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External Debt and Sustainable Development Goal One in Nigeria

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ABSTRACT

This study investigated the effect of external debt on the sustainable development goal (SDG1) one in Nigeria. The independent variable of the study was external debt whereas the dependent variable, SGD1 was proxied with poverty headcount ratio. The Two-Gap theory of Chenery and Strout was the main pillar of this study. Ex-post facto research design was adopted for the study. Secondary data were extracted from the world development indicators of the World Bank database and Central Bank of Nigeria (CBN) statistics for a period of 39 years (1985-2023). The results of the panel data regression analysis revealed that external debt had a positive (14.00865) and significant (0.0301) effect on poverty rate in Nigeria. The result indicated that external debt markedly increased the poverty level in Nigeria. The study concluded that external debt is a major causative factor of poverty in Nigeria. The study thus recommended to government the necessity for wise external debt management policies and strategies aimed at solving poverty issues. Furthermore, government should focus on economic and political stability in order to leverage the use of external debt and avert the debt burden. The study made a significant contribution to the existing literature by putting the dimensions of poverty at the center rather than the growth indicators of the economy. The research throws considerable light on how external debt is a serious problem for poverty and thereby contributes to the discussion on the fulfillment of Sustainable Development Goal 1 (No Poverty) in Africa.

Keywords: External Debt, Debt Overhang Theory, Poverty Headcount Ratio, Sustainable Development Goal 1, Debt Management.

1.0 INTRODUCTION

Nigeria's flagship strategy for attracting external debt was quite a good medium for the poor performance of development activities through the acquisition of resource risks. The limited domestic financial flow makes a developing country like Nigeria to mainly rely on foreign loans that are meant for financing major projects to be built with the purpose of supporting development and the implementation of the SDGs, especially Goal One which is to end poverty. According to Anidiobu et al. (2020), external borrowing is the key tool in closing the savings-investment gap and trade imbalance. Yet, the external portion of the national debt grew to the point of sparking concerns on the extent of the debt sustainability and effectiveness in making poverty lower.

According to the Debt Management Office in the period between 2020 and 2023, Nigeria's foreign debt profile remarkably increased as the stock of foreign debt shot up from $40.06 billion in 2022 to $41.59 billion in 2023. This phenomenon illustrates that the state increasingly counts on loans from multilateral monetary organizations such as the World Bank and IMF and bilateral lenders. Despite

these international funds, which are primarily spent on poverty alleviation and infrastructural development initiatives, their real impact on the citizenry's living standards is still debatable. Nigeria, like many other developing countries, continues to deal with the issue of poverty being all over the country, where as much as 42.6% of its population is living in absolute poverty with an income of less than $2.15 per day (World Bank, 2022). The contradiction between the inflow of foreign financial resources and real improvements in poverty levels is the demonstration of the stagnation.

The constant high levels of poverty in Nigeria despite huge external borrowings indicate the existence of problems related to the management of debts, corruption, and weaknesses in institutional frameworks. On one hand, it is the inefficiency of these mechanisms that have led to a situation where borrowed money is not used properly for poverty reduction programs. As an example, a very large sum of money that is due in repaying external debts is absorbed by the critical sectors of health, education, and rural development. Thus, the anticipated multiplier effects of external borrowing in terms of reducing poverty and promoting sustainable development have failed to come through. Moreover, the problem is further exacerbated by Nigeria's susceptibility to the external economic shocks and environmental challenges like flooding, which in turn worsen poverty and consequently limit the country's capability to attain SDG One. In light of these challenges, the importance of determining whether borrowing from outside is vital, or if it worsens poverty reduction initiatives in the country is paramount. This investigation will study the impact of the country's external debt on the poverty headcount ratio, with the main objective being to determine its contribution to the success of SDG One and to come up with policy recommendations for improving the effectiveness of this factor in reducing poverty. Through this, the study will shed light on how the external debt can be better utilized to promote sustainable development in Nigeria.

2.0 REVIEW OF RELATED LITERATURE

2.1.1 External Debt

Debt is created through borrowing and is characterized as financial resources or assets utilized in an organization but not contributed by its shareholders. According to Salau and Ogbayelu (2017), debt signifies an obligation, often formalized through agreements, that does not belong to the organization’s owners. Bamidele and Joseph (2018) describe it as a liquid external resource, while the Central Bank of Nigeria (2018) defines debt as government obligations incurred through borrowing and repayable in the future. Public debt, or national debt, refers to the government's total financial committed from the borrowing flaws commodities and that made internationally (Bua et al., 2014). Government loans are believed to be essential for economic advancement and for strengthening the financial condition of the country, as pointed out by Itsede (2019), who stresses that borrowing may take place internally or externally.

Debt includes the obligation of repayment of interest or money owed to creditors at a future date, which distinguishes it from other liabilities (IMF, 2017). Liabilities constitute a background of specific economic benefits to claim holders but do not always denote debt unless they comply with the particular repayment criteria. On the one hand, private debt is a financial commitment of individual people or companies without any government involvement. On the other hand, public debt refers to government borrowing for national investment or abroad financing. External debt is an important approach that illustrates that foreign debts are denominated in foreign currencies of the creditor nation (World Bank, 2014). This type of debt is, in some cases, the result of the differences between the national savings and expenses, thus leading to the need for borrowing internationally for the purpose

of maintaining the national economy (Ogbeifuna, 2017).

External debt has been further analyzed by various researchers and organizations. Foreign lenders give individuals external debts, as shown in the study of Yerima and Tahir (2020), which are loans repayable in foreign currency with high-interest rates. Institutions like the International Monetary Fund and others characterize external debt as financial obligations distributed over time that require the payment of both interest and principal. This debt is mainly raised by states from international institutions like the World Bank and IMF in order to fill in their fiscal gaps. Scholars such as Al-Mahdi (2019) and Saleh (2013) outline that external debts are those that mainly have high repayment terms, and these may include both foreign currency and foreign goods and services. Such credit is the type that helps countries to develop but need to be dealt with caution so as to avoid the consequences that arise out of a high debt burden.

2.1.2 Sustainable Development Goals

The SDGs, also referred to as The Global Goals, were launched in 2015 by the United Nations to initiate a global action plan to solve the world's urgent challenges, such as removing poverty, protecting the environment, and bringing peace and prosperity to the world by 2030. Even though the previous Millennium Development Goals (MDGs) led to some developments, they failed to fully tackle the problems of poverty and hence, the countries worldwide have been implementing the SDGs in their development plans for the achievement of the goals. In Nigeria, the state has shown strong allegiance to the SDGs through legislative actions, like forming committees in the national assembly to see to the allocation of funds, thereby leading to the establishment of the Office of the Senior Special Assistant to the President on SDGs, as well as the newly created inter-ministerial committee, which constitutes the ministries, departments, and agencies (Odogwu, 2018). Different approaches have been taken to Goal 1, which is poverty being the main focus of the program.

Poverty is a multidimensional issue which is explained as the absence of financial resources and indispensable needs such as food, potable water, housing, healthcare, and education. It embraces also the debility measured by opportunity, empowerment, and security (World Bank, 2001). Poverty is expressed as a denial of choices and opportunities, as well as a risk to human dignity and isolation from society's meaningful participation (United Nations). Despite its richness in resources such as crude oil, gas reserves, and agricultural potential, Nigeria's poverty rate has dramatically increased, with over 42.1% of its population living in extreme poverty compared to just 15% at independence (Wali & Sanusi, 2017; Khan & Cheri, 2016; Nambiappan et al., 2018). This incoherence gives proof to the fact that governance and the mismanagement of resources are the underlying factors for the increase of poverty despite the country's wealth (Bank, 2017; Jaiyeola & Bayat, 2020). Several factors contribute to Nigeria's rising poverty levels. Corruption takes away advantages how a public sector should work, i.e., it deprives necessary resources and results in crumbling infrastructure (Ogunlana, 2019; Salihu & Gholami, 2018). The debt burden which means taking away funds from the social and physical infrastructures to keep the debt serviced, hence, fewer resources for poverty alleviation programs (Omoniyi, 2018a). High unemployment makes poverty worse due to the lack of basic needs being accessible to individuals thereby adding to the neo-genesis of socioeconomic vulnerabilities (Ucha, 2010). The economy's over-reliance on the oil sector as well as the negligence of the other sectors like agriculture makes it highly sensitive to fluctuations in the price of oil hence the proliferation of poverty and crime (Adeniyi&Dinbabo, 2020). Besides, the dormant strategy for the effective reduction of poverty that is caused by the

absence of political will in our leaders has been the inefficiency caused by embezzlement of development funds (Egwemi). Ethno-religious conflicts bring disputes and tensions that divert resources away from development projects and are as well the cause of economic activities being interrupted (Akpa&Nebeife, 2017).

The country of Nigeria, in response to the poverty effects resulting from those challenges, has initiated three phases of its poverty eradication program namely; Pre-SAP era, SAP era, and democratic era (Hussaini, 2014). Pre-SAP programs ideas, Operation Feed the Nation and Green Revolution, which focus on increased farm production were restricted by the ruined sustainability and the lack of focus (Antia-Obong & Otung, 2019). The SAP era witnessed the implementation of initiatives such as the Directorate for Food, Roads, and Rural Infrastructure (DFFRI) and the National Directorate of Employment (NDE) which later failed due to mismanagement, the diversity of the program, and poor implementation (Ogbuke et al., 2020). The democratic era witnessed these programs; the National Poverty Eradication Program (NAPEP) and the National Economic Empowerment and Development Strategy (NEEDS) besides the most recent efforts like the Social Investment Program (SIP) under the Buhari Administration (Aliyu & Dansabo, 2017; Abubakar, 2019). Nonetheless, the people defective administration of the resources and the unconcernedness towards the multidimensional nature of poverty is the reason for their small effects (Momoh & Attah, 2018; Omoniyi, 2018b).

Faults such as corruption, non-accountability, lack of security, and social inclusion are sheets that can never be broken and overcomes achieving the SDGs in Nigeria (Kamruzzaman, 2016; Mashinini, 2019). Whereas, countries like India and China who have a tally of achieving a considerable percentage of poverty-cut made amongst with, Nigeria yet has its aspects to remove out. These include systemic issues like corruption, and ineffective policies that dispossess the poor and marginalize them, (Osondu, 2020). However, corruption this is haunting as it is the main channel through which resources that are intended for poverty reduction are channeled away and thereby governance becomes expensive (Dankumo et al., 2019; Okunola et al., 2019). Nigeria should work to cross all these hurdles, for a start, by galvanizing willingness from politicians and focusing more on policies that address the needs of the majority of citizens (Anyanwu, 2013).

2.1.9 Poverty Headcount Ratio

The poverty headcount index is the most common poverty measure than the other, which is known to be a measure of the number of a whole population that lives below the poverty frontier (World Bank, 2016). As per United Nations (2020), "the poverty line is "the minimum income or consumption level necessary for a person to get minimum essentials to satisfy his/her needs, such as food, shelter, and clothing". Governments, international organizations, and researchers commonly employ the poverty headcount ratio to evaluate and monitor poverty reduction programs and policies, as stated by the U.S. Census Bureau (2021) when it noted that the poverty headcount ratio is "often used" for such purposes.

2.2 Theoretical Framework

This research utilized the Two-Gap Theory of Chenery and Strout (1966) to explain external borrowing as a way to overcome the funding gaps caused by inadequate domestic savings and investments and also low foreign exchange earnings, which result from trade imbalances. The theory emphasizes that external debt is critical for bridging these gaps and fostering economic growth in borrowing economies. For decades, this has been the primary rationale for external debt utilization (Arhenful, 2013). The theory highlights the dual challenges faced by developing nations:

inadequate domestic savings and foreign exchange constraints, both of which hinder the financing of essential capital and intermediate goods necessary for economic development.

The Two-Gap Theory is built on the assumption that most developing economies experience either a savings gap or a foreign exchange gap or both. Todaro and Smith (2004) said that these gaps are often unequal and independent, with one being "binding" or "dominant" at any point in time. The theory, therefore, accepts the existence of deficiencies in foreign exchange and savings in the affected economies. Thus, imports of foreign investment goods are the main channel through which foreign exchange-constrained economies can procure the saving necessary for domestic investment and foreign capital-augmented investments. Through this model, the entrepreneur's introduction of foreign currency capital can trigger economic growth via official, direct foreign investment (FDI), or other means. When foreign exchange availability drives growth, it is considered exogenous; when domestic resources are inadequate and foreign capital compensates, growth becomes endogenous, dependent on foreign resources.

This research was based on the Two-Gap Theory, which, besides dealing with the issue of debt, also stresses the accretion of other foreign forms of finance like direct investments, remittances, and aid as the way of closing the gaps of the economy. The theory is highlighted here because it is related to Nigeria and sub-Saharan Africa, where low saving rates and currency issues require extending foreign financing. Promoters of the Two-Gap Model (for example, Amassoma, 2014; Orji et al., 2014) claim that proper utilization of foreign finance will facilitate the decrease of these two constraints. Nigeria, on the other hand, has gotten foreign loans, bilateral and multilateral aid, and other external contributions to solve the economic problems and to spur growth been the theory a useful platform for understanding the interrelations between external debt and financial inflows for Nigeria's development.

2.3 Empirical Review

Nexus between external debt and economic growth was a focal point in numerous studies conducted across different parts that analyzed the situation from the regional perspective. Manasseh et al. (2022) conducted a study of 30 SSA countries over the period of 1997-2020, where they concluded that external debt and its volatility had a negative impact on growth, but the existence of good governance in the form of government effectiveness and corruption control acted as a buffer to these effects, consequently contributing to the positive growth realization. In the same vein, Sandow et al. (2022) evinced that the issue of weak public sector management can be a blessing in disguise when the government changes negative aspects of it into positive growth effects. The results have a non-linear relationship, meaning only 45% debt to GDP ratio is the tipping point for optimal growth. This is also a linear result which means that a high growth stage can only be attained when the indebtedness level is below the threshold (it is averaged at 60% in SSA).

Analyzing the results on regions, other than SSA, has shown different contribution scenarios for the external debt. Dauti and Voka (2022) conducted a study on Western Balkans and found that external debt eroded growth in countries such as Albania and Kosovo but it was beneficial in Serbia. Besides that, the results of a study by Azretbergenova et al. (2022) showed the connection between external debt and growth in Brazil, Russia, India, China, and South Africa (BRIC) was negative in the long run except in China, which had a positive growth. In another case, Uzbekistan, et al (2022) also reported that the high external debt slowed the GDP growth by the amount of 24% per 1% debt increase. Furthermore, Okonkwo et al. (2022) reported mixed results in Nigeria as the external debt was a source of growth, but

the debt servicing and exports were not good for the economy.

Several other research studies also analyzed the factors related to the connection between external debt and economics growth. Agyeman et al. (2022) informed us that the capital flight aggravated the negative effects of external debt on SSA growth while the study by Yeboah (2022) revealed that in Ghana, although external debt was of a positive effect to growth, inflation and unemployment were the constraining ones. In the end, Beşe and Friday (2022) examined the Turkish experience, which illustrated a positive feedback mechanism between external debt and growth along with the strong influence of economic growth on the environment as represented by ecological footprints, thus the results of the research are a more comprehensive manifestation of debt-based development.

A study authored by Hoti et al. (2022) explored the long-run effect of government debt on GDP growth in four Western Balkan countries (Albania, Serbia, Macedonia, and Bosnia & Herzegovina) during the period 1997–2019 using the dynamic common correlated effects model. The study found that long-term external debt negatively impacts GDP growth in these countries, suggesting that external debt does not contribute positively to long-term economic development. Similarly, Tama and Habila (2022), using an Autoregressive Distributed Lag (ARDL) model, examined external debt's effects on Nigeria's economic growth from 1986 to 2019 and revealed that rising debt servicing negatively affects growth by limiting domestic investment opportunities. Rosyadi et al. (2022) made a study in Indonesia on foreign debt and net exports as the main factors for exchange rates and economic growth from 1988 to 2019. The results were presented as the foreign debt growth effect being positive but with a greater direct impact instead of the indirect influence via the exchange rate mechanism.

Kiptui (2022) explored public debt's relationship with economic growth in Kenya between 1970 and 2019, finding that external debt has a long-term negative impact, while domestic debt negatively affects growth in the short term. Paudel et al. (2022) analyzed Nepal's economy from 1990 to 2019 and found that external debt and remittances negatively affected growth, possibly due to Dutch Disease effects. Sierra Leone's author Hadji (2022) underscored the fact that from 1973 till 2021 external debts have shown an inverse correlation with growth with debt overhang hypothesis was established. Thai and Lan (2022) investigate the external debt and growth in Asian economies from 2000 to 2019, thus they have found the higher debt service levels increase the convergence rates but they still negatively influence the growth through the larger debt burdens.

In Nigeria, Ugbaka et al. (2022) assessed external debt and exports from 1986 to 2020 using an ARDL model, revealing that while both variables had negligible short-term benefits, their long-term effects were significantly negative. Matthew and Adetayo (2022) employed a non-linear ARDL model to decompose Nigeria's debt effects from 1981 to 2020, finding that debt stock initially harms growth but positively affects it after one year. And lastly, the examination of the impact of external debt and interest rates on Malaysia's economy by Ian Sawitri and Guido Capdeville (2022) for the period from 2000 to 2020 was carried out. They found that external debt and interest rates are negatives for both the short and long-term horizons. Foreign debt, however, has a positive effect on economic growth only in a short period.

2.5 Gap in Empirical Review

Most of the earlier empirical studies on the impact of external debt were done on other countries which creates an evident gap of knowledge in relation to the particular effect of poverty in Nigeria. Albeit, some studies such as Ugwuegbe et al. (2016), Ibrahim and Akinbobola (2017), Acha and Essien (2018),

Okoro et al. (2019), Anidiobu et al. (2020), Najeem and Wasiu (2020), Ndugbu et al. (2021), Chukwu et al. (2021,) Umezurike et al. (2022), Rahmon and Oyo (2022), and Ologbenla (2022), have investigated external debt in the Nigerian context. Nonetheless, however, it is their main link to GDP growth rather than multidimensional poverty indexes across Nigeria that is examined. This research aims to fill this gap by a targeted investigation of the relationship between external debt and poverty in Nigeria.

In contrast to previous studies, which usually highlight only one facet of external debt, this research shines a light on historical and present links between poverty and debt and gives a nuanced approach. In doing so, it informs about the ways the debt acquired and serviced relevant to Nigeria's poverty path and thus, the research on debt and poverty is expanded.

In addition to that, the study has greater scope and also contains data from 2023 which consequently gathers more recent data than other studies on the issue of effects of external debt on poverty in Nigeria. This period brings into view the new trends in debt accumulation, management, and the repercussions for poverty alleviation efforts. The study is focused on external debt only and looks into its effect on Nigeria's poverty issues, hence, it makes a significant contribution in availing the literature on sustainable debt and poverty alleviation strategies.

3.0 METHODOLOGY

The research applied an ex-post-facto research design, which will allow for future scientists to replay the procedure to prove or to question the results. This design requires an empirical systematically conducted method where the researcher does not control any of the independent variables, as the events have already occurred (Tama &Haliba, 2022). The research took place in Nigeria and dealt with the impact of external debts on realizing the No Poverty target of the Sustainable Development Goals. Secondary data were used, been taken from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), journals, newspapers, magazines, and the Internet. Time series data for the analysis were extracted from the World Development Indicators of the World Bank database and CBN statistics.

Model Specification

The mathematical specification of the implicit model that expresses the relationship between foreign capital inflows and the poverty rate is expressed in line with Gujarati and Porter (2009) as:

$$PHCR = f(EXDEBT, FDI, REMIT, FPI, ODA) \quad \text{[Equation (1)]}$$

Setting up the equation (2) in a linear stochastic form (or econometric form) is expressed as:

$$PHCR_{it} = \beta_0 + \beta_1 EXDEBT_{it} + \beta_2 FDI_{it} + \beta_3 REMIT_{it} + \beta_4 FPI + \beta_5 ODA + c_{it} + \varepsilon_{it} \quad \text{[Equation (2)]}$$

Introducing the moderating variables, we have:

$$PHCR_{it} = \beta_0 + \beta_1 EXDEBT_{it} + \beta_2 FDI_{it} + \beta_3 REMIT_{it} + \beta_4 FPI + \beta_5 ODA + c_{it} + \varepsilon_{it} \quad \text{[Equation (3)]}$$

$$Log(PHCR)_{it} = \beta_0 + \beta_1 Log(EXDEBT)_{it} + \beta_2 Log(FDI)_{it} + \beta_3 Log(REMIT)_{it} + \beta_4 Log(FPI) + \beta_5 Log(ODA) + c_{it} + \varepsilon_{it} \quad \text{[Equation (4)]}$$

Where;

Log	=	Natural Logarithm
PHCR	=	Poverty Headcount Ratio
EXDEBT	=	External Debt
FDI	=	Foreign Direct Investment

REMIT = Remittance
FPI = Foreign Portfolio Investment
ODA = Official Development Assistance

β_0 is the constant term or intercept for firm *i* in the year t.
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$, and β_8 are linear regression coefficients to be estimated.
c_{it} is the non-observable individual effect while ε_{it} is the disturbance or error term for firm *i* in the year t.

Building equations (4) into an ARDL model, we have:

$$\Delta PHCR = a_0 + \sum_{i=1}^{m} \propto {}^{i}_{1} \log (EXDEBT)_{t-1} + \sum_{i=1}^{m} \propto {}^{i}_{2} \log (FDI)_{t-1} + \sum_{i=1}^{m} \propto {}^{i}_{3} \log (REMIT)_{t-1} + \sum_{i=1}^{m} \propto {}^{i}_{4} \log (FPI)_{t-1} + \sum_{i=1}^{m} \propto {}^{i}_{5} \log (ODA)_{t-1}$$

[Equation (5)]

Once a long-run association is established between the variables in equation (5) the study proceeded to examine the long-run effect and the short-run dynamics using the unrestricted Error Correction Model (ECM) approach.

$$\Delta PHCR = \alpha_0 + \alpha_1 \Delta PHCR_{(t-i)} + \alpha_2 \Delta \log(EXDEBT)_{(t-i)} + \alpha_3 \Delta \log(FDI)_{(t-i)} + \alpha_4 \Delta \log(REMIT)_{(t-i)} + \alpha_5 \Delta \log(FPI)_{(t-i)} + \alpha_6 \Delta \log(ODA)_{(t-i)} + \mu_t$$

[Equation (6)]

4.0 DATA ANALYSIS AND DISCUSSION

The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and the probability values of the Jaque-Bera test for normality.

Table 4.2.1: Descriptive Statistic

Statistics	PHCR	EXDEBT	FDI	RMT	FPI	ODA
Skewness	-0.166571	1.437611	1.034822	0.234246	-2.215228	2.670557
Kurtosis	1.933515	5.158311	2.902774	1.162480	8.187796	11.79644
Jarque-Bera	1.924576	19.92637	6.618189	5.543782	71.75251	163.2700
Probability	0.382018	0.000047	0.036549	0.062544	0.000000	0.000000
Observations	39	39	39	39	39	39

Source: Researcher's Computation, 2024 (Eviews-10)

The results of the Jaque-Bera statistics for the variables are presented in Table 4.2.1. The p-values for the poverty headcount ratio and remittances were insignificant that means these variables are distributed normally. On the other hand, the p-values for external debt, foreign direct investment, foreign portfolio investment, and official development assistance were significant, which means, that they are not normally distributed. The skewness coefficients of poverty headcount ratio and remittances were less than 1 and hence they have a normal distribution, while the skewness coefficients relating to external debt, foreign direct investment, foreign portfolio investment, and official development assistance were greater than 1, suggesting a non-normal distribution. The kurtosis coefficient came out to be less than 3 for the poverty headcount ratio and remittances, which confirmed that they have a normal distribution. Meanwhile, the kurtosis coefficient for external debt, foreign direct investment, foreign portfolio investment, and official development assistance was more than 3, which is indicative of a non-normal distribution.

Table 4.2.2: Unit Root Test Results

Variable	Philip Peron Unit Root Test			
	t-Statistic at Levels	P-value	t-Statistic at 1st Difference	P-value
PHCR	-0.4679	0.5057	-8.0792	0.0000***
LNEXDEBT	1.0686	0.9223	-4.1549	0.0001***
LNFDI	0.5873	0.8386	-9.2896	0.0000***
LNRMT	1.4897	0.9638	-5.9745	0.0000***
LNFPI	-0.3714	0.5436	-32.8241	0.0000***
LNODA	1.5491	0.9677	-4.7050	0.0000***

Notes:
a: (*) Significant at 10%; (**) Significant at 5%; (***) Significant at 1% and (no) Not Significant
b: Lag Length based on SIC
c: Probability based on MacKinnon's (1996) one-sided p-values.
Source: Researcher's Computation, 2024 (Eviews-10)

Table 4.2.2 shows that, according to the result of the unit root test, all indicators included in the model have unit root problems and are non-stationary; however, they become non-stationary after the first difference is applied. This study adopted the approach of the Philip Peron (PP) statistics and the probability values to select the model. Variables emerged uninspiringly as the stationary ones in the overall model and consequently the non-stationary ones dominated the level element hence they are not order zero ({I(0)}) aside from the levels that had varying degrees of significance. However, the data showed that first difference method of the unit root test was successful for each of the examined integration one probabilities which are significant at level one at the 5% level. The above mentioned variables' phi values were higher than the alpha value by 0.05 at a 5% significant level for all the variables: poverty headcount ratio, external debt, foreign direct investment, remittances (0.0000), foreign portfolio investment (0.0000), and official development assistance (0.0000) respectively.

Although all variables have stationary characteristics just at their level, there is a chance that the linear combination of the factors will become significant. Although the mixture of unit roots might exist, there is a high probability that the longer equilibrium between dependent and independent variables is. The only way to check whether a given series has a unit root is to test the error term. In this case, the ARDL- bound test approach to the co-integration test was employed.

Correlational Matrix Analysis

The purpose of conducting a correlation analysis was to assess the degree of relationship between variables and to investigate the variation between them. The findings from the correlation analysis were scrutinized and explained by the specified model to assess the strength of the relationships among the variables of interest. A correlation coefficient value of one indicates a strong correlation while a value closer to zero signifies a weaker correlation. The results of the correlation analysis are reported in Table 4.2.3.

Table 4.2.3: Correlation Matrix Results

	PHCR	LNEXDEBT	LNFDI	LNRMT	LNFPI	LNODA
PHCR	1.000000	0.114066	-0.712237	-0.649093	0.277246	-0.751225
LNEXDEBT	0.114066	1.000000	-0.227012	0.071572	0.141276	0.072868

LNFDI	-0.712237	-0.227012	1.000000	0.782923	-0.242155	0.778568
LNRMT	-0.649093	0.071572	0.782923	1.000000	-0.171543	0.857638
LNFPI	0.277246	0.141276	-0.242155	-0.171543	1.000000	-0.147310
LNODA	-0.751225	0.072868	0.778568	0.857638	-0.147310	1.000000

Source: Researcher's Computation, 2024 (Eviews-10)

Table 4.2.3 depicts that a positive correlation exists between the poverty headcount ratio (PHCR) and external debt (EXDEBT). This relationship was found to be weak as indicated by the correlation coefficient value of 0.114066.

Heteroskedasticity Test

The purpose of this test is to determine whether there is a constant variance in the error term. This phenomenon can occur due to several reasons such as the presence of outliers, incorrect data transformation, incorrect functional form, and incorrect specification of the regression model. In addition to stability, the study conducted a Heteroskedasticity Test to verify the constancy of the variance of the model. The outcome of the test is demonstrated in Table 4.2.4.

Table 4.2.4: Heteroskedasticity Test: ARCH

F-statistic	**0.659087**	**Prob. F(4,24)**	**0.6264**
Obs*R-squared	2.870291	Prob. Chi-Square(4)	0.5798

Source: Researcher's Computation, 2024 (Eviews-10)

According to the results presented in Table 4.2.4, the study concludes that there is no evidence of Heteroskedasticity in the error terms used in the model, as the null hypothesis was accepted. This is indicated by the probability F-value of 0.6264, which is greater than the significance level of 0.05. Thus, it can be inferred that there is no Heteroskedasticity issue among the variables used in the study.

4.3 TEST OF HYPOTHESIS

The Autoregressive Distributed Lag Long-run Bound Test for Cointegration inferred that the variables are co-integrated, and as such, there is a long-run equilibrium relationship between external financial inflows and poverty headcount ratio in Nigeria. However, to test the relationship between the individual components of external financial inflows and the poverty headcount ratio, the study made use of Table 4.3.1.

Table 4.3.1 ARDL Long Run Form and Bounds Test

Dependent Variable: D(PHCR)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNEXDEBT	14.00865	5.546903	2.525490	0.0301
LNFDI	2.060782	1.999586	1.030604	0.3270
LNRMT	2.107192	1.261312	1.670635	0.1257
LNFPI	0.031029	0.362383	0.085625	0.9335
LNODA	-3.947507	1.804274	-2.187865	0.0499

Source: Researcher's Computation, 2024 (Eviews-10)

EC = PHCR - (14.0086*LNEXDEBT + 2.0608*LNFDI + 2.1072*LNRMT + 0.0310*LNFPI - 3.9475*LNODA)

Statement of Decision Criteria

According to Gujarati and Porter (2009), the decision rule involves rejecting the null hypothesis (H0) and accepting the alternative hypothesis (H1) if the P-value of the t-Statistic < 0.05. This means that if the P-value is less than 0.05, then there is sufficient evidence to reject the null hypothesis and conclude that the coefficient is statistically significant and different from zero. Conversely, if the P-value is greater than 0.05, then there is insufficient evidence to reject the null hypothesis and we accept H0.

Test of Hypothesis

H_0: External debt has a non-significant effect on the poverty headcount ratio in Nigeria.

H_1: External debt has a significant effect on the poverty headcount ratio in Nigeria.

Decision: Based on the results of the bound test presented in Table 4.3.1, the calculated p-value for external debt is 0.0301, which is less than the pre-determined significance level of 0.05. As a result, we reject the first null hypothesis (H0) and conclude that external debt has a statistically significant positive effect on the poverty headcount ratio in Nigeria.

4.4 DISCUSSION OF FINDINGS

The ARDL Error Correction Regression in Table 4.2.6 reflects that external debt and the first lagged period of external debt without lags have a statistically significant positive impact on the poverty headcount ratio in Nigeria. The test of hypothesis one the ARDL Long Run Form and Bounds Test in Table 4.3.1 discover that external debt has a noteworthy impact on the poverty headcount ratio in Nigeria. Table 4.3.1 further shows that a 1% increment in external debt causes a 14% increment in the poverty headcount ratio, which is relatively moderate. This finding indicates that the borrowed money issued out of external sources may not be effectively used and thus, it is in agreement with the a priori expectation of the researcher. Instead of reducing extreme poverty in Nigeria, the borrowed funds are depriving millions of Nigerians of multidimensional poverty on account of the way they are being used.

The unfavorable level of external debt may involve bulky financial resources for debt servicing, for instance, payment of interest and principal repayment. On the other hand, covering the debt servicing obligation can mean that the resources that would have been used for poverty reduction programs and social investments are diverted to other areas. Hence, the burden of debt servicing can be a hindrance to the efforts of poverty alleviation and betterment of the people's well-being.

Furthermore, when a considerable part of the government's budget is used for debt repayment purposes, it may suppress public expenditure in crucial sectors like education, healthcare, and infrastructure development. Poor contribution to these areas is uneconomical and, as a result, leads to poverty. Furthermore, high external debts can be too damaging as they can cause macroeconomic imbalance that can provoke chain reactions to the poor. Circumstances like currency depreciation, inflation, and low investor confidence can impair economic growth, job generation, and income distribution, thus, exacerbating poverty levels.

In some cases, external debt should be contracted for projects or sectors that are non-effective in poverty reduction. Poorly planned projects or wrongly executed ones might be the reason for not meeting the desired return though the external debt is used to fund them. If that is the case, the debt will be the interest without an equivalent reduction in poverty. Moreover, excessive reliance on external debt to finance government spending can be a challenge to the country's policy control. This dependence can inversely affect flexibility, and the foreign nation's economic troubles might result in precarious situations, therefore, increasing the risk of poverty in the country.

The study therefore is congruent to the literature review of Manasseh et al. (2022), Allakuliev and Sattoriy (2022),Oteng et al. (2022), Agyeman et al. (2022), Beşe and Friday (2022), Arodoye (2022), Tama and Habila (2022) Rosyadi et al. (2022), and Kiptui (2022). Conversely, research conducted by Ugochukwu et al. (2016), Azretbergenova et al. (2022), Okonkwo et al. (2022), Yeboah (2022), Hoti et al. (2022), and Sawitri et al. (2022) bears that the further debt taken is inversely related to the growth of the economy, a finding that diverges with the results of this investigation. The different or divergent findings in these studies from this one are attributed to the differences in the study period, the areas of study, and the methods of data analysis used in these studies.

5.0 CONCLUSIONAND RECOMMENDATIONS

This study infers that external debt is a major causative factor of poverty in Nigeria, as evidenced by its positive and statistically significant effect on the poverty rate. The findings show that although external borrowing is meant to solve developmental issues, it has become a funder of the growing poverty level through the misuse of debts, loads of money for debt servicing, and mismanagement of resources. However, on the other hand, foreign development assistance is found to have a significant negative effect on poverty, hence, this is due to effective poverty reduction as it is the implementing strategy. The study highlights the need to minimize dependency on external financial inflows and obtain greater resources, the need to prioritize poverty-reduction programs that directly address unfortunate realities, and the importance of exploiting external financial inflows by turning into fiscal discipline.

The findings are based on the Dependency Theory, which argues that the consumption of external resources, particularly in developing countries, is a key factor in the perpetuation of economic powerlessness and inequality. In the Nigerian setting, the theory reveals that indebtedness to foreign sectors causes poverty to be a recurrent issue since the resources which can be used to bring about poverty reduction actions are shifted to debt payments. This corresponds to the information obtained from the study that present foreign debt levels are inflicting more poverty thus, there is a need for self-sufficient economic strategies and sustainability that would allow the country to be able to step out of the dependency trap. By executing the Dependency Theory-derived mechanism, Nigeria would be able to successfully manage inflows from outside to strengthen its poverty reduction policies, in harmony with SDGs.

The study made the following recommendations:

i. The government should focus on economic and political stability in order to leverage the use of external debt and avert the debt burden. Along with this, the external debt must be primarily targeted toward the economic sector instead of social or political issues to improve the nation's productivity.
ii. The government should suggest a long-term debt relief program which would keep the problem of debt overhang from happening. The management of their debt portfolio should be a wise one. This means that borrowing should be done prudently along with the regulation of debt management, which must be the public of the nation being ensured that they can hold the lenders accountable for their funds, and in fact, the most important investments that will have a life-changing effect on the poor as well as the creation of a country that is sustainable should be undertaken.

Contribution to Knowledge

This study seeks to establish the enormous ramifications of external debt on poverty in Nigeria, which in turn shows that there is a positive link between the debt and poverty. The external debt is the major source of poverty in the country thus, the long-lasting negative effects of using the debt for economic needs are demonstrated. Though other financial inflows such as foreign direct investment and remittances have statistically insignificant effects on poverty, the function of external debt surfaces as a serious problem. Among other things, it calls for prudential debt management to counter its contribution not only to poverty but also to poverty relief interventions in Nigeria.

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