# CHAPTER SIX

## OVERVIEW OF EXTERNAL FINANCING AND SUSTAINABLE DEVELOPMENT IN NIGERIA: A CONTENT ANALYSIS

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### Introduction

The achievement of sustainable development has become a contemporary focus of government policies globally. It has become expedient as attaining sustainable development remains the focal point of Africa's Agenda 2063 and the United Nations' global 2030 Agenda, which enumerates the Sustainable Development Goals (SDGs). These goals have become the philosophical underpinning of development planning in the developing world. However, clinging to the wheel of developing economies' aspirations for sustainable development is the clog of domestic resource gaps. Thus, developing countries grapple with the inherent challenges of insufficient domestic capital to finance their requisite development needs. Given this, policymakers have had to grapple with the search for complementary resources leading to external financing (Terefe, 2018).

The Nigerian government has adopted several neoliberal reforms and policies to attract foreign finance to fund its development activities, given the need for domestic capital for public and private investment to pursue the drive for sustainable development. However, despite the inflow of external capital into the economy, it is still grappling with development challenges, and this has made the role of external finance in development to be a subject of debate (Adedokun, 2017; Moyo, 2009; Adebayo & Kalmaz, 2020; Agbloyor *et al*., 2016; Zuniga, 2011; Girma & Tilahun, 2022).

In addition, the inflows of external financing to Nigeria and other countries in Sub-Saharan Africa (SSA) development indices indicate that

SSA is one of the poorest regions in the world (Adedokun, 2017). Nigeria attracts a significant proportion of this external financing alongside its human and material resources endowment. It is still classified as a developing country, which contradicts the theoretical postulation of the imperative of external finance in a developing country like Nigeria. Also, the empirical literature on the subject has produced mixed and inconclusive findings, necessitating further exploratory verification as the motivation for this research.

## Literature Review

### *External Financing*

External financing is the flow of funds in the form of capital goods, technical know-how, and managerial capacity into developing or emerging economies from advanced or emerging economies, international institutions, or multinational corporations to finance developmental projects for the overall growth and development of the recipient country (Sule, 2023). Similarly, external financing is the flow of funds and other capital goods in the form of managerial know-how and modern technology from developed to developing countries to boost their productive capacity (Sule, 2019). According to Nwokoma (2013), external financing deals with the injection and leakages of capital in the form of technical skills and technology from mostly advanced or emerging countries to developing countries. The scholar noted that capital flows do not relate to the payment for exports and imports between countries. Iyoha (2004) further emphasized that external financing refers to borrowing and lending between countries. External financing takes the form of capital goods, loans, and *ODA*, which are sometimes on concessionary terms.

### *Determinants of External Financing*

The main determinants of external financing to Nigeria include investment opportunities, risk, market circumstances, rate of returns, level of economic activity, the ability to stimulate the economy, and susceptibility to external shocks (Essien and Onwioduokit, 1999). In the literature, factors such as rates of return, credit ratings, and secondary-market pricing of sovereign debt are potent incentives for attracting foreign financing. A country's credit rating, debt service ratio, the difference between domestic and foreign interest rates, which represents the short-run opportunity costs of investment, and the nominal effective exchange rate, which is the domestic exchange rate in terms of a basket of foreign currencies, are considered to be significant determinants of Nigeria's access to external financing from a macroeconomic perspective. Securing external funds is dependent on the host country's currency rate stability. It is more appropriate for policy and analysis to use accommodating exchange rate regimes to enable external finance in Nigeria since it has several trade partners. Exchange rate, irreversibility of investment, uncertainty, and the importance of credibility were also mentioned by Serven and Solimano (1992). The researchers concluded that it is difficult to attract a sizable movement of capital across borders if the environment for private investment at home is not favorable.

According to North (1990), institutions are important because they encourage and reward acts that increase wealth, including innovation, capital investment, and educational attainment. They also protect property rights and deter predatory, wealth-destructive behavior (for example, corruption, theft, and rent-seeking). Furthermore, Rodrik (2008) underlines that those institutions impact factors other than only economic growth, such as human and physical capital, investment, and technological advancements, all of which contribute to an economy's development.

According to Oke *et al*. (2012) and Izilein and Mohammed (2017), institutional strength in developing countries can help attract foreign investment; the most vital reactions occur when foreign investors are confident that institutional improvement will continue. The speed at which desired results are achieved may be hampered by the lack of a debt management plan and the qualifications of the staff at the relevant ministries responsible for managing it. It could be fatal for the recipient nation if underqualified civil workers who lack relevant knowledge of the mechanics and dynamics of debt management are permitted to engage with technically superior creditors. Government policies and programs like tax holidays and differentiating tax systems can alter the level of a return on external financing inflows. Most nations have policies to increase expected profits for foreign investors, although it is unclear how particular subsidies or other incentives would affect developing countries. Numerous studies (Shah and Slemrod, 1990) have emphasized the importance of tax structure.

Decisions on investment spending and the type of funding are also influenced by tax treatment. The initial incentives for foreign investment, as well as later choices about R&D spending and product improvements, are all impacted by variances in tax treatment around the globe. Decisions about the debt-to-equity ratio for certain enterprises in a nation where the investment choice is made is just one example of how tax law can impact the types of cross-border flows (Huizinga, 1992). Another source of uncertainty is the need for complete credibility of policy initiatives. Therefore, the likelihood of reversal will become the primary factor influencing how investors react to policy reform programs unless they perceive them as internally coherent and pursued regardless of the implicit societal costs (Serven & Solimano, 1992). Practically speaking, most developing nations that have changed their policies have yet to successfully attract foreign capital flows (Essien and Onwioduokit, 1999).

Also, studies demonstrate that poor property rights, persistent political meddling in private affairs, corruption, a lack of transparency and accountability, and an extensive bureaucratic backlog are significant factors undermining foreign external financing (Iheonu, Ihedimma, & Onwuanaku, 2017; Parks, Buntaine, & Buch, 2017). The lack of a functioning basic infrastructure and social amenities such as electricity, good roads, potable water, health care, and educational facilities, as well as low-capacity utilization in the industrial sector, an underdeveloped agricultural sector, and a troubled transportation sector, according to the scholars, could prevent the inflow of external financing. According to the UNCTAD Stat Report (2016), which supports the aforementioned, capital flows in West African (WA) countries have been significantly low for two decades as a result of political unrest and the inability to create an environment that would be conducive to luring capital and investment to WA. In addition, liquidity, market size and concentration, low trading volume, a lack of enforcement power, country and regulatory concerns, and exchange regulations work against the influx of external capital (Essien & Onwioduokit, 1999). Thus, as the government makes macroeconomic and institutional reforms, international investors gain confidence and are more willing to direct capital flows toward the new market (Parpaionu and Duke, 1993).

**Sustainable Development**

Sustainable development involves narrowing the gaps between rich and developing countries because these deficiencies or weaknesses, if not reduced or closed, will cause more problems in society instead of leading to economic development in a country (Ogbo, Eneh, Agbaeze, Chukwu, and Isijola, 2017). Achieving this sustainability requires a viable economy that is economically, environmentally, and socially responsible through workable national policies and programs. Following the end of the Cold War, a series of UN-led conferences in the 1990s focused on issues such as children, nutrition, human rights, and women, producing commitments for combined international action on those matters. The MDGs emphasized three areas: human capital, infrastructure and human rights (social, economic and political), with the intent of increasing living standards. This, among others, prompted the United Nations Millennium Development Goals (MDGs), eight goals that the UN Member States have agreed to try to achieve by the year 2015. This millennium declaration, signed in September 2000, committed world leaders to combat poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women. However, before the end of the MDGs' life span, the United Nations came up with the Sustainable Development Goals (SDGs), or the global goals, which have 17 goals and 169 targets that all UN member states have agreed to work towards achieving by the year 2030. This agenda builds on the Millennium Development Goals. The SDGs aim to be relevant to all countries—poor, rich, and middle-income—to promote prosperity while protecting the environment and tackling climate change. They strongly focus on improving equity to meet the needs of women, children, and disadvantaged populations so that "no one is left behind."

Several national and state government policies and programs have been launched in Nigeria in line with the objectives of the MDGs and, later, the SDGs. All of the policies and programs are meant to supplement the work of the UN-funded organizations. Some of these programs include Vision 2010, Vision 2020:20, Yar'adua's Seven Point Agenda, the National Economic Empowerment and Development Strategy (NEEDS) 1 and 2, the State Economic Empowerment and Development Strategy (SEEDS), and the Local Economic Empowerment and Development Strategy (LEEDS); President Goodluck Jonathan's Transformation Agenda; and, at present, Buhari's change mantra. However, even with these policies and programs, Nigeria is still grasping the task of meeting its national goals.

Importantly, literature has highlighted some obstacles to fully realizing MDGs in Nigeria. Like most Sub-Saharan African countries, Nigeria failed to meet any of the targets due to a slew of health-related, political, and systemic issues (Sachs and McArthur, 2005). Okon and Ikwayi (2012) emphasized several problems that hindered the MDGs' actualization, including poor or non-implementation of MDG-related projects, insufficient economic growth, persistently high poverty levels, poor human development, the politicization of MDG-related projects, a lack of political will, and poor governance. The scholars further pointed out that lack of synergy, mismatched expenditure on MDG activities, infrastructural decay, the poor harnessing of Nigeria's rich human and material resources, ineffective poverty reduction strategy papers, poor accountability and corruption, poor international development cooperation, a lack of quality control, the rising rate of youth unemployment, scanty and patchy progress indicators, and the aftermath of the global economic meltdown were the militating factors. Ajiye (2014) identified lack of human capacity for implementation, poor access to primary healthcare delivery systems with the high cost of healthcare, inadequate and unreliable data systems, insufficient funding, and indiscipline with endemic corruption as challenges facing MDGs in Nigeria.

The World Bank, International Monetary Fund, and other multinational corporations are engaged in Africa's course, specifically Nigeria, for growth and development lending policies, programmes, and financial support. Even with significant capital resources expended and programs such as the World Bank Structural Adjustment Programme initiated, the economies still need to be shattered by a lack of political will to drive Africans to a growth path. Could the lack of a state interventionist approach by the World Bank account for their setback? One of the leading critics of the Washington Consensus is Joseph Stiglitz, who criticized neoliberal theory for not recognizing the critical role of the state in enhancing human capital and promoting development. Stiglitz proposed a partnership model between the state, the private sector, and civil society.

Initial steps to open the economy in the late 1980s, and by 1988, the Industrial Coordination Committee (IDCC), the forerunner of today's Nigerian Investment Promotion Commission (NIPC), was established in 1995. The main goal is to increase capital usage in the economy's productive sectors by encouraging, promoting, and coordinating foreign investment. According to NEPZA, Nigeria now has 24 duty-free zones and has eight more under construction. The country has also built industrial and trade zones with benefits such as discounts, waivers, and tax holidays. Nigeria's main trade partners are India, China, the United States, Belgium, Spain, the Netherlands, South Korea, South Africa, and France. Nigeria has signed trade agreements with several African countries, the Caribbean, the Pacific, and the European Union. Nigeria has a lot of tradable goods that can contribute significantly to its GDP if long bureaucratic delays are removed. For the past 19 years (2001-2020), implementing sustainable economic growth in Nigeria has been hampered by institutional shortcomings, particularly those responsible for ensuring effective resource management (Sule, 2020). This is because of a lack of political will or inadequate legal support (Sule, 2020). Weak institutions have cost Nigeria enormous sums of money, amounting to US$157 billion in unauthorized financial transfers from the nation between 2003 and 2012. (Global Financial Integrity Report cited in ACCA, 2017). It was $2.2 billion in 2014 alone (GFI, 2018). Unfortunately, inconsistency continues to impede the effectiveness of previous government policies in Nigeria (Manyong *et al.,* 2005). Thus, the task of achieving sustainable development is still under threat.

Economic sustainability involves achieving steadiness in the development of all sectors of the economy in the process of producing goods and services, be it in agriculture, finance, manufacturing, health, or education. Economic sustainability forms an essential component of sustainable development; it is the achievement of development by maintaining and sustaining a high growth rate in a country's economy (Erhun, 2015). Essentially, economic growth is a rise in both social and commercial activity. The Nigerian economy grew at an average rate of 6.7 per cent from 2000 to 2015; however, the economy depends on crude oil sales. The decline in the price of petroleum in 2015 caused economic growth to slow down by 1.6 per cent in 2016. It began to appreciate in 2017, which resulted in a growth of 0.8 per cent. This growth rate has since stayed positive, reaching 1.92 per cent in 2018 and 2.20 per cent in 2019, before declining once more in 2020, this time by 1.79 per cent, primarily as a result of the COVID-19 pandemic, which had an impact on the world's economies. The difficult business environment brought on by the delayed pace of reforms and the absence of a market-driven exchange rate policy that limits investment is two of the main obstacles to realizing the country's growth potential (PWC, 2017).

From an environmental perspective, Nigerians are increasingly exposed to the hazards of highly polluted gaseous and dust emissions from industries and vehicles and dangerous industrial wastes constantly being discharged into their environment (Oladipo, 2008a, b). The key environmental issues facing Nigeria can be captured broadly in terms of land degradation and air and water pollution (Federal Republic of Nigeria, 2012). Nigeria is a member of the international and global community. As such, it shares in the effects of technological advancement, specifically environmental management, which is particularly necessary and whose primary aim should be to avoid stressing a valued ecosystem beyond the limits of its resilience, stability and carrying capacity (Oyeshola, 2008). The Niger Delta regions have a more significant effect on most of these environmental challenges. This includes oil spillage; crude oil content; and chemical substances such as sulphur, nitrogen, and oxygen, as well as hydrocarbon component oil spillage, which will affect living things such as human life, aquatic life, and plant life directly and indirectly, thereby having implications for the bio-diversity of all living things, new and in the future (Adejumo and Adejumo, 2014).

In addition, social sustainability entails continuous improvement in social well-being and quality of life (Ogujiuba, Ehigiamuose, and Udefuna, 2013). The percentage of a population living below the poverty line, the adult literacy rate, primary and secondary school enrollments, the population without access to improved sanitation, and the percentage of the population with access to safe water are all important social indicators. Importantly, it is reaffirmed that for Nigeria to achieve any meaningful development, it must take care of social services such as primary education, functional health care, employment for youth, clean water, security of life and property, and access to quality infrastructure (Adejumo & Adejumo, 2014).

Nigeria has several policies and programs to reduce social ills, such as poverty and income inequality. Specifically, from 2001 to 2018, Nigeria instituted several policies and programs on poverty reduction. These policies include the National Poverty Eradication Program (NAPEP) in 2001, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2003, and the National Open Apprenticeship Scheme in 2009. Along with the Youth Empowerment Scheme (YES), Social Welfare Service Scheme (SOWESS), and National Social Investment Policy (NSIP) in 2015, other initiatives include the Subsidy Reinvestment and Empowerment Programme (SURE-P) in 2012, the Central Bank of Nigeria Entrepreneurship Development Centre (CBN-EDC) in 2008, and others. All these programs were attempts by various successive governments to curb the menace of poverty through the engendering of socio-economic activities. However, eighteen years (2001–2018), Nigeria is still dealing with high poverty rates, making the country one of the countries with the highest numbers of impoverished people globally (World Bank, 2020). The evidence is that out of the estimated population of 200 million in 2019, 83 million people (representing 40 per cent) now live below the extreme poverty line of 137,430 Naira ($381.75) per year (NBS, 2020). This trend contradicts Nigeria's abundant natural resources, which it is known for, and better economic performance is expected. Thus, in resorting to budget deficit operations to supplement internal resources, Nigeria must seek external financing from international loans, foreign direct investment, and foreign portfolio investment.

**Determinants of Sustainable Development**

The factors that determine sustainable development are subject to differing opinions. According to Sofrankova, Kiselakova, and Onuferova (2021), sustainable development is determined by innovative activity, the corporate environment, corruption problems, and human resources. This contradicts the opinion of Koirala and Pradhan (2019), who suggest that maintaining a proper natural resource balance is necessary for sustainable development. According to Pardi, Salleh, and Nawi (2015), the factors determining sustainable development from a monetary and public sector perspective include the inflation rate, financial growth, per capita income, and percentage of mineral exports in GDP.

According to a World Bank study by Ferreira, Hamilton, and Vincent (2008), adjusted net savings may be a reliable indicator of future economic performance. This supports Gnegne's (2009) assertion that net saving is a sign of sustainable growth in developing and advanced countries. The scholar further supports those innovation activities as determinants of sustainable development. Zhylinska, Balan, and Andrusiak (2017) suggested a country's innovation potential determines sustainability. Countries with innovation potential in areas like ICT experience economic sustainability (Mozas-Moral, Bernal-Jurado, Fernandez-Ucles, and Medina-Viruel, 2020). Developing nations can only achieve sustainable development with a favorable business environment. In this context, Cervello-Royo, Moya-Clemente, Perello-Marin, and Ribes-Giner (2020) therefore give credence to the interconnection between the global entrepreneurship monitor and country risk score, the doing business index (DBI), and the sustainable development goals index and sustainable development. In the context of sustainable growth, Babajide, Lawal, Asaleye, Okafor, and Osuma (2020) suggest that the financial stability of economies and the business environment determine sustainable economic goals.

Another study on economic freedom and sustainable development by Mushtaq and Khan (2018) found strong evidence that financial freedom influences sustainable economic growth. A similar position is taken by Iacobuta and Gagea (2010), who assert that property rights or business freedom determine sustainable development. Fanea-Ivanovici, Muşetescu, Pană, & Voicu (2019) emphasized that fighting corruption and enhancing tax compliance through digital public services influence sustainable development. Armeanu, Vintilă, and Gherghina (2018) placed corruption as a determinant of sustainable economic growth. According to a previous study by the Organization for Economic Cooperation and Development (2001), a nation's financial success is influenced by effective governance and strong institutions.

Similarly, Acemoglu, Johnson, and Robinson (2001) also point to the bequeathed colonial institutions behind the level of sustainable development. According to Chanda and Putterman (2007), countries with a long history of self-governance as a state are likely to have more developed economic institutions. This is a typical case of countries like America (under Britain), China (under Japan and later Britain), Ethiopia, and South Africa (under Britain). This philosophy is an offshoot of John Locke's ideas in his book *Two Treaties of Civil Government,* published in 1689; these are the rights to life, liberty, and property.

**Challenges of Sustainable Development in Nigeria**

Adejumo and Adejumo (2014) have identified obstacles to achieving sustainable development in less economically developed countries (LECDs) like Nigeria.

(i) Meeting the population's immediate fundamental necessities is one of the LEDC administrations' and citizens' top objectives. Providing shelter, food, clean water, instruction and medical treatment are a few examples. Instead of funding these fundamental requirements and longer-term sustainable efforts, money is spent on the military and disaster assistance in many LEDCs undergoing internal strife or natural calamities.

(ii) Corruption makes it difficult to prioritize long-term issues. Many leaders are in office for short periods of time and change frequently.

(iii) Lack of qualified people to develop and implement alternative technologies is due to a poor educational system and the "brain drain."

(iv) lack of education about finite resources. People do not know or understand the implications of the overuse of resources.

Some of the solutions they proposed for addressing the aforementioned challenges included the provision of soft loans to less privileged persons to promote small and medium-scale enterprises (SMEs); addressing the problem of financing the real sector by mobilizing long-term savings for investment; incorporating job training of people in skills relevant to their immediate work environment and rural development; enhancing agriculture and food security policies by strengthening research and development to improve productivity and enhance exportation, thereby boosting income; strengthening the regulation and supervisory framework of the financial sector; and also promoting indigenous goods and services through SMEs.

In a related study, Ogujiuba, Ehigiamuose, and Udefuna (2013) also noted several obstacles to sustainable development in Africa. According to them, the development problem facing Africa is poverty. The majority of developing nations are impoverished, particularly those in Sub-Saharan Africa, Latin America, and some regions of Asia; hence, the GDP growth rates in these nations do not necessarily translate into higher living standards. The rapid population growth in sub-Saharan Africa is another issue impeding sustainable development. According to the World Bank (2021), with an average population growth rate of 2.5 percent compared to 1.2 percent in Latin America and Asia, Africa's population is predicted to double in less than 30 years. As a result of this rapid population growth, Africa's environment is under severe strain. High rates of population expansion are frequently associated with issues including food security, land tenure, environmental deterioration, and a lack of water availability. Important to keep in mind that the rate of population expansion coexists with significant rural-urban migration, resulting in unusual rates of urban population growth that are frequently twice the rate of national growth with little to no equivalent provision of basic infrastructure.

Nigeria's current trajectory of accelerating environmental deterioration would gravely jeopardize the capacity of the current and future generations to satisfy their needs. For primarily poor rural inhabitants, the high level of deforestation results in the loss of trees which has two potentially disastrous environmental effects. Current practices of extracting non-renewable resources, such as gold, diamonds, and crude oil, have had a significant negative impact on the environment because successive national governments have not made any effort to adopt a clear roadmap to transition to a green economy without any environmental implications. Given the level of development currently experienced by African countries, especially Nigeria, they will experience more severe climate change effects than any other region of the world, including a decrease in rainfall, an increase in drought and desertification, and a shortage of freshwater if immediate action is not taken. The current economic expansion in emerging markets appears fake and leaves room for environmental deterioration. This is because there doesn't seem to be any movement toward switching to environmentally friendly production methods.

## Analysis of Sustainable Development and External Financing

### Sustainable Development Indicators

For Nigeria to improve its performance on sustainable development, particularly the SDGs, it is necessary to concentrate on the critical issues of poverty (SDG-1), an inclusive economy (SDG-8), health and wellbeing (SDG-3), education (SDG-4), gender equality (SDG-5), the enabling environment of peace and security (SDG-16), and partnerships (SDG-17). The pursuit produced policy frameworks aligned with the SDGs, including the Economic and Recovery Growth Plan (ERGP) (2017–2020) and the 2020 Voluntary National Review. However, implementation of the goals requires effective measures and strong participation, which have been marred by weak institutions to enforce law and order. Soto *et al*. (2020) show that the country's indicators of human capital development are still low and even worse than those of countries with lower GDP per capita. This challenge has only manifested during this period, as it has halted the progress on almost all the SDGs (Leicht, Heiss and Byun, 2018). Following the rankings, based on an aggregate score of 100, in terms of progress on all 17 SDGs, Nigeria falls in the bottom 11 countries (see Tables 1a, b). The only year Nigeria made relative progress was in 2017, when it ranked 37 out of the sampled 45 countries in Africa (see Figure 1a), while in other years, it ranked 38, 41, 42, and 41 for 2016, 2018, 2019, and 2020, respectively.

**Table 1a: African SDG Performance Rankings: The Bottom 11 Countries**

| S/No | Country | 2016 | S/No | Country | 2017 | S/No | Country | 2018 |
|---|---|---|---|---|---|---|---|---|
| 35 | Gambia | 37.8 | 35 | **Nigeria** | **48.6** | 35 | Sudan | 49.6 |
| 36 | Sierra Leone | 36.9 | 36 | Mali | 48.5 | 36 | Angola | 49.6 |
| 37 | Madagascar | 36.2 | 37 | Malawi | 48.0 | 37 | Sierra Leone | 49.1 |
| 38 | Nigeria | 36.7 | 38 | Gambia | 47.8 | 38 | Benin | 49.0 |
| 39 | Guinea | 35.9 | 39 | Sierra Leone | 47.1 | 39 | Niger | 48.5 |
| 40 | Burkina Faso | 35.6 | 40 | Niger | 44.8 | 40 | Liberia | 48.3 |
| 41 | Chad | 31.8 | 41 | Madagascar | 43.5 | 41 | **Nigeria** | **47.5** |
| 42 | Niger | 31.4 | 42 | Liberia | 42.8 | 42 | Madagascar | 45.6 |
| 43 | Congo, Dem. Rep. | 31.3 | 43 | Congo, Dem. Rep. | 42.7 | 43 | Congo, Dem. Rep. | 43.4 |
| 44 | Liberia | 30.5 | 44 | Chad | 41.5 | 44 | Chad | 42.8 |
| 45 | Central African Republic | 26.1 | 45 | Central African Republic | 36.7 | 45 | Central African Republic | 37.7 |

**Source:** *Sustainable Development Report (various years)*

**Table 1b: African SDG Performance Rankings: The Bottom 11 Countries**

| S/No | Country | 2019 | S/No | Country | 2020 |
|---|---|---|---|---|---|
| 35 | Malawi | 51.4 | 35 | Malawi | 52 |
| 36 | Angola | 51.3 | 36 | Sierra Leone | 52 |
| 37 | Benin | 50.9 | 37 | Mali | 51 |
| 38 | Lesotho | 50.9 | 38 | Niger | 50 |
| 39 | Mali | 50.2 | 39 | Congo, Democratic Rep. | 50 |
| 40 | Niger | 49.4 | 40 | Sudan | 50 |
| 41 | Madagascar | 46.7 | 41 | **Nigeria** | **49** |
| 42 | Nigeria | 46.4 | 42 | Madagascar | 49 |
| 43 | Congo, Democratic. Rep. | 44.9 | 43 | Liberia | 47 |
| 44 | Chad | 42.8 | 44 | Chad | 44 |
| 45 | Central African Republic | 39.1 | 45 | Central African Republic | 39 |

**Source:** *Sustainable Development Report (various years)*

Nigeria has a reputation as one of the most corrupt nations in the world due to the widespread mishandling of public money carried out by those in positions of authority (Fagbemi, 2021). The nation's efforts to develop have been undermined by chronic institutional flaws (Fagbemi &Adeoye, 2020). Most of Nigeria's economic crises have been caused by weak institutions (Ozili, 2020). Therefore, due to an ineffective government, creating human capital has been a major challenge in Nigeria. These are reflected in the SDG performance index and the amount of advancement made toward a few chosen SDGs, as stated;

SDG-1 (End Poverty): The prevalence of poverty has remained disproportionately high despite a significant focus on its eradication. The high poverty rate of 50 per cent in the nation in 2020, which equates to 105 million people struggling to survive on an average of $1.90 per day out of a population of about 205 million, and another 25.4% (52.6 million people) who were vulnerable, are reflections of poor economic management and performance [National Bureau of Statistics (NBS), 2020; World Bank, 2020]. Due to this, Nigeria is now the most impoverished country in sub-Saharan Africa (Leicht, Heiss & Byun, 2018). This demonstrates that Sustainable Development Goal 1 has not seen any real progress. In Nigeria, unequal resource distribution remains a major impediment to human societal development, linked to a lack of socioeconomic activities for self-employment.

**SDG-3 (Good Health and Well-Being):** In terms of health, despite some progress, mortality rates for children under five years old fell by 40% between 1999 and 2020, and maternal mortality fell by 23.6% between 2000 and 2017 (World Bank, 2021). However, infant mortality remains the third-highest globally, far higher than in nations with lower per capita income (Fagbemi, 2021). Nigeria is one of the six least developed nations in the world regarding life expectancy, with a lifespan of only 50 years. According to Soto *et al*. (2020), the nation's healthcare system is currently ranked 163 out of 191 countries, a minor improvement from the 187 overall ranking it held in 2019.

**SDG-4 (Quality Education):** In Nigeria, 68% of the population is school-age, compared to 36% in emerging countries and 25% in established ones (Statista, 2021). Only 20% of students who complete primary school can read a three-sentence passage correctly or fluently (Sachs *et al*., 2020), indicating that the quality of the education system provided could be better (it ranks low in terms of quality measures). Insufficient funding, poor infrastructure, and a lack of teaching resources play a significant role (Fagbemi, 2021). As a result, Nigeria's score could be better in the index used to gauge educational performance.

**SDG-6 (Clean Water and Sanitation):** Several challenges often prevail regarding water and sanitation. For instance, in 2019, Nigeria was still the number one open-defecation nation globally, surpassing India. This is evidence, as statistics show that an estimated 50 million Nigerians (or 10 million households) defecate in the open (UNICEF, 2019). Only a third of the population has adequate access to water services, and there are limited investments in infrastructure for water and sanitation (World Bank, 2017). In 2019, 60 million Nigerians lived without access to basic drinking water due to several issues, including insufficient infrastructure, a lack of necessary human resources, poor investment, and a weak enabling regulatory environment (World Bank, 2021). The group further revealed that 80 million people needed improved sanitation facilities, while 167 million could not access basic handwashing facilities. As a result, SDG 6 has made much less progress than the SDGs had hoped.

**SDG-8 (Decent Work and Economic Growth):** While the Nigerian economy was regarded as the largest in Africa (by GDP) at $519 billion in 2014, it is anticipated to drop by 2.3% in Q1, and 1.8% in Q2 of 2020 [Infrastructure Consortium for Africa (ICA), 2020]. In addition, there has been a slow growth, as the population growth rate has outstripped the economic growth (ProShare, 2020). Since a significant share of the GDP is required to improve progress across the SDGs, the country's case is far from overemphasized (Fagbemi, 2021). Nigeria's public debt is relatively sustainable at 25% of GDP (African Development Bank, 2021). However, debt service payments are high, and macroeconomic imbalances and policy uncertainty hurt the country's ability to attract external private financial flows (African Development Bank, 2021). This, among others, could hamper the growth of socio-economic activities.

**SDG-9 (Industry, Innovation, and Infrastructure):** Regarding physical capital, Nigeria still has fewer roads per capita than other nations because many people need to be in better shape. A trustworthy evaluation of the condition of the road network is needed (World Bank, 2019). According to Davies, Nwankwo, Olofinnade, and Michaels (2019), efforts to grow the economy have been futile due to poor infrastructure in developing countries, particularly Nigeria. Anawake Foundation (2019) further identified that one in seven people still need access to electricity; most people live in rural areas of Nigeria, and less than 1 per cent of GDP is allocated to infrastructure financing. On the other hand, Nigeria ranks 114th and 117th among the 131 economies featured in the Global Innovation Index (GII) in 2019 and 2020 (WIPO, 2020). Thus, a lack of investment in physical capital (such as roads and transport) and social capital (like education and health) has posed a threat to the attainment of SDG 9 (Ajia, 2020).

**External Financing from Asia, Europe and USA to Nigeria**

Figure 1, 2 and 3 represents capital inflow from Asian, European and USA into Nigeria covering the period of 2010 to 2020.

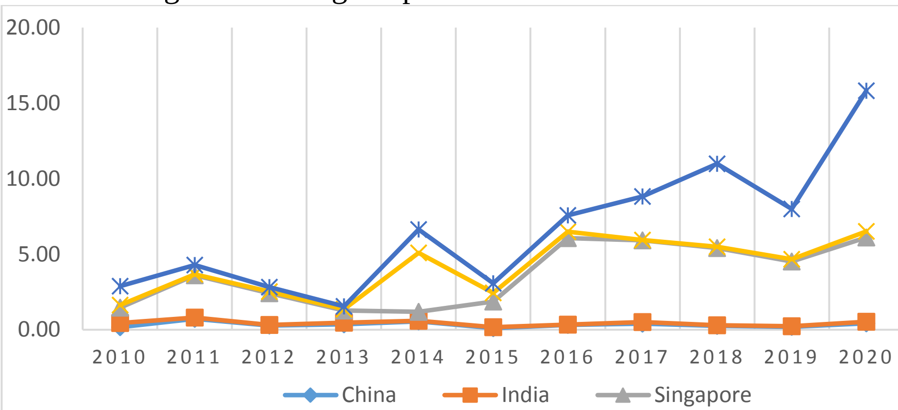


**Figure 1:** *Trends in Percentage of Capital Inflow from Asian Countries to Nigeria*
**Source:** *Central Bank of Nigeria Statistical Bulletin, 2020*

Figure 1 shows the trends in the proportion of capital inflow from selected Asian countries to total capital inflow into Nigeria between 2010 and 2020. Starting with the highest, the trends in capital inflow from the United Arab Emirates (UAE) show less than 1 per cent between the years 2011 to 2013 and 2015, respectively, but returned to growth in 2016 before experiencing a downward trend in 2019, which may be related to the COVID-19 pandemic that disrupts the world's economies. However, the amount of money flowing into Nigeria from the UAE increased exponentially in 2020. Except for 2013 and 2014, it spiked to 0.82 per cent and 0.59 per cent, respectively. Next in line is the trend in Saudi Arabian capital inflows, which is less than 1 per cent and only had a significant increase in 2014 at a rate of 3.90%. This suggests that despite their oil resources and technological advancements in oil exploration, they are not a key player in Nigeria's economy. Singapore generally displays a capital inflow percentage that is proportional. From 2016 to 2020, there was some degree of stability in Singapore's capital inflows, which peaked in 2016 at a growth rate of 5.74 per cent before declining to 5.59 per cent in 2020.

Nigeria has drawn a minor fraction of less than 1 per cent of capital inflow from India from three different investment types: foreign direct investment

(FDI), foreign portfolio investment (FPI) and other investments. According to analysts, increasing FDI, which entails investing in long-term assets like constructing or acquiring a manufacturing facility, is crucial for Nigeria. All of these bring in the necessary capital to generate jobs and improve liquidity (Iruoma, 2022). India's capital inflow to Nigeria is the least of all the Asian nations, according to statistics. Trends show that it reached 0.02 per cent in 2016 and 0.28 per cent in 2010. This implies that India has little presence in the Nigerian economy. Regarding capital inflows from China, they display irregular trends and are less than 1 per cent. The only times that Nigeria had a relative capital inflow from China were in 2011 at a rate of 0.74 per cent and most recently in 2020 at a rate of 0.44 per cent, which is still less than 1 per cent to have a meaningful impact on the Nigerian economy.

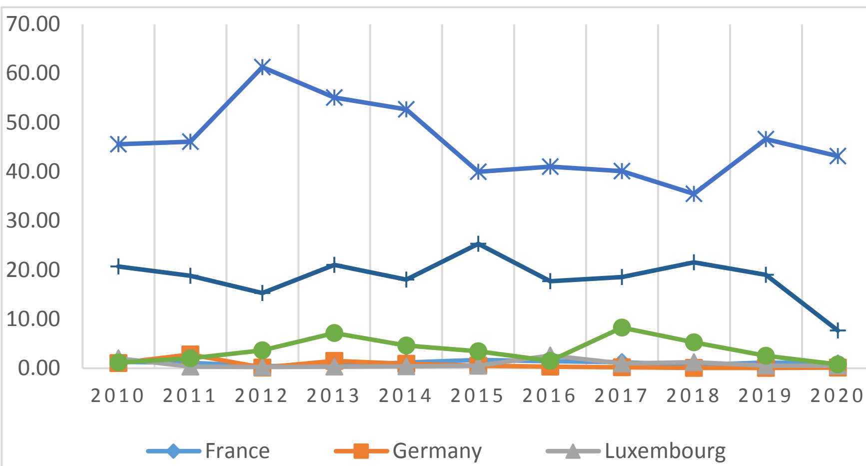


**Figure 2:** *Trends in Percentage of Capital Inflow from Europe and USA to Nigeria*

**Source:** *Central Bank of Nigeria Statistical Bulletin, 2020*

The patterns in capital inflow as a percentage of total capital inflow from a few selected European nations and the USA to Nigeria from 2010 to 2020 are depicted in Figure 2. The United Kingdom (UK) is at the top of the list of nations with the most capital inflows, which is unsurprising given their role as Nigeria's colonial masters. According to statistics, the proportion of capital inflows to total capital inflows into Nigeria peaked in 2013 at 55 per cent before falling to 52.65 per cent in 2014. Since then, there have been ups and downs, with the lowest percentage at 35.50 per cent in 2018 and the highest at 43.17 per cent in 2020. There is no question about the role that the USA has played in the growth of the Nigerian economy, as shown by trends in capital inflow, which show significant percentage increases even amidst some declines. However, the reduction in 2020 from 18.98 per cent to 7.68 per cent is quite substantial and does not bode well for the Nigerian economy. Essentially, it is necessary to consistently improve their economic ties or bilateral agreement to foster confidence and collaboration between the two nations and draw more US private investors to different sectors of the Nigerian economy. Nigeria has recently relied on and benefited from US support in the form of military hardware and other technological help to defend the nation against terrorist operations.

Trends in capital inflow from Belgium show some significant increase throughout the periods except for 2020, which might be attributable to the effect of the COVID-19 pandemic. This development is particularly intriguing since it allows both nations to maintain and expand their current economic collaboration, which promotes steady progress in economic integration. The highest percentage rates of capital inflows were from Luxembourg in 2010 and 2016, and they slowly decreased to 0.53 per cent in 2020, following a similar pattern. However, based on patterns in capital inflows from France, the growth rate has been roughly greater than 1 per cent for most of the years. Despite their vital economic position among the League of World Powers, the rise in capital inflow from France in 2018 and 2020 to 0.66 per cent and 0.95 per cent, respectively, needs to be revised. The figure shows that capital inflow from Germany is the least among the countries depicted. Surprisingly, despite Nigeria's status as the largest market in Africa and its shared status as one of the world's superpowers, economic integration between the two nations is negligible.

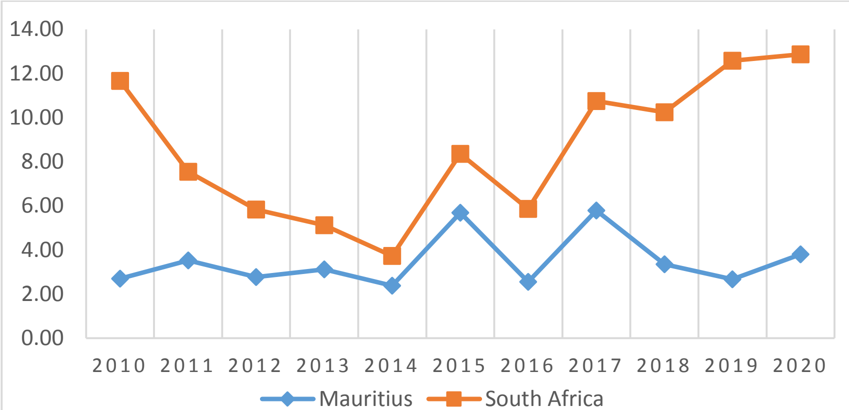


**Figure 3:** *Trends in Percentage of Capital Inflow from African Countries to Nigeria*

**Source:** *Central Bank of Nigeria Statistical Bulletin, 2020*

Figure 3 from 2010 to 2020 displays capital inflows as a percentage of total capital inflows into Nigeria from Mauritius and South Africa. Starting with the highest significant increase in the amount of money inflow from South Africa as a share of all capital entering Nigeria, it has significantly increased, rising from 3.31 per cent in 2016 to 9.92 per cent in 2019 before falling to 9.07 per cent in 2020. For instance, Nigeria and South Africa have more than 30 bilateral agreements in industries like banks, breweries, grocery chains, ICT, and telecommunications. Shoprite, Multichoice (DSTV/GOtv), MTN, Sun/Protea Hotels, Stanbic IBTC, Oracle, PEP, and Eskom are notable examples. The scale gain is greater than 1 per cent across the periods under consideration, which both countries can take advantage of and use to create a new roadmap for fostering robust economic integration.

Similarly, the least significant trend is the inflow of capital from Mauritius, which had swings between 2.38 and 3.80 per cent, except for years 2017 and 2015, which saw records of 5.79 and 5.69 per cent. In 2020, the World Bank classified Mauritius as an African nation with a high-income economy because it is the only country in East Africa with a very high human development index. Possibly why they were named the most peaceful nation in Africa in 2019 by the Global Peace Index.

Mauritius Commercial Bank has invested $850 million, or a sizeable portion, in Nigeria's oil and gas industry. Nigeria and Mauritius signed several bilateral agreements in 2012 and recently for, the Double Taxation Avoidance Agreement (DTAA) in 2021 to boost their capacities to regulate their respective capital markets effectively to regulate their respective capital markets effectively. Nigeria can take advantage of these trends in capital inflow to provide new opportunities for strategic investment in vital areas of the country's economy.

**Capital Inflow to Selected Sectors in Nigeria**

Figure 4 and 5 represents capital inflow into selected sectors in Nigeria covering the period of 2010 to 2020.

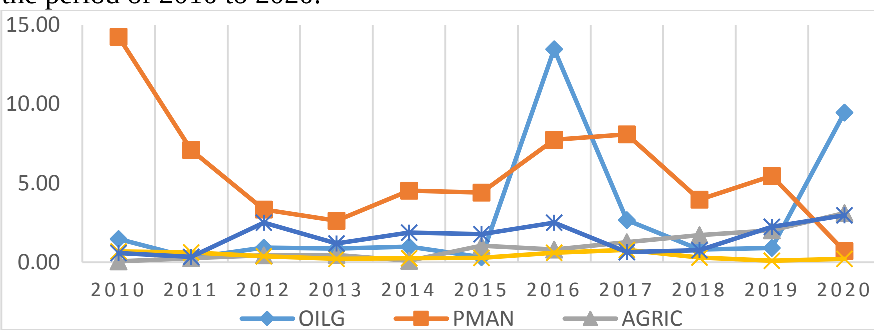


**Figure 4:** *Trends in Percentage of Capital Inflow to Sectors in Nigeria*

**Source:** *Central Bank of Nigeria Statistical Bulletin, 2020*

Figure 4 shows trends in capital inflows to specific economic sectors in Nigeria from 2010 to 2020. These sectors include oil and gas (OILG), production and manufacturing (PMA), agriculture (AGRIC), construction (CONS), and the trading sector (TRADE). Among these sectors, production and manufacturing have attracted more capital inflow, ranging from 2.63 per cent (2013) to 14.25 per cent (2010), except 0.71 per cent recorded in 2020, which could be the effect of the COVID-19 pandemic. Compared to the size of the Nigerian market and markets in neighbouring nations that depend on Nigeria's semi-finished and finished products to satisfy local demands, current trends in capital inflow into this industry still need to be revised. Despite numerous regulations and measures to increase productivity in some industrial subsectors, firms' inability to access foreign currency, rising security issues, institutional weakness, and insufficient infrastructure continue to discourage investment (Iruoma, 2022). Oil and gas have also experienced significant capital inflows over the past few years, peaking at 13.47 per cent in 2016 and currently standing at 9.46 per cent. Oil and gas are strategically positioned among the other sectors in Nigeria's economic structure because of their enormous potential for earning foreign exchange. However, the sector has yet to significantly contribute to the country's economic growth due to several successive governments' failure to implement comprehensive reforms over the past 20 years, particularly regarding the regulatory laws that govern the operations of foreign investors.

However, the Petroleum Industry Act 2021 was signed into law in 2021 to improve the climate for the sector's expansion and resolve the complaints of communities most affected by extractive industries (Nwuke, 2021). Through increased capital inflow from Nigeria's major trading partners, it is anticipated that Nigeria will considerably profit from the reforms. Additionally, the trading sector imported a relatively small amount of capital from 2010 to 2020, with 2.98 per cent in 2020 being the highest. Due to Nigeria's poor output of semi-finished and finished goods from the production and manufacturing sectors, the preceding years could have been more outstanding. In essence, the years from 2017 to 2020 exhibit continuous growth, which is predicted to continue in the years to come. Regarding its position as a significant source of foreign exchange profits, the then-famous agricultural industry, which continues to be the major employer of labor and is dependent on it for most households' daily needs, trails the trading sector.

Surprisingly, in 2020, the agriculture sector will only contribute 3.11 per cent of capital inflows. However, the growth rate seen from 2016 to 2020 may provide a way for the Nigerian government to establish a set of regulations that are acceptable globally, embedded with incentives and risk management strategies that can draw in investors and direct capital inflow to the agricultural sector. The last trend on the chart, which is not proportionate over the entire period under examination, is in the construction sector. This shows that the public sector still has a lot of work to do, especially when it comes to providing the basic infrastructure, such as a reliable electricity supply, a modern road and rail network connecting cities and urban centres, and other amenities that can entice investors to invest in the development of either housing projects or the location of industries.

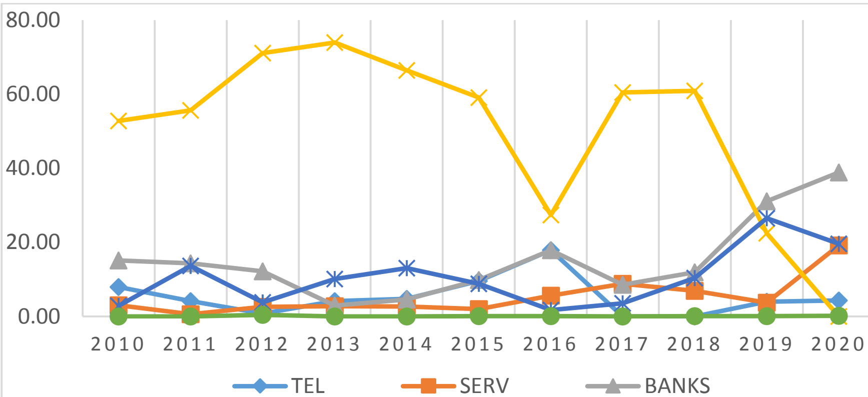


**Figure 5:** *Trends in Percentage of Capital Inflow to Sectors in Nigeria*

**Source:** *Central Bank of Nigeria Statistical Bulletin, 2020*

The evolution of capital inflow as a share of total capital inflow to specific sectors of the Nigerian economy from 2010 to 2020 is in Figure 5. Telecommunication, services, banking, stocks, financing, and transportation are among these industries. According to the data, capital inflow in the acquisition of shares across various quoted firms in the Nigerian capital market continues to be the highest, peaking at 73.95 per cent in 2013, which is the period of recovery from the global financial crisis (2008–2009). Also, this can be related to external factors like the inclusion of Nigeria in the JPMorgan EM Bond index and historically low interest rates, prompting investors to look for better yields (NBS, 2016). However, in 2016, there was a considerable decline in the buying of shares, as only 27.42 per cent of capital inflows went toward the stock market. This decline in share purchases may have been caused by the recession, which resulted in an oversupply of crude oil, which lowered its price. In essence, capital inflow to buy shares resumed its upward trend in 2017 and 2018, but it fell again in 2019 (to 22.50 per cent), and there was zero capital inflow in the direction of business with shares. The impact of the COVID-19 pandemic and Nigeria's sluggish economic recovery may be responsible for this tendency. Similar to other industries, the banking sector has significantly benefited from capital inflows, particularly since the 2005 bank consolidation exercise that increased the capital base of banks' deposit money. The year 2020 saw the highest capital inflow, at 38.85 per cent. This encouraging trend further supported the monetary authority's position that an efficient banking system is necessary to mobilize appropriate savings and facilitate significant lending for the core private sector.

In the comparable periods, the financial sector saw considerable capital inflow, which peaked in 2019 at 26.49 per cent before decreasing to 19.62 per cent, still exceeding any previous period from 2010 to 2018. Following closely behind is the services sector, which recorded the highest capital inflow in 2020 at 19.18 per cent and the lowest in 2011 at 0.62 per cent. Like other industries, the telecommunications sector has seen some expansion, especially since the telecom revolution of 2001, which saw an influx of foreign investment and the emergence of companies like Global Com, Airtel, Etisalat, and MTN, among others. This industry's capital imports peaked in 2016 at 17.86 per cent, then fell to zero in 2017 and 2018 before returning to positive growth in 2019 and 2020, respectively. The Nigerian transportation sector attracted the least foreign capital inflow, demonstrating non-proportionality in the rate of capital inflow to total capital inflow into the Nigerian economy. This is evidenced by the fact that it ranges from 0.01 per cent in 2014 to 0.45 per cent in 2012, which is not impressive.

**Conclusion**

The chapter supports the dual-gap hypothesis and other studies in the literature that show a significant long-term relationship between external financing and sustainable development components (economic, social, and environmental sustainability) in Nigeria. This is because, according to the two-gap model, developing economies face savings and foreign exchange gaps, and even if their savings increase, it would not substitute for external financing as they may not have the needed technology to drive long-term development, hence the need for external financing. As earlier pointed out in the literature, studies reveal that external financing components have a mixture of negative and positive impacts on sustainable development. Also, the quest for sustainable development still needs to be addressed, as reflected in the poor SDG performance index (see Tables 1a and 1b). Nigeria is not among the top 10 countries in Africa based on its commitment to achieving its goals. Despite all this, Nigeria is still struggling in the bottom 11 rankings (Tables 2a and 2b). There is a need for the government to examine the cause of the negative implications and make foreign policy and trade reforms to reverse them, then enhance the positive areas of the impact. On the whole, the effect of external financing on sustainable development could be achieved through improvements in the absorptive capacity of the economy, which would affect the quality of human resources, governance, institutions and infrastructure, ensuring macroeconomic and political stability.

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