EXTERNAL DEBT SERVICING AND INTERNAL SECURITY IN NIGERIA, 1997-2016

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Abstract
The study examines the impact of debt servicing on military expenditure in Nigeria for the period, 1997-2016. The study argues that rising spate of debt servicing affects allocation for military expenditure thereby affecting the capability of the security forces to contain the rising wave of insecurity in Nigeria. The study employed ordinary least square on time series data culled from various issues of annual report and statement of account of Central Bank of Nigeria. The study found that debt servicing had significant negative impact on military expenditure while exchange rate exerted positive impact on the dependent variable. The study recommended that the nation defence forces should be adequately equipped to deal with the menace of insecurity as urgently as possible. Also, domestic debt rather than external debt should be encouraged by the authority as the repayment of the principal and interest on such internal debt is a re-investment into the economy. Likewise, government should formulate policies aimed at discouraging exchange rate misalignment to ensure a stable value for the Naira as such will enhance the value of military expenditure in the purchase of military armaments.

Keyword: Internal Security, Debt Servicing, External Debt, Military Expenditure and Ordinary Least Square.

Like most developing countries of the world, Nigeria relies substantially on external loans for financing its development projects such as iron and steel mills, roads, electricity generation plants etc. A developing country wishing to mobilize capital resources to foster economic development may at one time or the other, resort to borrowing. Foreign borrowing is needed to supplement domestic savings. Countries borrow because of their inability to generate enough savings which could be used for investment and hence growth. One of the reasons for such borrowing is that the incomes of developing countries like Nigeria are quite low that it is hardly adequate for personal consumption. Where government has budget deficit, then the best alternative is to seek other sources (borrow) where such deficit can be eliminated. Government borrows in order to close the resource gap between savings and investment.

In most cases, debt accumulates because of the servicing requirements. In the early years of political independence from 1960 to 1975, the size of external loans was small, the rate of interest concessionary, the maturity was long-term and the source was usually bilateral or multilateral in nature. According to Fosu (2007), Nigeria's external debt in 1960 was about $150 million, but from 1978 the situation changed. Nigeria, at the lure of the international financial centers, started to borrow huge sums from private sources at floating rates and with shorter-term maturities. The 1978 'jumbo loan' alone was estimated at some US $1 billion. By 1982, the value of Nigeria's external indebtedness was US $18.631 billion, which represented over 160% of Nigeria's gross domestic product (GDP) for that year. This was followed with mounting debt servicing. The situation precipitated a debt-crisis that progressively worsened over time. By 1986, Nigeria had to adopt a World Bank/International Monetary Fund (IMF) sponsored Structural Adjustment Program (SAP), with a view to revamping the economy and making the country better-able to service her debt (Fosu, 2007).

Nigeria achieved the long sought external debt relief from the Paris club in 2005 that agreed to cancel 60% (US18 billion dollars) of the US$30.85 billion owed to its club members. The deal of external debt relief took effect after Nigeria paid 40% (US $12 billion dollar) of the debt in July 2005. This debt relief eventually spared the country from the yearly US$2.3 billion (₦345 billion) debt service burden. This is potent enough to affect economic growth as government allocation to education and health were mere ₦82 billion and ₦56 billion respectively in 2005 (Ekperiware&Oladeji, 2014).In the light of the recurring high debt, the World Bank Managing Director in a communiqué warned Nigeria to check its rising domestic debt because it could be harmful to the growth of the domestic economy. External debt servicing is believed to have a chain effect on the Nigerian economy as it affects the government ability to provide for the security apparatus to contain the rising wave of insecurity. This effect of high debt servicing compromised the country security network which manifested in the form of militancy, kidnapping, armed robbery and terrorism. These problems continued with reoccurring decimal and the government seemed helpless in this regard.

The clamor has been for the government to equip the security agencies especially the military with the relevant weapons to enable them combat the rising insecurity in Nigeria be it Badoos in the South-West, Niger Delta Avengers (NDA) in the South-South, Indigenous People of Biafra (IPOB) in the South-East, dreaded Boko Haram Terrorists in the Northeast and more recently and deadly is the Fulani herdsmen and farmers' clashes in the north central and some part of south west. However, government has been constrained with shortages of funds to provide the right weapons and one reason for this is the rising debt servicing that is being paid on the country's external debts. This led to rising insecurity in Nigeria where many people have been killed, maimed, displaced and encamped as Internally Displaced People (IDPs) in several places in the North. If the current level of debt service payments is affecting security votes and other capital allocations, then government policy of external debt must be redesigned so as to minimize debt service repayments. It is against this backdrop that the current study is undertaken.

The objective of the study therefore is to assess the excess of debt servicing on internal security in Nigeria. The paper is organized as follows. Following the introduction, section two focused on a brief review of related literature. The methodology was highlighted in section three while in section four we presented and discussed the results. Finally, section five concluded the study with policy recommendations.

Review of Related Literature

Debt service is the payment of amortization (liquidation of the principal) and accumulated interest with contractually fixed charge on domestic real income and savings. As the size of the debt grows or as interest rate rises, debt service charge increases. According to Ishola, Olaleye and Ajayi (2013), debt servicing involves a conscious and carefully planned schedule of the acquisition and retirement of loans contracted either for development purpose or to support the balance of payments. It makes use of estimates of foreign earnings, sources of exchange finance, the project returns from the investment and the repayment schedule. It also includes an assessment of the country's capacity to service existing debts and a judgment on the desirability of contracting loans.

On the other hand, insecurity is a situation where social vices are the order of the day in a country with little or no check. These social vices include terrorism, armed robbery, kidnappings and militancy as well as farmers-Fulani herders clash. Taking terrorism as a measure of insecurity, it can be defined as the calculated use of unlawful violence or threat of unlawful violence to inculcate fear; intended to coerce or to intimidate governments or societies in the pursuit of goals that are generally political, religious, or ideological objectives (Chuku, Abang and Isip, 2017). The UN defines terrorism as intension to destroy properties and kill the residents as well as the act of damaging government property without the expressly chattered permission of a specific government with the ultimate purpose to effect some political goals. The U.S Federal Bureau of Intelligence sees terrorism as "the unlawful use of force and violence against persons or property to intimidate or coerce a government, the civilian population, or any segment thereof, in furtherance of political or social objectives"

From the empirical corridor, a number of studies exist in the literature seeking to access the relationship between external debt and economic growth but with few emphasis paid to debt servicing and none to internal security. Thus, Collier, Hoeffler and Pattillo (2002) argue that countries experiencing sustained period of internal conflict had a share of private wealth held abroad increased from 9 to 20%. Their study finds a sustained capital flight, brain drain, population displacement, destruction of social capital and psychological effects including depression and post-traumatic stress disorders associated with terrorism and internal conflicts. Amaeteng and Amoako (2002) found a unidirectional and positive causal relationship between foreign debt service and GDP growth after excluding exports revenue growth for Africa and South of Saharan countries during 1983-1990. Blomberg, Hess and Orphanides (2004) investigated the macroeconomic consequences of international terrorism and interactions with alternative forms of collective violence. The study found that on average, the incidence of terrorism on growth is likely to be significantly negative. They also found that terrorism is associated with a redirection of economic activity away from investment spending towards government spending at various levels of incidences in different sets of countries. Muhtar (2004) declares that servicing of external debts have direct negative impact on economic development. He finds that debt services encroaches on resources needed for socio economic development and poverty reduction as well as contribute to negative net resources flow.

Fosu (2007) examines the impact of a binding external debt-service constraint transmission on sectorial composition of some government expenditures in African economies including Nigeria. He employed Seemingly Unrelated Regression (SUR) technique for the period,1975-94 on five-year panel data for 35 countries. The study finds that implied debt service burden adversely affects the share of public spending in the social sector such as education and health as well as public investment. Blomberg, Broussard and Hess (2011) scrutinized the relationship between growth, terrorism and resource curse in 46 sub-Saharan Africa (SSA) countries using unbalanced panel data. Employing growth and quartile regressions and controlling for a variety of other factors and structural breaks, the study finds that terrorist-oriented fragility of SSA has increased in recent time and that the fragility can be explained by the growth in countries that are primary fuel exporters. Ajayi and Oke (2012) investigated the effect of the external debt burden on economic growth in Nigeria. The study employed ordinary least squares (OLS) method on such variables as national income, debt service payment, external reserves and interest rate. Among other things, the study finds that external debt burden and debt servicing had adverse effect on a nation's income and per capita income. The study argues that debt service obligation should not be allowed to rise more than foreign exchange earnings and that the loan contracted should be invested in profitable venture which will generate a reasonable amount of money for debt repayments. Faraji and Makame (2013) investigated the impact of external debt on economic growth in Tanzania for the period 1990-2010. The study reveals that total external debt stock has a positive effect of 0.37%while debt service payment has a negative effect of 28.52%. The study also found a long-run relationship between external debt and GDP.

In Pakistan, Mehmood (2014) finds that the magnitude of aggregate cost of terrorism between 1973 and 2008 was estimated at 33.02%. Ekperiware and Oladeji (2014) assessed the trend of external debt, debt servicing and debt relief transmissions in Nigeria covering the period, 1981-2009. The study uses structural VAR and descriptive techniques to illustrate how debt relief was channeled down to other macroeconomic variables in the economy. The descriptive analysis showed that soon after the debt relief, government expenditure on health and education improved while the position of the nation foreign exchange appreciated which cumulated to higher economic growth rate in Nigeria. However, the VAR result revealed that external debt and debt servicing affects the country's exchange rate while a decomposed shock from health and education outputs were strongly influenced by external debt servicing. Folarin andOviasogie (2015) examined the security challenges Nigeria faces from insurgency and its impact on national peace, security and sovereignty. Using a descriptive-analytical approach, the study finds that the frequency of insurgent attacks has resulted in a collateral damage on the peace, stability, development and sovereignty of the state. The study also finds that the federal government has not been decisive enough thereby placing urgent and decisive demand on the government to adopt new management strategy that will address and contain the insurgent and terrorist groups.

Aminu et al (2015) assessed the impact of insecurity and poverty on sustainable economic development in Nigeria with Boko Haram insurgency in the north east as a case study. The paper which spanned 1986-2012 employed OLS technique, Granger causality test as well as error correction model (ECM) to examine the contemporaneous dynamics among the variables. The study finds a negative relationship between economic growth and insecurity on the one hand and poverty on the other hand. The paper also finds that causality runs from economic growth to poverty and the later to insecurity in Nigeria. Yahaya (2015) examined the effect of economic conditions in respect of poverty, unemployment, GDP per capita, inflation rate as well as literacy level on the rise of terrorism in Nigeria. A multivariate co-integration analysis and error correction model were employed for the study on data spanning 1970-2013. The study found a long run relationship between terrorism and economic conditions. It was also found that a positive and significant relationship exist between terrorism and economic conditions in Nigeria. Aiyedogbon et al (2016)assessed the impact of terrorism and government expenditure on terrorism on economic growth in Nigeria over the period 1980-2014. Employing the OLS methodology, the study found out that government expenditure in security exerted significant positive impact on economic growth while the relationship between economic growth and terrorist attacks is negative in Nigeria.

Chuku et al (2017) examine the growth and fiscal consequences of terrorism in Nigeria by using different measures of terror incidence. The study found that terrorism has significant negative impact on growth, although the impact is considerably small and short-lived, manifesting only after a lag of about three years. Also, the study found that the cost of terrorism to Nigeria, in terms of lost GDP per annum, is estimated at 0.82%. The study argued that terrorism leads to reallocation of economic activity away from private investment spending to government spending as well as alters the composition of government expenditure with defence component of government expenditure rising and so does other expenditure items. Luis, Yi and Alexandra (2017) used three models to determine the relationship between macroeconomic variables and tourism demand. Employing unbalanced panel of 218 countries over the period 1995–2012, the study found evidence of increase in World's GDP *per capita*, a depreciation of the national currency and a decline of relative domestic prices as boost to tourism demand.

The Model

The study is predicated on the model developed by Aiyedogbon et al (2016) where military expenditure serves as a proxy variable for terrorism and is adopted therewith. Consequently, a linear multiple regression in the context of ordinary least squares (OLS) is adopted in which debt servicing is made a function of military expenditure and other macroeconomic variables as follows:

$MEX = f\,(DSV, EXD, EXC)$………….. (1)

In stochastic log-term, equation 3.1 becomes:

$InMEX_t = \alpha + \beta_1 InDSV_t + \beta_2 InEXD_t + \beta_3 InEXC$……………(2)

Where:

MEX_t = military expenditure at time t
DSV_t = Debt servicing at time t
EXD_t = External debt at time t

EXC_t = Exchange rate at time t

α = constant and $\beta_1 - \beta_3$ are parameters to be estimated. It is expected that an increase in debt servicing should decrease military expenditure while increase in external debt and exchange rate increases military expenditure. Apart from exchange rate which is in rate, all the variables are measured in millions of naira.

Definition of Variables

External Debt

When government borrows, the debt is a public debt. Public debts are either internal or external, incurred by the government through borrowing in the domestic and international markets so as to finance domestic investment. According to Edabor(2014), external debt is an amount of money owed by one country to another country or foreign agency for goods purchased on credit or/and services rendered to it or its agencies. Such external debts include official trade debts, promissory notes, letters of credit and medium and long-term debts normally granted by an organization such as the Parish Club.

Exchange Rate

This is the rate at which a country's currency is exchanged for another. Exchange rate is not only an important relative price, which connects domestic and world markets for goods and assets, but also signals the competitiveness of a country's exchange power vis-à-vis the rest of the world in a pure market. Besides, it also serves as an anchor which supports sustainable internal and external macroeconomic balances over the medium-to-long term. There is, however, no simple answer to what determines the equilibrium exchange rate, and estimating equilibrium exchange rates and the degree of exchange rate misalignment remains one of the most challenging empirical problems in an open economy like Nigeria (Yahaya, 2015).

Data and Discussion

Structure of Military Expenditure and Debt Servicing in Nigeria

Table 4.1 reveals the structure of recurrent and capital military expenditure as ratio of total military expenditure and also presents debt servicing in Nigeria during the period under review. From 1997 to 2004, recurrent expenditure has an average of about 80% of total expenditure as against about 19% for capital expenditure. For the rest of the period, large chuck of capital expenditure as a ratio of total expenditure was observed while recurrent expenditure which accounts for the welfare of the officers and men recorded a small amount. Perhaps, this is the reason why in most cases soldiers at the front of the insurgency war in north east abandoned their weapons and flee with excuses ranging from nonpayment of allowances to poor remuneration. Although, the statistics revealed that higher allocation is made to the capital components from 2005, it cannot be said that the right type of weapons were purchased as the caliber of arms and ammunitions carried by either Boko Haram in the north east or the militants in creeks were usually superior to that of the Nigerian Army.

Table 1: Structure of Military Expenditure and Debt Servicing in Nigeria, 1997-2016

Year	Recurrent military expt(₦ m)	Capital military expt (₦ million)	Total military expt (₦ million)	Military expenditure		Debt servicing ($ million)
				Recurrent: % of total	Capital: % of total	
1997-2000	21987.2	5444.9	27432.1	80.2	19.8	1570.0
2001-2004	62392.3	14957.6	77349.9	80.7	19.3	1715.2
2005	90333.8	21535.2	111869.0	19.3	119.3	1821.0
2006	83674.0	14686.0	98360.0	14.9	114.9	6727.8
2007	72102.1	24322.0	96424.1	25.2	125.2	910.8
2008	95842.0	32311.1	128153.1	25.2	125.2	460728.3
2009	54810.2	47344.1	102154.3	46.3	146.3	4280.4
2010	72933.2	52412.1	125345.3	41.8	141.8	354415.6
2011	283211.2	28112.1	311323.3	9.0	109.0	351619.1
2012	296822.2	37533.3	334355.5	11.2	111.2	293003.5
2013	272304.1	33722.1	306026.5	11.0	111.0	297329.3
2014	274521.2	33421.2	307942.4	10.9	110.9	346723.3
2015	330622.3	80611.2	411233.5	19.6	119.6	331059.9
2016	285661.0	81222.3	366883.3	22.1	122.1	353094.5

Source: CBN statistical Bulletin/Annual Report and Statement of Account (various issues)

Table 2: Growth Rate Military Expenditure and Debt Servicing (%), 1997-2016

Year	Military expenditure	Debt servicing
1997-2000	31.0	0.4
2001-2004	27.3	7.7
2005	47.1	3.8
2006	-12.1	269.5
2007	-2.0	-86.5
2008	39.9	50485.0
2009	-20.3	-99.1
2010	22.7	8180.0
2011	148.4	-0.8
2012	7.4	-16.7
2013	-8.5	1.5
2014	0.6	16.6
2015	33.5	-4.5
2016	-10.8	6.7

Source: CBN statistical Bulletin/Annual Report and Statement of Account (various issues)

In Table 4.2, debt servicing recorded a more robust growth than military expenditure which shows that as government devoted a large amount to servicing external debt smaller allocation is made to the defence sector. This affects their ability to contain the rising wave of insecurity which distorts productivity and output in Nigeria. For the record, the north east where most people are predominantly farmers outbreak of insurgency has led many to flee their farms. This same trend is also observed where Fulani herdsmen attacked and sacked several communities in Benue and Platuae States killing many and several women raped.

Fig 1: Trend of Military Expenditure in Nigeria

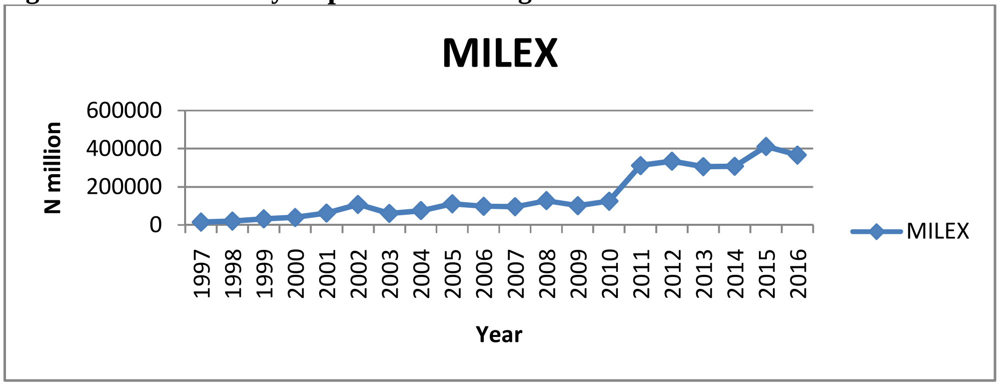
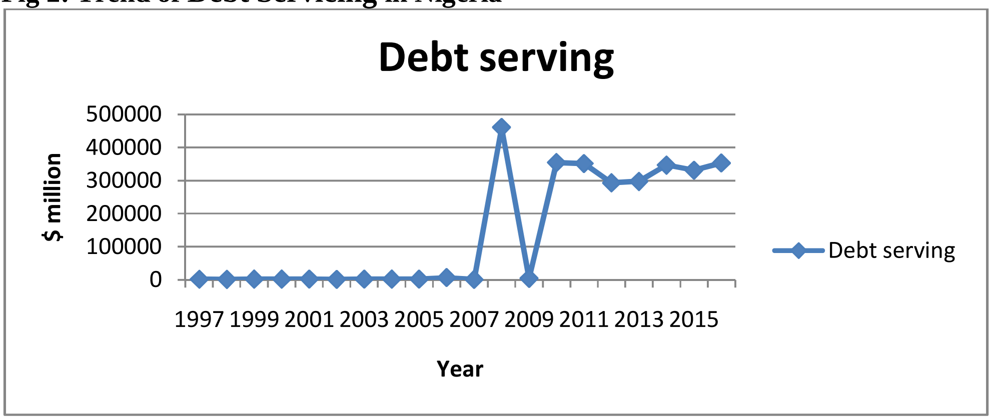


Fig 2: Trend of Debt Servicing in Nigeria



The trend of debts servicing highlights the fact that much of the country's external debt is owed to the Paris club, as a percentage of the total external debt, Nigeria's indebtedness to Clubs rose almost consistently from about 30% in 1983 to about 80% in 2001. This huge external debt constitutes a major impediment to the revitalization of the country's shattered economy as well as the alleviation of debilitating poverty. As at December 2000, Nigeria's debt stock amounted to about 75% of GDP and about 180% of export earnings. Debt service due in2000 was about US $3.0 billion or 14.5% of export earnings. In 1999, for example spending on health represented 0.2% of GDP and 0.7% of GDP compared with 3.4% (US$1.5 billion) annual budget spent on debt servicing during the same period. In 2000,$1.9 billion was used for debt servicing translating to about 4 times federal Government budgetary allocation to education and about 12times the allocation to health while in 2001 debt service payment was $2.13 billion which amounted to 6 times of the Federal Government's budgetary allocation to education and 17 times allocation to health for that year. This problem can be better understood if the resources committed to debt services are related to national output. Thus, this research is necessary at this point, when new loans are being negotiated from China and other countries.

Regression Result on the Impact of Debt Servicing on Military Expenditure

InMEX = 5.63 – 0.18InDSV – 0.03InEXD + 0.94InEXCR

(5.1) (-4.2) (-0.2) (5.7)

R^2 = 0.89; DW = 2.0; F-stat = 42.2

The result shows that the independent variables explained 89% of variation in military expenditure and the DW statistics depict absence of autocorrelation in the model. Likewise, the F-stat reveals that the model is statistically significant. A cursory look at the result reveals that debt servicing and external debt exerted negative impact on military expenditure with debt servicing statistically significant. Also, impact of exchange rate on military expenditure is positive and statistically significant. Consequently, a 1% increase in debt servicing led to 0.18% decrease in military expenditure while a similar 1% increase in exchange rate increases military expenditure by 0.94%. This finding is similar to Ajayi and Oke (2012) and Faraji and Makame (2013). The negative impact of debt servicing is not surprising because as more money is devoted to servicing external debt fewer funds are available for military expenditure. What is however surprising is the negative effect of external debt which must not be unconnected with high profile corruption that is prevalent in the system.

Concluding Remarks

The study examines the impact of debt servicing and other macroeconomic variables on military expenditure used as a proxy for insecurity in Nigeria. The study argues that rising debt servicing affects allocation for military expenditure thereby affecting the capability of the security forces to contain the rising spate of insecurity in Nigeria. The study uses both descriptive and analytical approaches for the investigation. Descriptively, the study finds a more robust growth for debt servicing than military expenditure. Analytically, it was found that debt servicing had significant negative impact on military expenditure while exchange rate exerted positive impact on the dependent variable. Thus, military recurrent expenditure which takes care of troop's welfare was found to be grossly small when compared to the capital component. This resulted in low morale which weakens the fighting capability of the force thereby giving room for more insecurity. Also, increasing amount spent annually for debt servicing led to reduced allocation for military expenditure and the result is non-payment of allowances and purchase of obsolete equipment and military hardware. In most cases, soldiers have had to abandoned the frontline on the excuses that they carry nonfunctional weapons against the Boko Haram perceived to be better equipped. Perhaps, this is the main reason why the war against the insurgent has never been won except on the pages of newspapers.

Aiyedogbon et al (2016) note that from 1999, economic growth in Nigeria hovers between 7 and 10% reflecting the period of relative increase in government expenditure which includes security such as defence and other paramilitary services. However from about 2009 when insecurity has taken different dimension, the country's economic growth began to dwindle to the extent that the growth rate in 2014 stood at the abysmal level of 4%. They submit that insecurity has negatively affected the Nigerian economy so that the performance of some key indicators of growth such as employment, income per head, the GDP, life expectancy etc are also affected. In the Niger Delta for instance where armed robbery and kidnapping of expatriates is rampant, some oil companies have either closed down or relocated from the region to other countries. The ever increasing external debt and debt service payments in Nigeria have become worrisome since they affect the performance of some key macroeconomic variables such as military expenditure, unemployment and poverty. Although, government has diverse and various means of solving the problem, but it has continued unabated and portrays the Nigerian economy as an unfriendly environment, unsafe especially for foreign investors. The downturn being experienced by the economy in recent time can be partly attributed to terrorism and insecurity as no foreign investors will invest in such an economy.

It is the recommendation of this paper therefore that government may consider the nation's defence force for more equipment to enable it deal with the menace of insecurity as urgently as possible. Also, domestic debt rather than external debt should be encouraged by the authority as the repayment of the principal and interest on such internal debt is a re-investment into the economy. Finally, government may further consider formulation of policies aimed at discouraging exchange rate misalignment to ensure a stable value for the Naira. This will enhance the value of military expenditure in the purchase of military armaments.

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