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THE IMPACT OF FOREIGN LOANS ON NIGERIAN ECONOMY

Joy Achile ACHOR,

Department of Arts and Social Sciences Education Faculty of Education,
Federal University. Lokoja, Nigeria. joy.achor@fulokoja.edu.ng.

&

Sani Mathew EMMANUEL,

Department of Economics Faculty of Social Sciences, Federal University Wukari,
Taraba State, Nigeria. saimathew@fuwakari.edu.ng

Abstract

Foreign loans are external loans that come to Nigeria through the International Monetary Fund as an institution and other international organizations into the Nigerian economy for the purpose of carrying out huge project that requires huge funds, but these funds that come from international, financial institutions or organization do not come without certain conditionalities attached to them and these over the years have made Nigeria to be servicing loans even though most of these Most loans are not tied to any particular project and on other hand, most of these loans find their way into private pockets no thanks to corruption and other sharp practices against these loans. The paper adopted the descriptive research design and depended on the secondary method of data collection and use the liberal institution the theory for it explanation. The paper revealed that foreign loans have provided Nigeria with essential capital for infrastructure, health, and education, helping to bridge the gap between domestic savings and investment. Additionally, sustainable loan management requires transparency, accountability, and strict adherence to debt sustainability frameworks. It is based on this that this paper is suggested that monetary loans should be discouraged and all loopholes that make corruption and stealing of these loans should be blocked through aggressive fight against corruption.

Keywords: *Loan, Borrowing, Debt, Foreign Loan, Nigerian Economy.*

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1. INTRODUCTION

Countries all over the world largely depend on finance to discharge their plans, policy and programmes in order to provide goods and better life their citizens. In Africa over 90 percent of the revenue are sourced for the purpose of achieving quantitative and qualitative transformation to achieve peace, progress and projects for the people. In Nigeria, monies are required to manage the Nigerian economy, create utility and finance the budget to achieve meaningful economy within short, medium and long terms Achieving this especially after the global internal crises arising from the post Covid-19 era is a herculean task, hence governments all over the world fall back on loans, especially loans from foreign governments and organizations which are regarded as external loans. The government of Nigerian over the years sourced majority of its loans externally.

The last two decades have witnessed new and increasing divisions and contradictions within the states and ruling classes of all capitalist countries. How are we to understand these contradictions? The keyword, this paper will argue, is the internationalization of capital. The mystification of this process under the rubric of 'globalization' has only served to obscure the immensity of these contradictions. The particular language used by mainstream approaches (globalization, markets, governance, etc.) form a major obstacle to a critical understanding of the complex and contradictory dynamics of the current restructuring of capital and the state. Through its connotations as a non-contradictory and homogenizing process the term 'globalization' itself serves to mask the increasing inequalities and contradictions associated with the recent internationalization of capital. In this sense, 'globalization' is an ideological term that needs to be demystified and replaced by what it actually refers to: the internationalization of capital. Thus the main reference point of this paper will be the internationalization of capital rather than globalization due to its two basic demystifying connotations. First, the term internationalization implies that the 'national' level still matters in the process both in the sense that national spaces are still relevant for capital accumulation and also because international capital accumulation cannot proceed without nationstates. Second, the emphasis on capital is important as it is basically capital that is internationally mobile in the so-called globalization process. In Alba's words 'globalization is an internationalism only of the capitalist class' (Albo, 1996: 17). State main in relation question that needs to be answered in this context is how to understand the to the internationalization of capital. Is internationalization the current restructuring of states external or consequential on the of capital? What kind of a theoretical framework can help us understand the contradictions in this process? In what follows, I'll discuss the answers given by mainstream approaches to these questions and then go on to suggest an alternative answer in the Marxist framework.

The external loan sourced by the Nigerian Government to fund its economy is through external institution loan mainly from the International Monetary Fund (IMF) which is an international Finance Institution created to make funds available to finance balance of payment deficits which Nigeria is a signatory, to enjoy the encouragement created to co-operation development of international trade and to promote co-operation among member countries like Nigeria on Financial Matter.

Objectives of the paper

The purpose of this paper is to:

i. Examine the impact of foreign loans to Nigeria Economy
ii. Investigate how the Nigeria government can manage foreign loans

The concept to be reviewed in this paper are loan, borrowing, debt, foreign loan and Nigerian Economy

i. Loan: This is a legitimate contractual promise between two parties where one is a creditor and the other is a debtor who promise to provide money in a large sum with a condition to pay back such money on the stipulated agreed period fixed by both the creditor and the debtor (Glali, 2015).
ii. Borrowing: simply put, borrowing is getting or obtaining money on loan for temporary use, which is to be paid back with interest at a price to borrow this fund. There is a thin line between loan and borrowing. This thing line is that loan comes with conditionality while borrowing come with interest (Ande, 2008).
iii. Debt: Debt ordinarily is the amount of money owed by the borrower to the lender. It can also be used to describe the sum of money that is borrowed for a certain period of time and to be paid back to the lender (Lian & Yueran, 2018).
iv. Foreign Loan: This is a loan to or for a government or an institution in another country. Officials opined that Nigeria needs foreign loan to keep its economy going. Most of the foreign loans of Nigeria are gotten from international financial organization called the IMF (Odah & Osaza, 2022).

v. Nigerian Economy: Nigerian economy is that economy that is largely dependent on European and American economy for survival. It is also that o economy that is mono cultural based with large depend on it crude oil as it mainstay even though its population are agrarian in native paravisini, (Rapporport and Phillip 2017).

Theoretical Analysis

The liberal Institutional Theory or institutional Liberalism opined that International Organisation between states is achievable and sustainable because it will help to reduce conflict and competition. With great emphasis on institutional arrangement to initiate corporation and advancement of states at the global arena. James Madison who is the father of this theory argue that global institutions can achieve cooperation from International Organisation for the purpose of solving state problems like the case between International Monetary Fund and Nigeria. Institutional Foreign Loans to Nigeria has provided a means of corporation through the IMF and the activities of IMF in the provision of loans to Nigeria has advance the cause of liberalism to achieve stability at the International arena.

2. THE IMPACT OF FOREIGN LOANS ON NIGERIAN ECONOMY, AN INSTITUTIONAL REVIEW

Without mincing words one o can c conveniently say that no country is free from foreign loan, but the difference between countries is interim of what they do with such foreign loans differ from country to country, that is why by analysis the presenter(s) are of the view that there are positive and negative impact of foreign loans especially as they affect the Nigerian economy. On the positive side, foreign loan has assisted Nigeria to fund and finance growth projects in order to achieve large capital equipment that can be used to facilitate growth and maintain the economic to achieve financial. Liquidity especially as it continue to face budget deficit and paucity of money due to high debt to the GDP ratio in recent time.

However, the positive effected associated with foreign loans to the Nigerian economy allowed Nigeria finance its budget deficit; help in financing huge capital project like the rail project; to meet cost of National emergencies like in the period of Covid 19 epidemic; and also reduce economic burden on tax payers as in providing subsidy for electricity. Foreign loans have assisted the economy in meeting balance of payment disequilibrium, it has aided Nigerian Government to help in servicing other loans that loans if left on have serviced has the capacity to sink the country economically. Foreign loans no doubt have helped Nigerian economy to control fluctuation in the Nigeria National income so as to be able to finance key projects.

Foreign loan from International financial organisations or institutions is not entirely good It has it negative side. It is this negative side that makes people to hate or frown at foreign loans, and some of the negative impact of foreign loan stem from which in caser servicing of loans which h in most cases retard development and economic growth as it put Nigeria under a "tight conner" not to meet its obligation. It reduces the availability of foreign exchange to Nigeria thereby depleting Nigeria's Foreign reserve Foreign loan has made Nigeria not to be able to provide social capital and services for the people and when the loan is huge it negatively affects the distribution of income in the country (Tar, Wapmuk & Ubi, 2020).

Furthermore, a large foreign loan makes huge rate of interest possible and the possibility of this is an high rate of interest and the consequence of this is that private investment on capital goods will reduced drastically which is a minus to the Nigerian economy. Finally, foreign loans from International Monȩtary Fund and other International Organisations has made Nigeria to lose its voice in international politics as Nigeria has been conditioned due to its huge indebtedness to these creditors (Odah & Osaze, 2022).

Foreign aid may be given as a signal of diplomatic approval, or to strengthen a military ally. Other reasons to give foreign aid include to reward a government for behavior desired by the donor, to extend the donor's cultural influence, to provide the infrastructure needed by the donor for resource extraction from the recipient country, or to gain other kinds of commercial access. US Aid may often time buy assistance for American citizens in that nation, alter the course of government laws or something similar in a way that benefits US interests, (Ishwor, 2020).

The economic reasons for giving foreign aid:

a. For humanitarian reasons

b. To improve the country's international image

d. Continue to build positive working relationships with other governments

e. To promote the conditions for peace and stability. Because many governments genuinely believe we'll be safer and happier when everyone else is safe and happy.

The economic arguments for not giving foreign aid:

a. According it back to critics, foreign aid does not promote faster growth but may hold by substituting for domestic savings and investment.
b. The growth of the modern sector is the focus of aid. As a result, it increases the countries gap in like living standards between the rich and the poor in Third World Nigeria.
c. If have the aid given is concerned with unproductive fields or old technology, it will effect of increasing inflation in the country.
d. The most prominent objection is that donor countries interfere with the economic and political activities of the recipient country.

Positive Impact: The effect of foreign aid on growth is the subject of ongoing debate. It is difficult to determine the effect of aid on growth when aid is an integral part of an economy; there are few "experiments" in the level of foreign aid.(Ishwor, 2020).

Galiani et al. (2017) argue that there are points on a nation's growth trajectory at which aid inflows drop because of the rules donors use to select recipient countries. They use the substantial changes in aid around this point to evaluate how aid affects growth, and they conclude that aid has a substantial positive effect (Ishwor, 2020).

Although aid has had some negative effects on the growth and development of most African countries, research shows that development aid, in particular, actually does have a strong and favorable effect on economic growth and development. Development aid has a positive effect on growth because it may actually promote long term economic growth and development through promoting investments in infrastructure and human capital. More evidence suggests that aid had indeed, had a positive effect on economic growth and development in most African countries.

According to a study conducted among 36 sub-saharan African countries in 2023, 27 out of these36 countries have experienced strong and favorable effects of aid on GDP and investments, which is contrary to the believe that aid is ineffective and does not lead to economic development in most African countries. (Ishwor, 2020).

Research also shows that aid per capital supports economic growth for low income African countries such as Tanzania, Mozambique and Ethiopia, while aid per capital does not have a significant effect on the economic growth of middle income African countries such as

Botswana and Morocco. Aid is most beneficial to low income countries because such countries use aid received to provide education and healthcare for citizens, which eventually improves economic growth in the long run (Ishwor, 2020).

Negative Impact: While most economists like Jeffery Sachs holds the view of aid as the driver for economic growth and development, others argue that aid has rather led to increasing poverty and decreasing economic growth of poor countries. Economists like Dambisa Moyo argue that aid does not lead to development, but rather creates problems including corruption, dependency, limitations on exports and Dutch disease, which negatively affect the economic growth and development of most African countries and other poor countries across the globe. (Ishwor, 2020).

Death of local industries: Foreign aid kills local industries in developing countries. Foreign aid in the form of food aid that is given to poor countries or underdeveloped countries is responsible for the death of local farm industries in poor countries. Local farmers end up going out of business because they cannot compete with the abundance of cheap imported aid food, that is brought into poor countries as a response to humanitarian crisis and natural disasters. Large inflows of money that come into developing countries, from the developed world, in a foreign aid, increases the price of locally produced goods and products. Due to their high prices, export of local goods reduces. As a result, local industries and producers are forced to go out of business. (Ishwor, 2020).

Neocolonialism: Neocolonialism is where a state is "in theory, independent and has all the outward trappings of international sovereignty. In reality its economic system and thus its political policy is directed from outside". The political and economic affairs of a state under neocolonialism, is directly controlled by external powers and nations from the Global North, who offer aid or assistance to countries in the GlobalSouth or developing countries. Neocolonialism is the new face of colonialism, which is made possible by foreign aid. Donor countries offer foreign aid to poor countries while bargaining for economic influence of the poor or receiving countries, and policy standards that allow donor countries to control economic systems of poor countries, for the benefit of the donor countries (Ishwor, 2020).

Aid dependency: Aid dependence is defined as the "situation in which a country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding and expertise". Aid has made many African countries and other poor regions incapable of achieving economic growth and development without foreign assistance. Most African economies have become dependent on aid and this is because foreign aid has become a significant norm of systems of international relations between high and low income countries across the globe (Ishwor, 2020).

Corruption: While development aid is an important source of investment for poor and often insecure societies, aid's complexity and the ever-expanding budgets leave it vulnerable to corruption, yet discussing it remains difficult as for many it is a taboo subject. Foreign aid encourages rent-seeking, which is when government officials and leaders, use their position and authority to increase their personal wealth without creating additional wealth, at the expense of the citizens. Most African leaders and official, are able to amass huge sums of personal wealth for themselves from the foreign aid received - they enrich themselves and do not use the aid provided for its intended purpose. Corruption is very hard to quantify as it is often hard to differentiate it from other problems, such as wastage, mismanagement and inefficiency, to illustrate the point, over $8.75 billion was lost to waste, fraud, abuse and mismanagement in the Hurricane Katrina relief effort (Ishwor, 2020).

3. METHODOLOGY

This paper adopt the descriptive design for its discussion. The secondary method of data collection was use to arrive at data used in providing explanation to this paper. This study was carried out in Abuja Federal Capital being the area of study and the choice of Abuja is because Abuja is a melting pot for the headquarter of all administrative activities, which the issue of Foreign Loan falls within and again the Rave IMF, World Bank, etc have their offices in the F.C.T- Abuja.

4. ANALYSIS THE IMPACT OF FOREIGN LOANS ON NIGERIAN ECONOMY

Foreign loans have long played a significant role in Nigeria’s economic trajectory, shaping both development outcomes and fiscal stability. Scholars argue that external borrowing provides governments with needed capital for infrastructural development, balance of payments support, and economic reforms when domestic revenue proves insufficient (Ajayi & Oke, 2012). In Nigeria, foreign loans have often been justified on the grounds of bridging savings and investment gaps, particularly in financing large-scale projects such as road networks, power generation, and health facilities.

However,. Adegbite, Ayadi, and Ayadi (2008) contend that Nigeria's external debt has frequently been mismanaged, leading to inefficiency and poor returns on borrowed funds. Many projects financed through foreign loans either failed to generate expected revenue or suffered from corruption and policy inconsistency. The debt crisis of the 1980s and 1990s underscores how unsustainable borrowing exposed the economy to external shocks and deepened fiscal imbalances (Iyoha, 1999). Okonjo-Iweala and Osafo-Kwaako (2007) note that prudent management of external borrowing is critical to ensuring that loans translate into growth rather than future burdens. Current analyses suggest that though foreign loans enhance capital availability, rising debt servicing obligations crowd out expenditure on education, health, and infrastructure, thus undermining long-term development (Onyekwena & Ekeruche, 2019).

According to Ajayi and Oke (2012), the government must adopt a borrowing strategy that prioritizes concessional loans with low interest rates and long repayment periods, while avoiding excessive reliance on commercial debts that heighten repayment risks. Debt sustainability analysis should guide all borrowing decisions to ensure loans remain within manageable thresholds relative to GDP and export earnings (Onyekwena & Ekeruche, 2019).

Transparency and accountability are equally vital. Adegbite, Ayadi, and Ayadi (2008) stress that external borrowing must be tied to projects with clear economic returns, particularly in infrastructure, energy, and human capital development. Strong monitoring and evaluation mechanisms can prevent diversion of funds and ensure timely project completion. Okonjo-Iweala and Osafo-Kwaako (2007) further highlight that institutional reforms in public financial management, including stricter debt recording and reporting systems, are necessary to minimize mismanagement.

5. FINDINGS OF THE STUDY

The findings made by this paper is;

Findings reveal that foreign loans have provided Nigeria with essential capital for infrastructure, health, and education, helping to bridge the gap between domestic savings and investment. However, the benefits have been undermined by mismanagement, corruption, and policy inconsistency. Many loans did not generate expected returns, resulting in a cycle of debt accumulation and repayment challenges (Adegbite et al., 2008; Iyoha, 1999). Rising debt servicing obligations have also diverted resources away from critical development sectors.

Thus, foreign loans present both opportunities and risks, with outcomes largely shaped by governance quality and fiscal prudence.

The finding also indicated that sustainable loan management requires transparency, accountability, and strict adherence to debt sustainability frameworks. Loans should be tied to productive projects with measurable returns to strengthen repayment capacity (Ajayi & Oke, 2012). The paper emphasize the importance of prioritizing concessional borrowing while reducing reliance on high-interest loans (Onyekwena & Ekeruche, 2019). Effective monitoring systems, coupled with stronger institutions, will ensure funds are used efficiently. Furthermore, diversifying the economy to boost non-oil revenues will reduce dependence on external borrowing. Therefore, prudent fiscal discipline and strategic economic planning remain crucial for managing Nigeria's foreign loans.

6. CONCLUSION AND RECOMMENDATIONS

Foreign loan is not bad in it entirety, but the inability of these loans to pay back itself is one that makes it bad and perceived to be evil, meaning that Nigeria really need to re-appraise the nature that guide their quest for these loans it is on this premise that this paper is suggesting that.

i. Nigerian Government should desist from seeking monetary loan alone, rather the loans the government of Nigeria should be on direct capital projecting funding from the creditor organization.
ii. There should be aggressive fight against corruption as most of these monetary loans are often stolen by those in authorities, to curb this stiffer penalties such as death sentence is recommended for those who are found guilty of corruption.

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