2. Banks (London Club)	128.09	129.29	134.08	266.75	90.21	90.15	169.86	1,584.58	102.59
Sub-Total Private	387.75	279.49	329.26	458.87	266.62	261.38	383.41	1,755.42	579.19
Grand Total	1,148.72	1,718.72	2,128.17	1,168.40	1,809.28	1,754.75	8,943.45	6,727.59	999.44

Source; (1) *Debt Management Office. Annual Report, 2023, p. 53*

This is an improvement over the \$6,729.20 million transferred as debt service payments in the country in the year 2021 which is equivalent to a reduction of 5.707.16 million. This marked decline can be mainly attributed to the grand amount on the 2021 Paris Club and London Club debt departure that contributed to a large share of the Paris Club and London Club debts. This therefore necessitates ensuring that proper resources are budgeted to service the debt in order to avoid default and also maintain cordial conditions in future negotiations with the creditors. Also, since a high percentage of the outstanding debt of Nigeria could be attributed to the virtual capitalization of interest arrears and default penalties (Adepoju et al., 2007), timely release of budgetary funds should facilitate timely settlement of debt obligations.

Debt service obligations to foreign creditors are as scheduled as follows: World Bank and Islamic Development banks payments are on a four-quarterly basis whereas that of African Development Bank (ADB) comes at rather a regular basis. All these commitments come with harsh penalties such as high penalty charges, high charges after the specified payback periods and bans on future borrowing or promises that could go up to 30 days. They do not qualify to reschedule and relieve the debt.

Where there are small consequences of default these are:

- i. Stay of disbursement as regards all bank group loans advanced to the borrower /guarantor.
- ii. Placement of a ban on the signing of loan or guarantee contracts between the bank group and the borrower / guarantor.
- iii. Halting a further issue of any new loan by bank group to the borrower /guarantor.

(A) Adepoju (2007) noted that the potential efficacy of such sanctions can negatively impact on the creditworthiness of a country and may cripple its future access to foreign credits or loans. Other penalties used by bilateral creditors are late interest, which is usually 1 3 % interest above the usual charge.

(B) Paris Club: Failure to honour debt-service obligations will hinder Nigeria in achieving meaningful debt relief in the medium term and also cry a defaulting country like Nigeria will not be able to access normal credit facilities available through Export Credit agencies found in countries known as the Paris Club creditor countries. In addition to that, companies and government agencies in the respective debtor nations are required to pay wholesomely at the beginning of imports received even though they may have delivery periods spanning a couple of months or years, in some instances.

(C) London Club: Bankruptcy on debt implies grave consequences since the bond contracts have enforceable legal obligations. In case payments in respect of a promissory note are not made as they fall due, creditors can retrieve assets of the Central Bank of Nigeria (CBN) and the Nigerian National Petroleum Corporation NNPC anywhere in the world since Nigeria has expressly waived its sovereign immunity under the terms of the arrangement. There is consequently pressing the necessity to embrace an ongoing program that aligns with the worst consequences of default on debt payment and meet the new economic and political processes in the country.

The Nigeria's Debt Sustainability in Relation to the Country's GDP

The debt rates are high, and initial debts are significant, real GDP growth has also declined, and trade deficits have widened, thus threatening the sustainability of the debt in Nigeria. As a result, it is hard to maintain the debt-to-GDP ratio at the stable level with interest rates being at a high level, GDP growth being reduced, and the level of debt being increased. To protect debt sustainability, government either has to increase the performance of GDP or get the loans that are concessionalizable, that come at relatively low rates or must increase its export earnings.

Projected sustainable level of external debt/GDP rate in Nigeria 2015-2020

Year	Balance/GDP	Real Interest Rate (%)	Real GDP Growth Rate (%)	External Debt/GDP (%)	Trade (%)
2015	6	5	64.4	-3.07	
2016	6	5	60.54	0.79	
2017	6	5	56.9	0.75	
2018	6	5	53.49	0.70	
2019	6	5	50.28	0.66	
2020	6	5	47.26	0.65	

Source: Adapted from J.A Adams the debt servicing capacity of Nigeria's Economy.

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In the event that the real GDP growth falls to below 5 percent, though the interest rate is held constant, the government would require much larger surpluses between 2015 and 2020 to maintain the stock of debt on a sustainable course. During this period of five years, foreign debts remained the largest portion of total public debt and no restructuring (Paris Club 2006) in 2006 did not analogically favor. Foreign debt fell to 20.68 percent of the total debt as compared to 63.39 percent and the domestic debt increased to 79.32 percent as compared to 36.61 percent. These changes are reflected in the ratios of external debt solvency of Nigeria, over time. During 2015-2020, the ratio between the external debt stock and the GDP and to exports was above the threshold and thus unsustainable. However, the stock of

external debt as a percentage of GDP, which was at a sustainable level in 2019, declined after the exit of the Paris Club debt deal was completed.

Domestic Debt Ratios 2015-2020

Year	2015	2016	2017	2018	2019	2020	Threshold
Domestic Debt Stock / Total Public Debt (%)	24.30	23.72	23.81	22.30	36.61	79.57	N/A
Domestic Debt Stock / GDP (%)	14.75	14.96	13.41	12.01	10.44	9.70	20 - 25
Domestic Debt Service / Government Revenue (%)		10.89	10.62	9.94	7.66	4.96	28.63

Source: *National Debt Management Framework, 2015-2020*

Between 2018 and 2020, the domestic debt stock-to-GDP ratio was decreasing and kept within the sustainable levels. Even though the accrued national debt was realized in rise, the recovery was countercepted by the increase rate of GDP within the same period. In addition, the ratio of domestic debt service to the government revenues is sustainable and has been on a decreasing trend. A restructuring exercise has been seen to bring about this development as it has elongated the maturity profile of the portfolio. It can also be attributed to the fact that government revenues were doing well during the period as well.

External Debt Ratios 2001-2006 (%)

Year	2015	2016	2017	2018	2019	2020	Threshold
External Debt Stock / Total Public Debt (%)	75.70	76.28	76.19	77.70	63.39	20.43	N/A
External Debt Stock / GDP (%)	46.24	50.45	42.95	41.86	18.08	3.70	30
External Debt Stock / Export (%)	159.33	220.01	152.36	103.41	41.86	6.32	100
External Debt Service / Export (%)	11.96	8.29	8.37	5.05	18.28	12.00	15
External Debt Service / Government Revenue (%)	16.77	9.23	16.63	8.78	38.02	15.89	20

Source: *National Debt Management Framework, 2015-2020*

The external debt service/export ratio and the external debt service/government revenues ratio show sustainability until 2004. This is as a result of Nigeria not servicing the full amount due over that period. In the first two payments made under the Paris Club debt deal, the ratios indicate an unsustainable situation for 2005. The situation stabilized in 2006 with the final exit payment made to the Paris Club and the Par Bonds portions of the London Club debt.

According to IMF and the World Bank Framework for assessing debt sustainability in low income countries in consonance with the Country Policy and Institutional Assessment (CPIA). Nigeria is ranked as a poor performer, and as such is predicated to be able to sustain external debt levels within the thresholds in the table below. Looking at the Debt Sustainability Analysis (DSA) conducted by Nigeria in July, 2007, the predicted values of Nigeria's external debt solvency indicators are shown in the table

	2015	2018	2020	Threshold
External Debt GDP	3.4	2.5	2.2	30
External Debt Export	8.1	81	8.3	100

Source: *National Debt Management Framework, 2015-2020*

The statistics reflect that currently, there is no unsustainable amount of external debt enjoyed by Nigeria and the situation is likely to continue in the medium term. It is important to mention that when the country was relieved of Paris Club debt in 2006, this core shift changed the external debt scenario in Nigeria. Nigeria should focus on using mostly concessional financing and stay committed to economic restructuring and the country will face external debt manageability over the same period.

Domestic Debt Solvency/Liquidity Indicators (%)

Solvency Indicators	2015	2018	Threshold
Domestic Debt Stock/GDP	9.7	8.6	20-25
Domestic Debt Service/Revenue	3.1	10.0	28-63
Interest Payments/Revenue	5.2	8.2	46-68

Source: *National Debt Management Framework, 2015-2020*

It can be seen that at this moment, there are no domestic debt sustainability issues in Nigeria, over the medium term. Both the ratios Domestic Debt Service/Revenue and Domestic Debt Stock/GDP are placed below the lower limits that have been set as limits of these indicators. Similarly, the interest payments/domestic budget revenue are below thresholds parameters by the end of the prediction period though in 2010 the indicator surpassed the upper limit.

There are no internal domestic benchmarks to measure the sustainability of domestic debt. However, a set of international acceptable benchmarks has been promoted by Debt Relief International (DRI) as a viable approach to analyzing debt sustainability in a domestic setting (Debt Management Office, 2008). The table above specifies these parameters and the projections of the Debt Sustainability Analysis of Nigeria as formulated in 2007. Considering that the majority of interest payments/domestic budget revenue indicators belong to the middle range, a certain steady growth of this indicator should be looked at since it can lead to a liquidity deficit. The general finding that arises out of this discussion is that in the coming years, domestic debt will be playing a larger role in debt-management plans in Nigeria.

Currently, the DMO is focusing more attention on the development of the Nigeria domestic debt market. It is important to develop a firm domestic debt management policy to preempt the shift to an unsustainable domestic debt path over the medium and long-horizons. In such a way, Nigeria has a sustainable external portfolio in relation to its GDP as the external debt amounts to about US\$3 billion (about 85 percent of which represent the multilateral loans with the concessional terms).

In addition, Dr. Abraham Nwankwo, the Director General of DMO stated that Nigeria was still in a good debt position at the Debt Sustainability Analysis (DAS) workshop with the overall debt-to-GDP ratio currently at approximately 18 percent (Vanguard, 2019). This evaluation can be benchmarked against the investigative examination of the Nigerian debt profile between the years 1999 and 2007 that depicts that, although there have been instances when the external debt to GDP and the percentage external debt to export ratios exceeded suggested limits, the external portfolio remained to be serviced at a sustainable levels when the Paris Club debt-relief programme finally materialised. The hypothesis one can therefore reject.

Theoretical Framework

In this study, the dependency theory will play the role of an analytical framework. Formulated and propagated by prominent Third World political economists like Andra Gunder Frank (1969), Samir Amin (1976), John Galtung (1972), Femado Cardoso (1972) and Water Rodney (1969), Chowweizu (1974) and Claude Ake (1981) among others, the theory holds that growth of the less developed countries is dependent on advanced powers. It places this system of a clear and coherent world where the peripheral and marginalized remains backward and unfolded due to the systematic exploitation and unavailability of the expansion of the economically disadvantaged international capitalism and local conservative forces that relativize economic systems of the Third World.

As a result, Nigeria that is a Third World country, has an increased attempt at joining the capitalist order, which exacerbates its dependency predicament. Most of the commodities in the Third World are shipped mostly through foreign-flag vessels and the foreign direct investment is sought to prevent the economic doom. In the capitalist paradigm, indebted states inject resolutions to their crisis via influx of capitals or by obtaining loans of International Monetary Fund and the World Bank. This assertion is also supported by Olukoshi (1990) who says that the external debt predicament in Nigeria is the outcome of the peripheral status in the world capitalist nucleus. Therefore, Official Development Assistance (ODA) finance, which comes in high rates of interests and tight repayment terms, are used to extract excess values out of the periphery into the centre. Furthermore much of these loans are only aimed at covering the old repayment of these ODA disbursements, hence sustaining an aid course.

Dependent theorists see modern day debt crises as the sharp end of a deep seated debt trap where the developing nations of the periphery are systematically extracted and have their interests subordinated to the interests of the developed nations in the core. Colonialism thus overwhelms the debt crises with a certain historically marked legacy in this sense. During the colonial phase, a division of labor appeared whereby the colonies were providers of agricultural products and raw materials to the center and at the same time the colonies became major consumers of manufactured products

in the center. This trend has been ingrained in the modern export-import matrices in most third world countries that prevent them access to foreign exchange by which proper development could be sought. Despite the fact that some third world states have moved towards industrialization, they remain stuck in indebtedness due to the fact that they continue to be dependent on the core in terms of technology transfer and capital inflows (Cheryl Payer, 1974; Peter Korner et al, 1986; Peter Evans, 1979).

A quintessential case is in Nigeria. Nigeria being a monoculture economy mostly depends on petroleum exports in terms of revenue which is used as a means of development. It is over-specialized and the national economy is subjected to the whims of the swings in the international oil prices. Over 90 percent of Nigerian foreign exchange earnings comes through crude oil; there was a world glut in crude oil which started in 1977/1978 fiscal year, this undefined the realization of the fourth National Development Plan that had been estimated to cost about 80 billion naira. This has seen increase in internal and external borrowing in efforts of coping with deficits caused by weak crude oil prices which are vulnerable (Onoh, 1983).

The Kenyan debt relief given to Nigeria in 2005 took pressure off the Nigerian books and debt repayment helped to steady its finances but it did not last long: the resumption of lending rapidly returned Nigeria to its wobbly financial standing. Such a course brings into focus the analytical strength of such dependency theory in this regard.

Research Design

This study adopted a historical research design to analyze Nigeria's foreign debt profile from 2015 to 2023. The approach connected past events with current and future scenarios to understand the evolution of debt management in Nigeria. The study focused on qualitative data collection and analysis to explore how past debt management policies shaped current debt dynamics. The data collection technique primarily used secondary data, gathered from official documents and publications from the Central Bank of Nigeria (CBN), World Bank, IMF, and the Debt Management Office (DMO). These sources provided detailed information about

Nigeria's foreign debt and the government's debt management policies. Supplementary data were drawn from the Nnamdi Azikiwe Library and Center for American Studies (CAST), as well as academic journals and books. For data analysis, the study employed a qualitative descriptive approach to assess the symbolic content of documents and establish the frequency or significance of key findings. This method allowed for an insider's perspective on Nigeria's external-debt trajectory, offering a deeper understanding of the subject matter.

Study Findings and Discussion

This study examined the relationship between Nigeria's rising debt burden and its economic development, focusing on the period from 2015 to 2023. The findings highlighted several key issues that significantly impacted Nigeria's economic stability, growth, and development, primarily due to the escalating debt crisis. The study revealed that by 2015, Nigeria's external debt burden had already reached significant levels, with debt servicing consuming a substantial portion of the country's revenue. Despite the federal government capping oil revenue for debt servicing at 30% in 1986, the country continued to face a growing debt service burden, with Nigeria spending over US\$2 billion between 2015 and 2023 on external debt servicing alone (Obasanjo, 2006; Debt Management Office [DMO], 2023). The financial strain of these obligations hindered the government's ability to allocate resources to critical sectors such as health, education, and infrastructure.

The study also explored the impact of the Paris Club debt relief program in 2005, which helped reduce Nigeria's debt by almost 60%. However, the continued reliance on borrowing exacerbated the situation, leading to a cycle of external vulnerability. This vulnerability was caused by high interest payments, inadequate financial reserves, and poor management of borrowed funds (Muhtar, 2005). The DMO's efforts to manage Nigeria's debt profile, particularly its external debt, have been met with limited success due to systemic issues, including corruption and poor leadership. Further findings highlighted that the external debt crisis had significant social and economic repercussions, particularly in terms of poverty and inequality. Despite debt relief efforts, the country continued to face high poverty rates, with over 70% of the population living below the poverty line (UNDP, 2021). The country's

underfunded healthcare and education systems further contributed to its stagnating socio-economic development. Additionally, Nigeria's over-reliance on oil exports and fluctuating global oil prices intensified the external vulnerability, leading to further economic instability.

The findings also revealed the mismanagement of borrowed funds, where loans intended for development projects were often diverted or misallocated. A government appraisal of projects funded by external loans in 2020 revealed that 18 projects, worth 836 million US dollars, were not implemented, and 44 projects were categorized as distressed due to mismanagement and inefficiency (KII, 2025). Corruption within the ruling class was identified as a key factor that exacerbated Nigeria's debt crisis, with influential figures profiting from misallocated loan funds, further entrenching the country's dependency on foreign loans (Offiong & Oriakhi, 2023). Finally, the study also discussed the Nigerian government's debt management strategies, particularly the role of the Debt Management Office (DMO) in managing both external and domestic debt. Despite some positive steps, such as the restructuring of the Paris Club debt and the introduction of debt management reforms, the effectiveness of these measures was hindered by fiscal indiscipline, corruption, and mismanagement of funds. The findings emphasized the need for a more sustainable and comprehensive debt management strategy, focusing on reducing borrowing reliance, improving governance, and investing in critical sectors to ensure long-term economic growth and development.

Conclusion

This study set out to trace the origins and major causes of Nigeria's foreign debt, examine the legal frameworks designed to monitor its accumulation, and identify the primary sources of these debts. Findings revealed that the country's excessive debt accumulation created severe debt servicing challenges, diverting scarce resources from critical development needs. The situation worsened due to defaults in interest payments, which led to the capitalization of unpaid interest into the principal debt stock, making Nigeria's external debt increasingly unsustainable. Although debt relief initiatives temporarily restored the debt to a sustainable level, the structural

nature of creditor arrangements often embedded with imperialist and neo-colonial tendencies—ensured that Nigeria remained in a cycle of dependency.

The study also established that debt rescheduling arrangements, while offering short-term relief, were often designed to maintain repayment obligations, including interest charges, over the long term. Debt management strategies such as the Debt Conversion Scheme yielded some success in reducing the total debt stock, particularly through the conversion of London Club and promissory note debts into equity acquired by investors. However, the scheme faced limitations due to the reluctance of note holders to sell under prevailing interest rates, as well as persistent exchange rate disparities that reduced its overall impact. Similarly, the Debt Buy-Back Scheme emerged as an effective mechanism for lowering the debt burden at discounted rates. Most notably, the Paris Club agreement, which offered Nigeria a 60% debt cancellation, brought significant and immediate relief, returning the nation's debt profile to a sustainable path. To maintain this stability, the study concludes that future borrowing should be limited to concessional loans from multilateral sources, characterized by low or zero interest rates and extended repayment periods of 10 to 30 years. Sustaining prudent debt management practices will be critical to preventing a relapse into unsustainable debt and ensuring that borrowing genuinely supports national development objectives.

Recommendations

i. Enhance Debt Management and Fiscal Responsibility:

The government should prioritize implementing a comprehensive and transparent debt management strategy. This includes adopting responsible borrowing practices, ensuring debt obligations align with the country's repayment capacity, and reducing reliance on borrowing. Additionally, Nigeria should make use of concessional loans with favorable terms to reduce high-interest payments, while regularly conducting Debt Sustainability Analysis (DSA) to assess and guide borrowing decisions.

ii. Strengthen Governance, Transparency, and Accountability:

Nigeria must improve governance and accountability in public financial management by reinforcing institutions such as the Debt Management Office (DMO). Transparent financial reporting and regular monitoring of loan-funded projects should be ensured to prevent mismanagement and ensure that borrowed funds are used exclusively for development-oriented projects. Establishing mechanisms for auditing public debt and assessing the impact of debt-financed projects is also critical.

ii. Promote Economic Diversification and Domestic Investment:

To reduce the reliance on oil exports and mitigate vulnerability to global price fluctuations, Nigeria should focus on diversifying its economy by investing in agriculture, manufacturing, technology, and renewable energy. This approach will not only decrease external debt dependency but also enhance foreign exchange earnings and create more stable revenue streams. Additionally, encouraging domestic savings, fostering a favorable environment for small and medium-sized enterprises (SMEs), and supporting private sector growth will contribute to sustainable economic development.

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