



DBN
Development
Bank of Nigeria

...Financing Sustainable Growth

DBN JOURNAL OF ECONOMICS & SUSTAINABLE GROWTH

Volume 3, Issue 2, 2020



A LOOMING
DEBT CRISIS
NARRATIVE FOR
DEVELOPING
COUNTRIES:
CONSEQUENCES AND
POLICY IMPLICATIONS

Dr. Araniyar C. ISUKUL

DEPARTMENT OF BANKING AND FINANCE,
RIVERS STATE UNIVERSITY,
P.M.B. 5080, PORT HARCOURT, NIGERIA
Jojoamani@gmail.com (+2348031146005)

Dr. Ikechi Kelechi AGBUGBA

DEPARTMENT OF AGRICULTURAL AND APPLIED
ECONOMICS
RIVERS STATE UNIVERSITY, PMB 5080, PORT HARCOURT,
NIGERIA
&
FACULTY OF AGRIBUSINESS MANAGEMENT
ROME BUSINESS SCHOOL (NIGERIAN CAMPUS), GRA,
IKEJA, LAGOS STATE
lykeagbugba1@yahoo.co.nz (+2348036483852)

Dr. John J. CHIZEA

DEPARTMENT OF ECONOMICS, BAZE UNIVERSITY,
PLOT 686
CADASTRAL ZONE, ABUJA, NIGERIA.
John.chizea@bazeuniversity.edu.ng (+2348078540336)

Abstract

With the global financial crisis, there was a surge in the levels of public debt resulting from the economic downturn and many developing countries resorting to external debt to meeting their civic obligations. This paper examines the debt problem in developing countries in Africa between 2010 and 2017. The study employed the use of measurement of government's indebtedness as well as sustainability of the debt measure to evaluate the ratio of gross public debt to the gross domestic product and to ascertain how well the borrowed funds are used by the government. Importantly, the change in ratio of public debt to GDP was examined over a 4-year period (2010-2016).

Three measures were used in analysis of the data, ratio of debt to GDP, ratio of dynamic debt to GDP ratio and sustainability of debt levels. The research finds that there is a growing public debt in developing countries that is fueled by external debt and the global financial crisis. As a result of a rapid increase in public debt, one third of developing countries in Africa are at high risks of debt distress. Some of these countries are Chad, Eritrea, Mozambique, South Sudan, Sudan, Somalia and Zimbabwe. By 2016, the sub-Saharan countries gross public debt to GDP ratio had doubled.

This increase in debt should have raised all sorts of red flags as the World Bank and International Monetary Fund should have sounded the alarm. Furthermore, the results reveal that three of the biggest countries in Africa, Nigeria, South Africa and Angola have been classified as moderate debt risk distress. While the following countries in 2018 have breached the debt to GDP ratio benchmarked at 50 percent mark Ghana, Ethiopia, Kenya, Cameroon and Zambia. The study further recommends that these countries should mind their public spending activities.

Keywords: Public debt, GDP, financial crisis, Africa, developing countries

***Corresponding author:** iykeagbugba1@yahoo.co.nz; (+2348036483852)

Introduction

Of recent, the financial crisis and economic recession has resulted in an increase in public indebtedness in advanced and non-advanced economies (Panizza and Presbitoro, 2012; Adesola, 2009). The insidious increment in public debt has severe economic consequences for developed and developing countries that have been affected by the debt burden (Kumar and Woo, 2010). As a result, public debt is an important economic issue affecting government institutions, business corporations, academics and policy makers (Reinhart and Rogoff, 2010).

Thus, the resurgence on the public debt as a result of the increasing debt burden (Ajayi, 1991; Adegbite *et al.*, 2008). In lending its voice to the issue of public debt, the international monetary funds (IMF) has called for developing countries to take the necessary steps to address the issue of worsening levels of public debt. In simple terms, public debt can be described as the total sum of external and internal debt. As the definition implies, public debt is not only external debt a country owes, but also the internal debt that a country owes to its domestic financial institutions (Hemming *et al.*, 2003).

Economic theory warns about the numerous ways in which worsening levels of public debt can distort, repress and harm economic growth (Balassone *et al.*, 2011; Checherita and Rother, 2010). An increase in public debt ensures that a significant amount of a country's capital will be used to service the debt and little or no capital is left to spend on domestic investments and public infrastructure (Gale and Orzag, 2003). Thus, unsustainable level of public debt is harmful to capital accumulation and economic growth. The harm caused by public debt lowers capital stock, productivity and results in lower levels of income (Panizza and Presbitoro, 2012; Aghion and Kharroubi, 2007).

Also, increasing levels of public debt worsens inflation rate and can cause banking and currency crisis (Hemming *et al.*, 2003). When this happens, unsustainable level of public debt has the capacity to crowd out economic investments and economic growth (Balassone, Franchesse and Pace, 2011; Checherita and Rother, 2010). Lastly, unmanageable levels of public debt can limit the efficacy of fiscal policies, and as such cause lower levels of economic productivity and growth (Cochrane, 2011).

This research intends to examine the rising levels of public debt in developing countries and the implication and consequence of unsustainable debt on economic growth. In 2017, many developing countries – Mozambique, South

Sudan, Sudan, Chad and Zimbabwe had run into serious debt related problems with multilateral organizations such as the International Monetary Funds and the World Bank have continued to raise concerns over the issues.

To make matters worse, in 2018, the debt to GDP ratio of the following countries surpassed the 50 percent mark and the multilateral organizations have been drawing the attention of Kenya, Ghana, Cameroon, Ethiopia and Mauritania to the rising levels of public debt.

This research was motivated by the need to assess the rising levels of public debt in developing countries, the following three simple measures were used to analyse the levels of public debt, ratio of public debt to GDP, how rapidly the ratio of public debt to GDP is changing and rate of debt sustainability. The research is as follows, a theoretical perspective of debt is discussed with particular emphasis on the debt overhang hypothesis, an in-depth discussion of public debt in developing countries is examined, the method of analysis of data is explained and discussion of the results is given due consideration, implications and consequences for public debt are highlighted.

Public Debt: A Theoretical Perspective

In economic literature, debt overhang is described as a peculiar circumstance when a country's debt service burden is either so heavy that a significant portion of its current output accrues to foreign creditors or the debt of a country exceeds its financial capacity to meet its debt obligation (Krugman, 1988; Sen *et al.*, 2007). The debt overhang hypothesis argues that, in any event in the future when external debt is larger than a country's ability to repay, then it is likely that the servicing of external debt will discourage both domestic and foreign investments and distort economic growth (Pattillo *et al.*, 2002).

In such a situation, potential investors would be frightened to make any investments in such a country. These investors know that the more such a country produces as a result of additional investment, the more they will pay in taxes to external lenders in debt repayment. Therefore, investors will be less inclined to incur costs today with the intent of expanding output in the future as the additional output will be channelled towards external debt servicing (Pattillo *et al.*, 2002).

Heavy debt service burden tends to increase expected future taxes on the public/private sectors and lowers private investments (Balassone *et al.*, 2011; Checherita and Rother, 2010). Economic resources that should be channelled towards funding investments are spent on debt servicing. Furthermore, debt overhang can worsen a country's economic performance as it changes the

quality of investment as myopic investment policy decisions may favour quick-yielding projects rather than high value long-term investments (Brauninger, 2005; Checherita-Westphal, Cristina, and Rother, 2012). These issues and uncertainty of debt service repayment cause serious economic difficulties and disincentives that make it almost impossible to pursue any meaningful economic reform (Clement *et al.*, 2003).

However, critics of the debt overhang hypothesis have seriously questioned its postulations on theoretical and empirical basis. Bulow and Rogoff (1991) have argued that borrowers underdevelopment in developing countries were more as a result of economic mismanagement than to the burden of external debt and as such debt overhang is a symptom and not the cause of low economic growth. In a more recent study, Cordella *et al.* (2005) argue that poor countries do not suffer from debt overhang. The negative effect of debt overhang appears realistic and is consistent with the literature; the empirical validity of the hypothesis continues to be unsettling. Consequently, if debt overhang does not exist, then the policy measure that is focused on debt relief will be ineffective and cannot stimulate economic growth.

Debt and Economic Growth in Developing Countries

In the public debt and economic growth literature, there are several research studies that have investigated the impact of economic growth on developing countries. The initial research papers were motivated by the debt overhang hypothesis, external debt crisis in Latin American Countries and debt relief for heavily indebted poor countries (Krugman, 1988; Savvides, 1992; Imbs and Ranciere, 2008; Cordella *et al.*, 2010).

Most of these studies have used gross domestic product (GDP) growth rate and real GDP as dependent variables and have examined the impact of external debt servicing on GDP growth rate (Patillo *et al.*, 2002; Patillo *et al.*, 2004; Shabbir, 2013;). However, some other studies have focused on evaluating the impact of external debt on per capita, capital formation and long-term consumption pattern (Brauninger, 2005; Checherita-Westphal *et al.*, 2012). Nevertheless, the findings of this research have been conflicting, and as such, it is difficult to confidently say whether external debt has a negative, positive or any significant impact on economic growth.

Kumar and Woo (2010) examine the impact of public debt on economic growth in the long run using panel data for developing countries over a 40-year period, while taking into consideration many estimation issues including

endogeneity and reverse causality. High public debt is found to be significant and has a negative influence on economic growth. The adverse effect of debt is seen in the slower growth of capital stock and labour productivity growth.

In contrast, Abbas and Christensen (2010) explore external debt and growth in low-income and developing countries and find that moderate levels of domestic debt can have a positive influence on GDP growth, these happens as a result of increased private savings, strengthened institutions, developments in the financial markets, enhanced monetary policy and political accountability.

Abbass and Christensen (2010) findings contradict the works of Were (2001) whose research focused on debt overhang problems in Kenya and made a concerted effort to find evidence of its impact on economic growth. His research made use of time series data over a 25-year period; his study did not find any negative impact of debt serving on economic growth. Rather, it did confirm the debt overhang hypothesis, that debt crowds out private investments. The literature on debt and economic growth does stress that some levels of debt are necessary to enhance economic growth. Cecchetti *et al.* (2011) assessed the impact of debt on economic growth for developing countries between 1980 -2010 and find that modest levels of debt could in fact have a positive influence on economic growth. However, they do suggest that high levels of public debt could be damaging and suggest that countries with high public debt must act quickly to address their fiscal policy problems.

Public Debt and the Growth of the Nigerian Economy

In developing countries such as Nigeria, public debt is an instrument that has been used to finance the development of infrastructure and capital projects in a bid to stimulate economic growth and development (Adegbite *et al.*, 2008). The Nigerian economy since the discovery of oil in commercial quantity has relied heavily on oil production to finance its infrastructure developments, whenever oil prices dwindle and there is a shortfall in expected revenues from oil production, there is a tendency for government to borrow to meet gap between revenues and expected earnings (Iyoha, 2000; Agbugba and Binaebi, 2018).

Debt in such situations has been used where government wishes not to compromise macroeconomic stability by quantitative easing or excessive taxation to meet the shortfall between proposed expenditure and anticipated revenue with a fiscal year period (Ogunmuyiwa, 2010). Concerns about Nigeria's increasing, and alarming public debt profile and its consequences have been expressed by a significant number of economists (Krumm, 1985;

Ajayi, 1991; Iyoha, 1997; Ezeabasili 2006; Adeola, 2009). Nigeria external debt increased from \$18.63 billion dollars in 1982 to \$35.945 billion dollars in 2006 (Adesola, 2009).

The domestic debt too increased by significant proportion, in 2004 Nigeria's domestic debt stood at \$10.3 billion dollars, but escalated to \$34.4 billion dollars as at 2011 (Amassoma and Babalola, 2011). By 2011, Nigeria public debt stood at \$47.9 billion dollars, external debt had significantly shrunk from \$35.945 billion dollars in 2005 to \$5.67 billion dollars and this was as a result of a Paris Club debt relief concession granted Nigeria (Boboye and Ojo, 2012).

However, the domestic debt did not see any form of reduction during that period, rather in the seven-year period between 2004 and 2011 domestic debt had increased by more than 300% within that period. The significant increase in domestic debt has largely been as a result of Nigerian government issuing federal government bonds (Onyeiwu, 2012). According to Ezeabasili *et al.*, (2011) Nigeria's rising debt profile when benchmarked against the size of the gross domestic product is relatively high and can discourage domestic investments as well as lead to capital flights.

Some measures of success have been achieved in the reduction of the public debt with the former minister of finance Ngozi Okonjo-Iwela during the Obasanjo regime that spanned between 1999 -2007. However, with the global financial crisis, and the fall in oil prices in the world market in 2015, the Nigerian government has significantly increased its debt profile to deal with the issue of declining revenue from a mono-product economy to finance its infrastructural development.

Method of Data Analysis

The research adapted a similar methodology by Gill and Karakulah (2018) who examined Africa's rising levels of public debt. In analyzing the rising levels of public debt, three simple measures were used after an extensive examination of the literature on public debt and economic growth.

The choice of research methods is determined by the purpose of the research; hence, this research has not set out to examine causality, or the impact of public debt on economic growth. Rather it focused on the implication of the rising levels of public debt on developing countries and tracking the public debt profile of developing countries in Africa. In addition, the choice of these methods is because of the ease in which these measures can be understood, the simplicity in which these measures can be calculated and the ease in which these measures can be explained.

The researchers are aware from the literature that the methods used in analysis of public debt and economic growth are broad, from simple measures of histogram by Reinhart et al. (2012) to more complex and robust multiple regression analysis by Kumar and Woo (2010) that makes use of several independent variables (GDP growth rate, real GDP) and dependent variables such as (ratio of public debt to GDP, ratio of debt servicing to GDP, ratio of public and private investment to GDP).

The following are the measures that have been used in the analysis of the data:

Measurement of government's indebtedness: This is a static measure, evaluates the ratio of gross public debt to the gross domestic product. This is necessary since debt must be repaid from the proceeds of what has been produced. However, what is more difficult to determine is the range of manageable debt ratio. This is usually dependent on two things: ability of government to service the debt and the conditions/terms of the debt.

Rapidly changing ratio of public debt to GDP: This measure can change because of what happens to the numerator or denominator. When this ratio rises quickly, it should be a serious cause for concern. The change in ratio of public debt to GDP was examined over a 4-year period (2010-2016).

Sustainability of the debt: This variable measures the difference between rate of economic growth and the rate of interest. Explained differently, it measures an economy's ability to repay its debt relative to the interest that is being accumulated on the debt. On a simple note, this measure is a simplified tool that can be used to ascertain how well the borrowed funds are used by the government.

Analysis of Data

A cursory look at the ratio of public debt to economic growth for developing countries in Table 1 and Figure 1 for 2017 reveals that many African countries have high public debt ratios that may have serious economic consequences for their economy if the issue is not addressed. As the table reveals the following countries have surpassed the international monetary fund safeguard levels of public debt, which has been benchmarked at 50% ratio of public debt to GDP.

As the table reveals the following countries have debt to GDP ratios that are close to or above 100 percent. Mozambique, Gambia, Cape Verde, Congo and Mauritania. Furthermore, 17 countries have a ratio of public debt to

economic growth which is between 50 -80 percent. With countries like Togo, Zimbabwe and Ghana having high ratios of public debt between 60-80 percent. Still, the results on the levels of public debt is not all doom and gloom, some developing countries appear to be doing a good job at managing their debt portfolio. The following countries stand out as good examples of in that regard: Botswana, Tanzania, Uganda and Rwanda. These countries have ratios of debt to GDP that are less than 40%,

The results of the debt profile for developing countries become more worrisome when a debt dynamic measure is used in assessing the debt to GDP ratios between 2010 -2016. The percentage increment in the debt to GDP ratio from 2010 to 2016 – has significantly changed the dynamics of the results. As can be seen, countries like Nigeria which is regarded as the largest economic in Africa have more than doubled its debt to GDP ratio and have moved up the rankings by 11 slots. The same applies to countries like Cameroon whose debt to GDP ratio over the period of 2010 to 2016 has quadrupled in only six years and it has moved up the rankings by 16 slots. The same rise in debt profile happens to Equatorial Guinea whose ratio of debt to GDP is 38.4 percent, however the dynamic debt to GDP ratio between 2010 and 2016 is 388.1%, while the dynamic debt to GDP ratio for South Sudan and Zambia is 271.3% and 220.1%

Including the measure of the sustainability of debt makes a bad case worse for developing countries with adverse debt dynamics. As a rule of thumb, countries with large differences between real interest rates (r) and economic growth (g) have higher debt ratios. When this measure is introduced into the mix, Congo, Chad, South Sudan, Equatorial Guinea and Gambia have the worse ratios. And more worrisome, is the fact that the big three economies in Africa also have debt related issues: Nigeria, South Africa and Angola are now ranked among countries with moderate risk of debt distress.

Scenario 1	Gross Public Debt (% of GDP)*	Scenario 2	Gross Public Debt (% of GDP)*	Change in Public Debt 2016/2010	Scenario 3	Gross Public Debt (% of GDP)*	Change in Public Debt 2016/2010	r-g**
Cabo Verde	129.7%	Republic of Congo	117.7%	429.7%	Republic of Congo	117.7%	429.7%	21%
The Gambia	120.2%	Mozambique	112.0%	158.5%	Mozambique	112.0%	158.5%	15%
Republic of Congo	117.7%	Cabo Verde	129.7%	79.1%	The Gambia	120.2%	72.6%	20%
Mozambique	112.0%	The Gambia	120.2%	72.6%	Gabon	64.2%	201.5%	13%
Mauritania	98.7%	Gabon	64.2%	201.5%	Malawi	60.2%	103.1%	18%
São Tomé and Príncipe	94.0%	Zambia	60.5%	220.1%	Cabo Verde	129.7%	79.1%	6%
Togo	77.3%	Malawi	60.2%	103.1%	Equatorial Guinea	38.4%	388.1%	28%
Zimbabwe	69.7%	Togo	77.3%	58.3%	Chad	51.2%	70.4%	26%
Seychelles	69.0%	Senegal	60.6%	70.5%	South Sudan	33.1%	271.3%	24%
Ghana	68.1%	Ghana	68.1%	47.2%	Togo	77.3%	58.3%	4%
Sudan	66.5%	Equatorial Guinea	38.4%	388.1%	Central African Rep.	44.3%	106.9%	7%
Gabon	64.2%	Mauritania	98.7%	22.5%	São Tomé and Príncipe	94.0%	18.2%	10%
Angola	64.0%	Central African Rep.	44.3%	106.9%	Seychelles	69.0%	-16.1%	14%
Mauritius	61.5%	Angola	64.0%	44.5%	Angola	64.0%	44.5%	6%
Kenya	61.0%	Benin	50.3%	75.1%	Rwanda	37.6%	88.3%	12%
Senegal	60.6%	Kenya	61.0%	46.4%	Zambia	60.5%	220.1%	-3%
Zambia	60.5%	Chad	51.2%	70.4%	Sudan	66.5%	-9.0%	12%
Malawi	60.2%	São Tomé and Príncipe	94.0%	18.2%	Uganda	37.0%	65.1%	15%
Ethiopia	57.9%	Namibia	40.0%	150.4%	Mauritania	98.7%	22.5%	2%
Sierra Leone	55.9%	South Africa	53.3%	53.7%	Ghana	68.1%	47.2%	1%
Burundi	55.3%	South Sudan	33.1%	271.3%	Zimbabwe	69.7%	17.6%	4%
South Africa	53.3%	Zimbabwe	69.7%	17.6%	Cameroon	35.2%	205.8%	4%
Chad	51.2%	Cameroon	35.2%	205.8%	South Africa	53.3%	53.7%	4%
Benin	50.3%	Ethiopia	57.9%	42.8%	Benin	50.3%	75.1%	2%
Côte d'Ivoire	47.8%	Rwanda	37.6%	88.3%	Burundi	55.3%	17.8%	11%
Guinea-Bissau	47.3%	Mauritius	61.5%	18.2%	Liberia	45.0%	34.6%	10%
Lesotho	46.3%	Seychelles	69.0%	-16.1%	Senegal	60.6%	70.5%	-3%
Liberia	45.0%	Lesotho	46.3%	53.6%	Madagascar	40.0%	26.2%	12%
Central African Rep.	44.3%	Niger	41.0%	68.9%	Sierra Leone	55.9%	19.3%	5%
Guinea	42.9%	Sudan	66.5%	-9.0%	Nigeria	18.9%	97.0%	6%
Niger	41.0%	Sierra Leone	55.9%	19.3%	Mauritius	61.5%	18.2%	2%
Madagascar	40.0%	Nigeria	18.9%	97.0%	Namibia	40.0%	150.4%	1%
Namibia	40.0%	Uganda	37.0%	65.1%	Kenya	61.0%	46.4%	-1%
Equatorial Guinea	38.4%	Swaziland	31.1%	81.7%	Swaziland	31.1%	81.7%	3%
Rwanda	37.6%	Burundi	55.3%	17.8%	Niger	41.0%	68.9%	1%
Uganda	37.0%	Liberia	45.0%	34.6%	Lesotho	46.3%	53.6%	0%
Tanzania	36.2%	Madagascar	40.0%	26.2%	Ethiopia	57.9%	42.8%	-14%
Mali	35.9%	Mali	35.9%	41.9%	Tanzania	36.2%	32.4%	2%
Burkina Faso	35.7%	Tanzania	36.2%	32.4%	DRC	16.1%	-47.8%	17%
Cameroon	35.2%	Côte d'Ivoire	47.8%	-24.2%	Mali	35.9%	41.9%	-2%
South Sudan	33.1%	Guinea-Bissau	47.3%	-28.3%	Guinea	42.9%	-37.7%	1%
Comoros	32.1%	Guinea	42.9%	-37.7%	Côte d'Ivoire	47.8%	-24.2%	-5%
Swaziland	31.1%	Burkina Faso	35.7%	16.2%	Guinea-Bissau	47.3%	-28.3%	-7%
Nigeria	18.9%	Comoros	32.1%	-36.7%	Comoros	32.1%	-36.7%	1%
DRC	16.1%	Botswana	15.5%	-20.1%	Burkina Faso	35.7%	16.2%	-7%
Botswana	15.5%	DRC	16.1%	-47.8%	Botswana	15.5%	-20.1%	-8%

Figure 1: Gross Domestic Debt as a Percentage of GDP for Developing Countries

Source: Gill and Karakulah (2018)

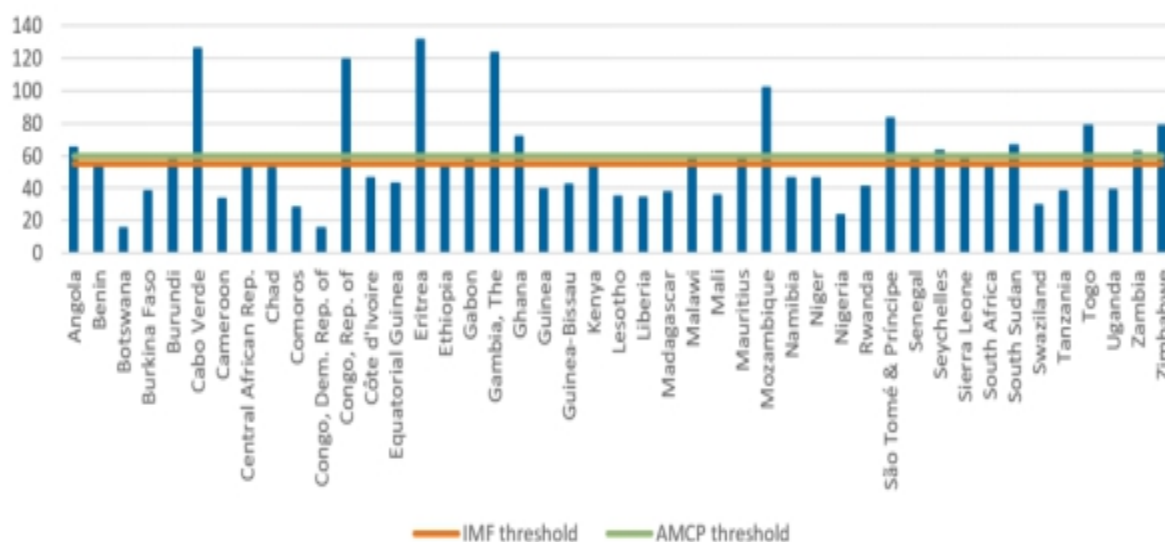


Figure 1: Government debt as a percentage of GDP for African countries, 2017

Source: IMF, 2018. Regional Economic Outlook

Discussion of Findings

The findings of the research are of a serious cause for concern, and are consistent with the findings of Onyekwena and Ekeruche (2019) and Coulibaly, Gandhi and Senbet (2019) who find that the level of debt in terms of ratio of debt to GDP and debt sustainability ratios have worsened over the last five years. External shocks from the global financial crisis in 2014 are largely responsible for the increasing debt levels of developing countries. The economic downturn set in motion a series of economic policy responses that contributed to massive debt accumulation and developing countries were not an exception.

Deficits in the resource intense countries escalated and these economies experience a rapid surge in the increase of debt. The worse hit in developing countries were the oil exporters who saw an average debt increase by almost 40 percentage points from 22 to 60 percent of GDP, far than the non-oil exporting economics which had a 16-percentage point increase.

The rising debt problem has a distinctive feature in the composition of the debt. In developing countries, Oyekwena and Ekeruche (2019) observe that developing countries are leaning away from official multilateral creditors who come strict/stringent conditions towards non-concessionary debt with higher interest rates and lower maturities.

This emerging trend is raising serious concerns about debt sustainability given room for problems relating to higher financing risks, especially for commodity-backed loans in the event of a sudden price shock or foreign exchange related risks. Furthermore, the private sector external loans have ballooned from \$35 billion to \$110 billion. The likely result of this growth is balance of payment problems as the private sector and public sector compete for foreign exchange. And finally, this kind of debt related problem in the case of default can increase government exposure to risks associated with contingent liabilities.

Indeed, some observers have painstakingly drawn the attention of the looming debt crisis across developing countries in Africa (Pilling, 2018; Gill and Karkulah, 2018). A similar debt sustainability analysis by the World Bank and the IMF reveals that the number of countries in the region of high risk of debt distress has increased from 6 in 2013 to 15 in 2019.

The rising debt levels in developing countries is just one dimension of the debt burden problem. Another crucial metric is the burden that accrues from servicing debt has increased significantly for many developing countries in Africa. This increase has been large in Nigeria, Angola, Ghana and Burundi, rising by an estimated 19 percentage points. As such, interest costs have increased and now account for 9 percent of government revenues in 16 countries, as compared to 6 countries in 2012.

The ramifications of rising levels of public debt for developing countries in Africa are numerous, but as more resources are channeled into debt payment and debt serving, it is likely that the fragile economic recovery of developing countries will be threatened. More worrisome, is the fact that the badly needed funds necessary to boost poor infrastructure and economic productivity would spend on repayment of existing public debt. With governments in developing countries spending more to pay debt, a higher percentage of savings available for investments will towards government securities. This, in turn will decrease the resources invested in private ventures such as industries and factories and this would stifle economic growth and it can crowd out investments.

This is not all government usually borrows to address unanticipated economic problems such as financial crisis, wars, and natural disasters. This is easy to do when the level of public debt is small. However, with the rising levels of public debt in developing countries, the government has fewer options available. In this regard, in the event of the occurrence of an unexpected event, the government will not have the economic capability to respond to the problem

in a way to contain the issue, as rising levels of debt has frittered away economic resources that would have served as a buffer.

More importantly, if public debt continues to escalate and balloons to unrealistic proportions, at some point investors will eventually lose confidence in the government ability to repay borrowed funds. In such a situation, investors are more inclined to demand higher interest rates on the debt and at some point, interest rates could rise sharply and consequently cause broader economic consequences. The possibility of a sovereign debt crisis may occur, if the situation is not addressed.

There are those who are skeptics, who do not believe that there is a looming debt crisis in developing countries in Africa and argue that these concerns are simply blown out of proportion. They make the argument that the attention drawn to this trend unfairly targets developing countries in Africa and they point to the fact that the increase in levels of public indebtedness is a global phenomenon that resulted from a widespread fallout from the global financial crisis.

However, the researchers dismiss these skeptics, the data from IMF and World Bank tells a different story, the rising levels of public debt in developing countries in Africa calls for immediate attention particularly because the big economies in Africa, Nigeria, South Africa and Angola are partially affected with the rising levels of public debt. There is the need to make the necessary reforms to mitigate the debt problem.

Conclusion and Recommendations

In the last decade, developing countries have made some significant strides in debt management. Debt relief initiative and favorable liquidity conditions have been responsible for allowing many developing countries manage their debt burden. Also, various policy reforms have been focused on debt management practices and development of domestic financial markets.

This research set out to examine public debt in developing countries between 2010 -2017. The findings of this research are a bit disturbing as there appears to be an increasing number of developing countries who have surpassed the 50% benchmark with regards to the ratio of debt to GDP. Mozambique, Gambia, Cape Verde, Congo and Mauritania and 17 other countries have a ratio of debt to economic growth between 50 -100 percent. Moreover, the findings of

the dynamic debt profile are even more troubling which assess the debt to GDP ratio between 2010-2016.

The results reveal that three big African economies Nigeria, Angola and South Africa have been classified as moderate risk debt distress. Also, at the end of 2017, debt sustainability had further deteriorated in several developing countries in the region and 8 countries were classified by the IMF and World Bank as debt distressed (Mozambique, Chad, Eritrea, the Republic of Congo South Sudan, Sudan, Somalia and Zimbabwe).

Thus far, it is obvious that a systemic sovereign debt crisis for developing countries is not imminent. However, it is important that government in developing countries and their development partners should take decisive steps to address any vulnerabilities, initiate necessary fiscal reforms and contain the risks of a systemic sovereign debt crisis.

These recommendations have been drawn from the works of Oyekwena and Ekeruche (2019) who have written on the escalating levels of debt in developing countries.

- Firstly, there is the need for developing countries for those who have not, to design and implement legal frameworks for debt management that set specific borrowing targets and preferences for borrowing sources. Countries should tap available support programmes provided by the IMF and World Bank. In addition, systems and processes should be established to ensure that debt records are properly kept, debt servicing are done on a timely basis to ensure accountability, transparency and sustainable debt levels. With the changing characteristics of debt (increase in non-traditional lenders, and rise in domestic debt), it has become important that debt management authorities to use more sophisticated instruments to analyze the costs and risks associated with specific debt packages.
- Secondly, IMF and the World Bank imposed numerous, strict and time-consuming conditions on developing countries who intended to access development finance. Many of the stringent conditions required controversial reforms such as trade liberalization and privatization, which were forced down, as mandatory requirements to access development finance. Most times, these strict conditions were not in accordance with the will of country seeking the loan. Streamlining the lending process should be done with the intent of reducing both the number and scope of conditions and to ensure that it

respects national sovereignty. In doing so, it will reduce the burden that is associated with accessing development finance for developing countries.

- Finally, more responsible lending practices should be encouraged. A debt crisis poses risks to both the lender and borrower. It is for this reason that lenders should be encouraged to focus on making better responsible lending decisions that allows for the application of due process in authorizing loans and ensuring the right safeguards that ensure stipulated limits. A step in the right direction would be revision of existing codes to include non-traditional actors or a bolder approach could be taken which could see the development of new codes. Moreover, these codes of conducts could be enshrined into law to allow for countries participating to adhere to them.

References

Abbass, A.S.M. & Christensen, J.E. (2010). The Role of Domestic Debt Market in Economic Growth: An Empirical Investigation for Low-Income Countries and Emerging Markets, *IMF Staff Papers*, 57(1), 209-255.

Adegbite, E.O., Ayadi, F.S. & Ayadi, F.O. (2008). 'The Impact of Nigeria's External Debt on Economic Development,' *International Journal of Emerging Markets*, 3(2), 285-301.

- Adesola, W.A. (2009). 'Debt Servicing and Economic Growth in Nigeria: An Empirical Investigation,' *Global Journal of Social Sciences*, 8(2), 1-11.
- African Development Bank (2018). "African Economic Outlook 2018." Abidjan, Côte d'Ivoire.
- Agbugba, I.K. & Binaebi, E. (2018). A Comparative Study of the Agriculture Sector Contribution to the Economic Growth of Nigeria and Malaysia, *IOSR-Journal of Agriculture and Veterinary Science (IOSR-JAVS)*, 2(3), 18-21
- Aghion, P. & Kharroubi, E. (2007). 'Cyclical Macro Policy and Industry: The Effect of Countercyclical Fiscal Policy,' *Harvard University, Working Paper*.
- Ajayi, S.I. (1991). 'Macroeconomic Approach to External Debt: The Case of Nigeria,' Nairobi AERC (African Economics Research Consortium), Research Paper, 8.
- Amassoma, D. & Babalola, A. J. (2011). 'External Debt, Internal Debt and Economic Growth Bound in Nigeria using a Causality Approach,' *Current Research Journal of Social Science*, 3(4), 320-325.
- Balassone, F., Francesse, M. & Pace, A. (2011). *Public Debt and Economic Growth in Italy, Economic History*, Working Paper from Bank of Italy, Economic Research and International Relation Area.
- Boboye, A.L. & Ojo, O.K. (2012). 'Effect of External Debt on Economic Growth and Development of Nigeria,' *International Journal of Business Social Science*, 3(12), 297-304.
- Brauninger, M. (2005). "The Budget Deficit, Public Debt, and Endogenous Growth," *Journal of Public Economic Theory*, 7(5), 827-840.
- Bulow, J. & Rogoff, K. (1991). Sovereign Debt Repurchases: No Cure for Overhang, *The Quarterly Journal of Economics*, 106(4), 1219-1235.
- Cecchetti, S.G., Mohanty, M.S. & Zampolli, F. (2011). The Real Effects of Debt, *Bank for International Settlement (BIS) Working Paper*, No. 350.

- Checherita-Westphal, C. & Rother, P. (2012). 'The Impact of High Government Debt on Economic Growth and its Channel: An Empirical Investigation for the Euro Area,' *European Economic Review*, 56(7), 1392-1405.
- Clements, B., Bhattacharya, R. & Nguyen, T.Q. (2003). External Debt, Public Investment, and Growth in Low-Income Countries, *IMF Working Paper*.
- Cochrane, J.H. (2011). 'Understanding Policy in the Great Recession: Some Unpleasant Fiscal Arithmetic, *European Economic Review*, 55(1), 2-30.
- Cordella, T., Ricci, L.A. & Ruiz-Arranz, M. (2010). Debt Overhang or Debt Irrelevance, *IMF Staff Working Paper*.
- Coulibaly, S.B. Gandhi, D. & Senbet, L.W. (2019). Is Sub-Saharan Africa Facing Another Sovereign Debt Crisis? Africa Growth Initiative. Brookings Institution.
- Ezeabasili, V.N., Isu, H.O. & Mojekwu, J.N. (2011) 'Nigeria's External Debt and Economic Growth: An Error Correction Approach,' *International Journal of Business Management*, 6(5): 156-170.
- Gill, I. & Karakulah, K. (2018) Sounding the Alarm on Africa's Debt Crisis. The Brookings Institution. (Available at: <https://www.brookings.edu/blog/future-development>. Accessed on 20th May, 2019).
- Hemming, R., Kell, M. & Schimmelpfening, A. (2003) 'Fiscal Vulnerability and Financial Crises in Emerging Market Economies,' IMF Occasional Paper No. 218 (Washington: International Monetary Fund).
- Imbs, J. & R. Ranciere (2008). The Overhang Hangover. Paris School of Economics.
- International Monetary Fund (2018). "World Economic Outlook Database." Accessed January, 2019.
- Iyoha, M. A. (2000). "An econometric analysis of external debt and economic growth in sub-Saharan African countries". In S.I. Ajayi and M.S. Khan (Eds.), *External Debt and Capital Flight in sub-Saharan Africa*. Washington, D.C.: International Monetary Fund.

- Iyoha, M. A. (1999). "External debt and economic growth in sub-Saharan African countries: An econometric study." Research Paper 90, AERC Research Paper Series. Nairobi, Kenya: African Economic Research Consortium, March
- Krugman, P. (1988). Financing vs Forgiving a Debt Overhang, *Journal of Development Economics*, 29 (3), 253-268.
- Krumm, K. L. (1985). 'The External Debt of Sub-Saharan Africa: Origins, Magnitude and Implications for Actions,' *World Bank Staff Working Papers*, No. 741. Washington, D.C.: The World Bank.
- Kumar, M. & Woo, J. (2010). "Public debt and growth", IMF Working Papers, no 10/174, July.
- Onyekwena, C. & Ekeruche, M.A. (2019). Is a Debt Crisis Looming in Africa (Available at: <https://www.brookings.edu/blog/africa-in-focus>. Accessed on 15th May, 2019).
- Onyeiwu, C. (2012). 'Domestic Debt and the Growth of the Nigerian Economy,' *Research Journal of Finance and Accounting*, 3(5), 45-56.
- Pattillo, C., Poirson, H. & Ricci, L. (2002). "External Debt and Growth". *IMF Working Paper April*.
- Pattillo, C., Poirson, H. & Ricci, L. (2004). "What Are the Channels Through Which External Debt Affects Growth?" *IMF Working Paper January*
- Panizza, U. & Presbitero, A.F. (2012). Public Debt and Economic Growth: Is there a Causal Effect? Mo.Fi.R. Working Papers 65.
- Pilling, D. (2018). "African Nations Slipping into New Debt Crisis." *Financial Times*. (Available at: <https://www.ft.com/content>. Accessed on the 20th of May 2019).
- Presbitero, A.F. (2010). *Total Debt and Growth in Developing Countries*, Centro Studi Luca D'Agliano.
- Reinhart, C.M. & Rogoff, K.S. (2010). 'Growth in Time of Debt,' *American Economic Review*, 100 (2), 1-10.

Reinhart, C.M., Reinhart, R.V. & Rogoff, K.S. (2012). "Public Debt Overhangs: Advanced-Economy Episodes since 1800," *Journal of Economic Perspectives*, 26(3), 69–86.

Safia, S. (2013). *Does External Debt Affect Economic Growth: Evidence from Developing Countries*, SBP Working Paper Series 63, State Bank of Pakistan, Research Department.

Savvides, A. (1992). "Investment Slowdown in Developing Countries during the 1980s: Debt Overhang or Foreign Capital Inflows?" *Kyklos* 45(3), 363–78.

Sen, S. Kasibhatla, K.M. & Stewart, D.B. (2007). Debt overhang and economic growth—the Asian and the Latin American experiences, *Economic Systems*, 31(1), 3-11.

Were, M. (2001). The Impact of External Debt on Economic Growth in Kenya: An Empirical Assessment, *World Institute for Development Economics Discussion Paper*.