

# Impact of Disaggregated External Debt on Economic Growth in Ecowas Member States (1993 – 2023)

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**Abstract:** After about three decades of IMF debt relief initiatives for the Heavily Indebted Poor Countries (HIPC) in 1996, economic growth in Africa has remained elusive. Debt accumulation rises against the backdrop of low revenue capacity. This rapid debt accumulation has not always translated into robust economic growth in the region. This study examined the impact of disaggregated external debt on economic growth in ECOWAS member states from 1993 to 2023. The study extensively covers the period of significant economic shock, such as the 2018 global financial shock, COVID 19, and the persistent geopolitical crisis. The objectives were to empirically determine the impact of external debt, multilateral debt, Bilateral debt, Official development assistance (ODA) and External debt servicing on economic growth in the ECOWAS Region during these periods. To eliminate obvious errors in related study, this study uniquely adopted the PMG (Pooled Mean Group) ARDL model, which stands out due to its robust capabilities to address long term impact and the speed of adjustment from the short run equilibrium while ensuring the reliability and validity of the results. The study also employed pre-tests, such as the ADF and PP stationarity tests, the causality test, and the co-integration test, to ensure the reliability of the estimates. Also, post-estimation tests for normality and cross-section dependence were employed in the study. The key finding from the ARDL analysis was the presence of a stable long-run equilibrium, as evidenced by a significant and negative error correction term, indicating that the system corrects for short-term deviations and converges back to its long-term relationship. The result of the long-run regression estimate revealed that only ODA has a statistically significant long-run impact, although the magnitude of this effect is negligible. The insignificant negative impact of EDS on long-term growth suggests that current debt repayment policies are not a major drag on the economy. Additionally, the short run analysis revealed that none of the variables are statistically significant. This indicates long term policies are imperatives for debt management. The study recommended that the ECOWAS government should collaborate with development partners to align ODA with national development plans. Funds should be targeted at sectors with high multiplier effects to ensure that ODA translates into tangible economic gains. Also, policymakers should implement prudent and sustainable debt management strategies by negotiating for more favourable loan terms, exploring debt-restructuring options, and boosting domestic revenue to reduce reliance on external borrowing, thereby securing long-term economic stability.

**Keyword:** External debt, Economic growth, ECOWAS, Official development assistance (ODA).

## CHAPTER ONE: BACKGROUND TO THE STUDY

### 1. INTRODUCTION

External debt has historically been a vital, albeit intricate, element of finance for countries globally, especially for emerging nations. From a global standpoint, debt can function as an essential instrument for economic advancement, allowing nations to finance extensive initiatives, such as infrastructure development, education, and healthcare, that would otherwise be unfeasible to support only through domestic income. As noted by IMF, the judicious utilization of foreign borrowing can result in augmented productivity, im-

proved competitiveness, and eventually, higher economic growth (IMF Annual Report, 2024). Nonetheless, the accumulation of debt poses considerable obstacles. External debt is susceptibility to external shocks, if inadequately managed, it can result in macroeconomic instability which ultimately hinders the growth it was intended to promote (UNCTAD, 2024). The United Nations has persistently expressed apprehensions regarding escalating debt levels, highlighting that more than 40% of individuals in extreme poverty inhabit nations facing significant debt difficulties (United Nations, 2023). Research indicated that the majority of low-income countries (LICs) with minimal export earnings and revenue bases were significantly indebted. This intensified following the initiation of the Heavily Indebted Poor Countries (HIPC) embedded in the debt relief framework established by the World Bank and International Monetary Fund (IMF) in 1996. Despite debt cancellation and reliefs granted to most African countries, debt level in the region deepens especially

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among non-fuel-exporting African countries and those with a limited tax base. A 2023 study by the United Nations indicated that substantial debt burdens can lead to a "debt trap," wherein nations allocate resources intended for important public services and investments towards debt repayment, hence exacerbating their growth potential (United Nations, 2023). This vicious cycle can render it exceedingly difficult for a nation to escape poverty and attain sustainable growth.

Globally, external debt has escalated in recent years attaining a historic record of \$102 trillion in 2024. This growth underscores a troubling trend. While industrialized economies can typically endure elevated debt levels owing to their resilient financial systems, the developing nations like ECOWAS countries, are more susceptible to exchange rate volatility, escalating interest rates and economic disruptions (UNCTAD, 2024). The ECOWAS regional debt-to-GDP ratio in the last ten years increased significantly from 47.3% in 2014 to 71.2% in 2024, while the debt servicing ratio stood at 49.4% in 2024. This implies that most countries in the region use more than 40% of their revenue to service debt, leaving very little resources for developmental needs. This has been a significant source of apprehension for the region in its pursuit of debt sustainability and economic convergence. This study examined the impact of disaggregated external debt on economic growth in ECOWAS member states covering an extensive period of post IMF(HIPC) initiative in 1996, the 2018 global financial crisis and post Covid 19 pandemic. The rise in ECOWAS state debt was driven by the necessity to fund developmental initiatives and as economic stimulus for economic stabilization. Despite the massive borrowings, economic growth still remains elusive in the ECOWAS region. Public debt rose remarkably, from USD 34.6 billion in 2000 to USD 296.8 billion in 2022. At the end of year 2022, all Member States experienced an escalation in their debt-to-GDP ratios. Five Member States—Cabo Verde, The Gambia, Ghana, Guinea-Bissau, and Sierra Leone—exceeded the 70 percent debt-to-GDP threshold established by the IMF and ECOWAS, while Senegal and Liberia approached this limit (WADO, 2023). The ECOWAS community comprises of 15 African nations founded on May 28, 1975, with a declared objective of attaining collective self-sufficiency and fostering economic integration within the area. ECOWAS comprises two sub-regional blocs: the West African Economic and Monetary Union (WAEMU), sometimes referred to by its French abbreviation UEMOA, and the West African Monetary Zone (WAMZ). The WAEMU was established in 1994, with nine predominantly French-speaking nations within ECOWAS that maintain a customs union and a currency union, the CFA franc. They comprise Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. The West African Monetary Zone (WAMZ), formed in 2000, consists of six predominantly English-speaking nations within ECOWAS: Nigeria, Ghana, The Gambia, Guinea, Liberia, and Sierra Leone. They intend to pursue the adoption of their own shared currency, "the eco." ECOWAS functions in three co-official languages: French, English, and Portuguese. The Sahel states (Mali, Burkina Faso, and Niger) officially withdrew from the ECOWAS union on January 30, 2025. Nonetheless, these states were still members of the union as at the time of this study and thus, were duly captured in the study.

### 1.1. Public Debt in Ecowas

Rising debt ratios have accompanied the recent wave of fiscal deficit pressure in ECOWAS countries. Despite many ECOWAS countries receiving debt forgiveness during the Multilateral Debt Relief Initiative (MDRI) in 1996, public debts have increased more than fourfold in the past three decades. Yet, economic growth is still elusive in the region, as most countries are still heavily indebted and rapidly slipping back into a colossal debt burden and debt overhang. In the aftermath of the Global Financial Crisis of 2008-09, public debts have increased dramatically, rising by 22.2% to a value of US\$ 89 billion in 2010. This has doubled, rising by over 95% to US\$177.5 billion in 2015. Debt level further deepened by 44.2% to reach US\$256 billion in 2019. By 2024, total public debts in ECOWAS were estimated at US\$425 billion, a 40% increase in public debt, which followed the massive borrowing of governments to alleviate the negative effects of COVID-19. Nigeria, Ghana, Côte d'Ivoire, and Senegal were the largest borrowers in the region, with total debt levels of US\$130.70 billion, US\$42.81 billion, US\$24.13 billion, and US\$16.09 billion, respectively, in 2019. Their 2020 estimates show an increase of 15.2%, 24.7%, 16.3%, and 6.6% to US\$150.5 billion, US\$53.4 billion, US\$28.1 billion, and US\$16.1 billion, respectively (WADO, 2023). Nigeria alone accounts for over 45% of total debt in the region. Public debt in Nigeria between 2005 and 2020 increased by 368.5%; Ghana by 536.9%; Cote d'Ivoire by 104.3%; Senegal by 304.3%; and more than doubled for many other ECOWAS countries over the period.

The total public debt in WAEMU rose to 57.6% of GDP in 2022 from 54.5% in 2021. In the WAMZ, public debt stock stood at 30.3% of GDP at end of 2022 compared to 30.0% of GDP in 2021 (WAMA, 2023). For countries in a monetary union, for instance, the WAEMU, the issue of rising members' public debt is a source of concern, particularly the impact of a negative spill over on the rest of the countries in the union. There are strong opinions that national governments might respond to rising public debt by taking stringent measures that negatively affect some macroeconomic variables over time. (EKPO, 2012). For economic integration and eventually monetary union to be sustainable, ECOWAS must ensure fiscal prudence in the management of its economies. The foregoing concerns have heightened the interest of regional policymakers in debt management.

The debt service to revenue ratio has been a major source of concern in the region. The region's averages for debt servicing ratio in 2019 stood at 45.4% but fell to 42.7% in 2021 due to the region's inability to generate revenue to service debt. Countries such as Nigeria, Niger, Gambia, Ghana, Togo, and Guinea-Bissau have debt service to revenue ratios of over 50% between 2017 and 2020. Burkina Faso accounted for the highest total debt services to GNI ratio of 12.6%, followed by Cote d'Ivoire at 4% and Ghana at 3.6% in 2020. These ratios rose sharply in the year 2022, with Ghana and Cabo Verde averaging over 4% of their total debt service to GNI (IMF Debt Management Roundtable, 2022). This implies that these countries spend over half, and in some cases around one hundred percent of government revenue in paying interest on debts and have barely anything left to finance

their developmental needs. This has been the crux of public debt concern for ECOWAS countries. This study aims to empirically examine the impact of external debt, multilateral debt, bilateral debts, ODA and external debt servicing on economic growth in the region. This study intends to deliver evidence-based guidance for sustainable debt management, while making a notable contribution to academic discourse on the debt-growth nexus particularly in ECOWAS context. This research work is structured into five chapters. Chapter one highlights the background to the study, while chapter two discusses the theoretical and literature review. The methodology of the study was captured in chapter three, while the data analysis and results were interpreted in chapter four. Finally, the summary, conclusion, and recommendation were presented in chapter five.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2. INTRODUCTION

There have been long debated by various schools of thought on the debt-growth nexus from the classical school of thought to the Modern school of thought. These various school asserts that governments, like households, faces budget constraint over their entire planning horizon. This implies that government will need to borrow to finance its developmental needs. The impact of increased borrowing on aggregate demand, Output, Savings and Investment has raised various controversies. Some school of thought advocate that public debt is an unproductive use of capital and a drain on the nation's productive capacity-typically, the works of Adams Smith. Other school of thought most notably the Keynesian, challenged this, stating that debt-financed fiscal expansion can stimulate the economy through aggregate demand. While the modern school of thought considered the stock of public debt, and concluded that the impact of inter-generational transfers of wealth and burdens occurs through fiscal policy. They argue that perpetual accumulation of debt remains a burden to the future generations through higher taxes, and eventually would lead to financial ruin or inflation, and would ultimately stiffens economic growth. The theoretical debates on the effects of public debt on economic growth were heighten during the 1940s and 1950s, particularly in the aftermath of World War II. The Keynesian view, in his seminal work titled "*The General Theory of Employment, Interest and Money*" published in 1936, became the dominant economic paradigm that sort to address the aftermath of the Great Depression, which provided the intellectual framework for post-war economic policies, aimed at maintaining full employment and stabilizing economic activity. Keynesian theory faced various criticism which triggered various literature on the debt -growth nexus. A large number of empirical papers find that the relationship between debt and growth is linear, while others found a non-linear relationship, which has been characterized by the presence of a threshold above which debt starts having a negative effect on economic growth. One of such prominent literature is the works of Reinhart and Rogoff (2010) titled "Growth in a Time of Debt" which found the non-linear threshold effect of

debt on economic growth. This triggered an emergence of new literature on the debt/growth nexus, which became widely cited and influential among academics, policymakers, and debaters in discussions surrounding austerity and fiscal policy in debt-burdened countries. Various authors sort to give answers to a wide variety of questions on debt growth nexus such as Does government debt matter for economic activity? Can a government sustain its current fiscal policy trajectory without defaulting or resorting to hyperinflation? What is the true long-term cost of government borrowing? Are there non-linear threshold levels beyond which debt hinders economic growth? *etc.* Moreso, the recent global economic shocks have generated a lot of debates and literatures on its impact to the global economy. More especially as the composition of external creditors, has moved from the traditional official bilateral creditors ("Paris Club" members) and multilateral creditors to non-traditional official bilateral and commercial creditors (such as Eurobond investors). This chapter deals extensive on the theoretical postulation on debt and various research works on debt and growth nexus.

#### 2.1. Conceptual Review

The major concepts in the study are as follows

##### 2.1.1. External Debt

The concept of debt is 'notoriously ambivalent' (Nygard, 2020), and countries incur debt by borrowing (Hakura, 2020). External debt refers to the total amount of debt that a country owes to foreign creditors, including private commercial banks, governments, or international financial institutions. This debt is typically denominated in foreign currency and must be repaid under specified terms and timelines. According to the International Monetary Fund (IMF), external debt is "the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non-residents by residents of an economy" (IMF, 2003). External source, could be grouped into Official and Private debt sources. The official debt consists of the Paris club debt, the multilateral debts and the bilateral debts. The Private debts is made up of uninsured short-term trade arrears contracted through the medium of bills for collection, open account, and commercial bank debts acquired through loans/letters of credit. External debt includes short term debts, such as trade debts which mature between one or two years, or whose payment would be settled within a fiscal year in which the transaction is conducted. Other sources of external debt include banks, international financial market (euro money and capital markets), international organizations, example, IMF and the World Bank international loans and multilateral private loans. The advanced industrialized countries are usually the lender-countries; Europe, Asia (Japan) and North America, while the borrowing countries are majorly the poor, under-developed countries in Africa, Asia and Latin America. External loans are majorly for development purposes, to facilitate industrial progress, rebound in economic activity after setbacks such as COVID 19. The ultimate objective is to increase the standard of living of the generality of the people.

### 2.1.2. Multilateral Debt

Multilateral debt refers to external debt owed by a country to international financial institutions such as the International Monetary Fund (IMF), World Bank, or regional development banks. These debts are typically provided on concessional or non-concessional terms to support development or stabilize economies. The multilateral debts are projects loans owed to multilateral financial institutions such as; the World Bank Group, the Africa Development Bank Group, the European Investment Bank Group, IFAD etc. They provide loans or credits to countries, often with the goal of promoting economic development, stability, or crisis resolution. The IMF-World Bank provide financing in various forms which includes multilateral loans, Grants, Aids, and concessional borrowing such as the Official Development Assistance (ODA), International Development Association (IDA), Special Drawing Rights (SDR), Extended Fund Facility (EFF), the Standby Credit Facility (SCF), the Precautionary and Liquidity Line (PLL), the Short-Term Liquidity Line (SLL), the Rapid Financing Instrument (RFI), the Flexible Credit Line (FCL), the Extended Credit Facility (ECF), the Stand-By Arrangement (SBA), the Rapid Credit Facility (RCF), and the Resilience and Sustainability Facility (RSF). These are provided with the aim of promoting economic development and reducing poverty typically in low-income or middle-income countries. In 2022 Ukraine received a significant amount of ODA due to the ongoing conflict (OECD/WTO, 2023). Also between 2011 and 2021, IMF provided IDA for essential health services to about 974.9 million people across the global, and also connected 71.5 million people to new or improved electricity services. IDA has been used to improve access to education, with 14 million teachers recruited and/or trained between 2011 and 2019 (IDA, 2024). In Africa, some of the countries that receive IDA support include Cabo Verde, Central African Republic, Chad, Comoros, and Congo, among others. In East Asia, countries like Cambodia, Fiji, Kiribati, and Lao People's Democratic Republic received IDA support. In South Asia, countries like Afghanistan, Bangladesh, Bhutan, and Maldives were eligible for IDA support. Various IMF-World Bank concessional loans are extended to developing countries to support developmental projects and economic growth. IMF 2024 report reveals that IMF approved financial assistance to Benin with a loan of 148.56 million Special Drawing Rights (SDR), under the Resilience and Sustainability Facility (RSF). Also Burkina Faso received a loan of 228.76 million SDR under the Extended Credit Facility (ECF). (IMF Annual Report, 2024). Other African countries that received concessional loans from the IMF in 2024 include Burundi, Cabo Verde, Cameroon, Comoros, Côte d'Ivoire, Egypt, Gambia, Ghana, Guinea-Bissau etc. These loans were provided under various facilities, such as the Extended Fund Facility (EFF), the Standby Credit Facility (SCF), the Precautionary and Liquidity Line (PLL), the Short-Term Liquidity Line (SLL), the Rapid Financing Instrument (RFI) etc.

### 2.1.3. Bilateral Debt

Bilateral debts are usually negotiated directly between two countries and may involve concessional financing for

development projects. The advanced industrialized countries such as the USA, China, Japan, Germany, United Kingdom are usually the lender-countries in a bilateral arrangement. For instance, the China's Belt and Road Initiative (BRI), which often entails lending to sovereign borrowers to fund infrastructural development. In the last 20 years, China became Africa's main bilateral partner, offering loans surpassing \$150 billion (Olande, 2020). In December 2020, China granted a loan of \$500 million to Nigeria, for the modernization of (Idu-Kaduna) Railway, also in 2025 China completed the Army Recruit Training School at Shai Hills in Greater Accra, Ghana. These projects loans have less stringent conditions to access but are associated with high risk and laced with complicated repayment terms. Critics argue that China's loans may lead to economic dependency, trapping African countries in perpetual debt cycles, and raising uncontrollable debt levels (Olande, 2020).

### 2.1.4. Economic Growth

Economic Growth is that part of economic theory that explains the rate at which a country's economy grows over time. It is usually measured as the annual percentage rate of growth of the country's major national income accounting aggregates, such as the Gross National Product (GNP) or the Gross Domestic Product (GDP), with appropriate statistical adjustments to discount for price inflation. The concept of economic growth has been rigorously dealt with by various theories in economics. The classical theory of economic growth of the 18th and 19th centuries, primarily through the works of Adam Smith (1776), David Ricardo (1817), and Thomas Malthus (1798) posits that economic growth is driven by the interactions of several key factors, including population growth, technological progression, and the accumulation of capital. This theory has remained an important influence on modern economic thought and policy despite its criticism. Various thoughts on economic growth have emerged over the years.

## 2.2. Theoretical Review

### 2.2.1. Classical debt theory of Smith (1776)

The primary proponent of this classical view is Adam Smith (1776), particularly articulated in Book V, Chapter III of *The Wealth of Nations*, titled "Of Public Debts." Smith's fundamental statement regarding public debt is that, it is an unproductive use of capital and a drain on the nation's productive capacity. He argued that when governments borrow, they divert capital that would otherwise be used for productive investment by individuals and businesses, into unproductive government expenditures, such as financing wars (Smith, 1904). He believed that the accumulation of debt led to a "perpetual accumulation of debt" that burdened future generations through higher taxes and eventually led to financial ruin or inflation, ultimately stifling genuine economic growth fuelled by productive capital. Implicit in Smith's view is a classical notion that savings directly translate into investment. If the government absorbs savings through borrowing, it diverts these funds away from their most productive use in the private sector. This is a precursor to the "crowding out" effect in later economic thought.

He advocated for taxation as the primary means of financing public services, believing it fostered greater accountability and discipline (Smith, 1904). Smith's classical debt theory has faced both historical and modern criticism, yet its core insights retain significant relevance. The most significant criticism came from John Maynard Keynes (1936), who argued that in times of high unemployment and underutilized resources, government borrowing could be productive. Keynes contended that government spending financed by borrowing could stimulate aggregate demand, lead to increased employment and output, and effectively "crowd in" private investment rather than crowding it out, especially if private saving was already high and investment opportunities scarce. Critics argue that not all government spending is unproductive. Public investments in infrastructure (roads, ports), education, healthcare, and research and development can enhance a nation's productive capacity and generate future economic growth, potentially making debt-financed spending beneficial (Stiglitz, 2000). Smith largely focused on domestic capital. In a globalized economy, governments can borrow from abroad. While this still creates a future servicing burden, it doesn't necessarily reduce the domestic capital available for private investment in the same way, though it can lead to external debt sustainability issues (Obstfeld & Rogoff, 1996). Despite the criticisms and the evolution of economic thought, Smith's classical debt theory remains remarkably relevant: Smith's core message about the dangers of unchecked public debt continues to resonate.

### 2.2.2. Ricardian Equivalent Theory of Barro in the 1970s

The Ricardian Equivalence Theory, prominently championed by Robert J. Barro in his highly influential 1974 paper, "Are Government Bonds Net Wealth?", stands as a cornerstone of modern macroeconomic thought concerning public finance. This theory posits that, under certain conditions, a government's choice to finance a given level of spending through current taxation or through issuing debt is irrelevant to the real economy. In essence, if the government cuts taxes today and finances this cut by issuing debt, rational households will not increase their consumption. Instead, they will recognize that the debt implies higher future taxes to repay it and will save the tax cut to meet those anticipated future liabilities. Therefore, government bonds are not seen as net wealth by the private sector, as their asset value is perfectly offset by an equal and opposite future tax liability (Mankiw, 2020).

This theoretical development is often seen as an extension of the Intertemporal Government Budget Constraint, which asserts that the present value of government spending must equal the present value of its revenues over time, a principle that individuals are assumed to internalize (Elmendorf & Mankiw, 1999).

The Ricardian Equivalence directly challenges the traditional Keynesian view that tax cuts financed by borrowing can boost aggregate demand and consumption (Keynes, 1936). If Ricardian Equivalence holds, a tax cut financed by debt would merely lead to an increase in private saving, perfectly offsetting the increase in public dissaving (government borrowing). This implies that the method of financing gov-

ernment spending (taxes vs. debt) has no real effect on aggregate consumption, investment, or the overall level of economic activity (Barro, 1974).

Despite its theoretical elegance, the Ricardian Equivalence Theory has faced significant criticisms regarding its real-world applicability. Perhaps the most common critique centers on the unrealistic nature of its underlying assumptions (Mankiw, 2020). Nevertheless, the Ricardian Equivalence Theory retains considerable relevance in modern economic discourse. It serves as a crucial benchmark for understanding the potential limits of fiscal policy. It underscores the fundamental truth of the IGBC, emphasizing that government borrowing is ultimately a deferred tax liability and cannot be sustained indefinitely without future fiscal adjustments. The theory remains a central tenet in debates about fiscal sustainability, the long-term burden of public debt, and the importance of transparent and consistent fiscal policies to manage public expectations (IMF, 2023).

### 2.2.3. Debt Overhang Theory of Myers (1977)

The Debt Overhang Theory primarily articulated by Stewart C. Myers, in his seminal 1977 paper, "Determinants of Corporate Borrowing," posits that a large outstanding debt burden can act as a disincentive for a firm or, by extension a sovereign nation, to undertake new or otherwise profitable investment projects. The core argument is that when countries existing debt is so large, a significant portion of the returns from any new investment will accrue to its existing creditors (bondholders or lenders). This leads to underinvestment and suboptimal economic outcomes, even when viable investment opportunities exist (Myers, 1977).

The theory was initially developed in the context of corporate finance but has gained significant traction in international finance to explain underinvestment and stagnation in highly indebted developing countries (Krugman P., 1988) and (Sachs, 1989).

The Debt Overhang Theory primarily addresses the problem of underinvestment and economic stagnation in entities burdened by excessive debt. Both domestic and foreign investors become reluctant to commit new capital because they perceive that a significant portion of the returns from their investments would simply go towards repaying the country's existing creditors. This creates a "moral hazard" problem from the perspective of creditors. The lack of new investment leads to lower capital accumulation, hindering productivity growth, job creation, and overall economic expansion. This can trap highly indebted countries in a cycle of low growth and persistent debt burden. Governments of highly indebted nations might be reluctant to undertake necessary reforms or make public investments that could enhance long-term growth, fearing that the benefits would largely accrue to external creditors through improved debt servicing capacity, rather than to the domestic population. The theory provides a strong rationale for debt relief or restructuring. If a country's debt overhang is preventing it from growing, then reducing the debt burden can create incentives for new investment and ultimately improve the country's ability to repay a *smaller*, more sustainable amount of debt (Sachs, 1989). Economists like Paul Krugman (1988) and Jeffrey Sachs (1989) famous-

ly applied the debt overhang concept to argue for debt reduction for developing countries in the 1980s and 1990s. The theory informs the design of debt sustainability frameworks used by international financial institutions like the IMF and World Bank. It underscores the importance of maintaining debt at sustainable levels to avoid stifling growth and development.

#### 2.2.4. Keynesians Theory

Keynesian economics, spearheaded by John Maynard Keynes with his seminal work *The General Theory of Employment, Interest and Money* published in 1936, became the dominant economic paradigm during the 1940s and 1950s, particularly in the aftermath of World War II. While Keynes's initial work addressed the Great Depression, his theories provided the intellectual framework for post-war economic policy aimed at maintaining full employment and stabilizing economic activity. The core tenet of Keynesianism is that aggregate demand that is, the total spending by households, businesses, and the government is the primary driver of economic output and employment in the short run (Mankiw, 2020). Unlike classical economists who believed markets would naturally self-correct to full employment, Keynes argued that economies could settle in an underemployment equilibrium where unemployment persists due to insufficient demand. Consequently, Keynesian theory advocated for active government intervention through fiscal and monetary policies to manage aggregate demand and moderate the business cycle, preventing severe booms and busts. The theory asserts that output and employment levels are determined by the level of aggregate demand, when aggregate demand is low, firms reduce production and lay off workers, leading to a recessionary gap. The crucial implication, widely adopted by policymakers in the post-war era, was that governments have a vital role to play in stabilizing the economy. This involved using expansionary fiscal policy (increasing government spending or cutting taxes) to boost demand during recessions and contractionary fiscal policy (decreasing government spending or raising taxes) to cool down an overheating economy and prevent inflation. This marked a significant departure from the classical laissez-faire approach.

Keynesian theories faced significant criticism, particularly in the 1970s with the emergence of "stagflation"—a period characterized by simultaneous high inflation and high unemployment. This phenomenon directly challenged the Keynesian assumption of a stable Phillips Curve, which suggested a trade-off between inflation and unemployment. Critics, notably from the monetarist school led by Milton Friedman, argued that Keynesian fiscal policies could lead to long-run crowding out of private investment if financed by borrowing, and that excessive monetary expansion to stimulate demand would primarily result in inflation without sustained real output gains (Friedman, 1968). New classical economists further challenged Keynesian assumptions, emphasizing rational expectations and market efficiency, suggesting that anticipated government interventions would be offset by private sector behaviour (Lucas, 1972). Despite these substantial criticisms, Keynesian theory retains immense relevance in contemporary economics. The global

financial crisis of 2008 and the COVID-19 pandemic response saw a significant resurgence of Keynesian policy prescriptions, as governments worldwide engaged in massive fiscal stimulus to combat severe economic downturns. The theory's focus on aggregate demand and the potential risk for market failures, which will lead to persistent unemployment. The fundamental Keynesian insight that active government intervention can be necessary and effective in stabilizing the economy continues to inform policy debates and responses to economic crises globally.

#### 2.2.5. Dual-gap Theory

The Dual-Gap Theory, primarily associated with Hollis B. Chenery and his collaborators, particularly in the 1960s. (Chenery & Bruno, 1962) and (Chenery & Strout, 1966) emerged as a prominent framework in development economics to explain growth constraints in developing countries and to justify the role of foreign aid. The theory posits that a developing economy's growth rate is constrained by one of two fundamental "gaps": either a savings-investment gap or a foreign exchange gap. The core statement of the theory is that economic growth in a developing nation is limited by whichever of these two gaps is larger, and foreign aid can be used to fill the dominant gap, thereby enabling higher rates of investment and growth that would otherwise be impossible (Chenery & Strout, 1966). This theory played a crucial role in justifying large-scale foreign assistance programs in the post-World War II era. The ECOWAS region deficiency in domestic savings relative to the investment need, provides a rationale for external borrowing. More so, African countries are majorly import-dependent and may require huge foreign currency to finance essential import and capital goods. Foreign aids like the ODA, IDA, SDR etc can supplement domestic savings or providing foreign exchange, thereby bridging these gaps, thus allowing the economy to reach a higher growth path. The Dual-Gap Theory fundamentally addresses the challenge of economic development and growth in low-income countries and the role of foreign aid in overcoming structural impediments.

#### 2.3. Empirical review

Various authors debated on both the Classical and Keynesian thoughts on public debt, citing various reasons for the variant effects. Most notably are the works of Hansen (1959), who reported that higher debt can trigger higher private saving, less incentives to work and invest, especially for the owners of the government bonds and a negative incentive to growth due to additional taxes needed to pay the debt service (Hansen, 1959). Also, the works of Modigliani (1961) stated that public debt can crowd out private investment, by reducing credit to the economy or by raising long-term interest rates on public borrowing (Modigliani, 1961). Both Keynesian and classical views have been summarized in what is known as the "conventional analysis" of the effects of government debt. This reflects the dominant paradigm among economists and policy-makers. Using the Dynamic System Generalised Method of Moments estimation technique to examine the effect of external debt on economic growth in thirty selected Sub-Saharan Africa, Manasseh et al (2022) found that external debt and external debt volatility

have a negative and significant impact on economic growth in SSA. Furthermore, the interaction of governance indicators, external debt and its volatility, had a positive impact on economic growth in SSA. This study recommends that SSA government should endeavour to avoid excessive external debt to promote the regions' capacity to invest in her financial prospects, and to circumvent the danger of repayment of loans using her small income (Manasseh, et al., 2022). In a related study, by employing four estimation techniques which include the Pooled Ordinary Least Squares (POLS), Fixed Effect Model (FEM), Random Effect Model (REM) and Panel Corrected Standard Errors (PCSE) techniques, Tarawalie and Jalloh (2021) examined the threshold effect of external debt and economic growth nexus in the fifteen ECOWAS countries. Their empirical results suggest that external debt (ED), Openness to trade (Opn) and Control of Corruption (CoC) are the main determinants of economic growth in the ECOWAS countries. Specifically, openness has a positive effect on growth, while both external debt and control of corruption have negative impact on growth. Furthermore, the study reveals evidence of a nonlinear relationship between external debt and real GDP, and confirms that the optimal threshold level of external debt in the ECOWAS countries is 111%. Intuitively, the result indicates that any increase in external debt above 111% will reduce growth in the ECOWAS countries by 0.0001% while below the threshold level, economic growth will improve by 0.0222% (Tarawalie & Jalloh, 2021). Another study was conducted by N'zue (2020), he examined whether external debt hampers growth in the ECOWAS region during 1980-2017. The study employed dynamic panel data analysis using System GMM estimator to address endogeneity concerns, with data from World Bank, IMF, and ECOWAS Commission databases. The methodology included Arellano-Bond tests and Hansen over-identification tests. The results showed that total external debt had significant negative long-run impacts on GDP per capita growth ( $p < 0.01$ ), multilateral debt was less harmful than bilateral debt ( $p < 0.05$ ), while debt overhang created significant growth-reducing effects ( $p < 0.01$ ). The study concluded that external debt significantly hampers economic growth in ECOWAS through debt overhang mechanisms and diversion of resources from productive investments to debt servicing (N'zue, 2020). Similarly, Olusola et al (2024) used a PARDL model to ascertain the correlation between Public Debt, Corruption Control and Economic Development in ECOWAS Countries. They found evidence of both short and long-run symmetric relationships between domestic debt and real GDP with and without corruption control. Comparatively, domestic debt has a positive and negative nexus with real GDP in the short and long run, respectively, while corruption control maintains a significant positive association (Olusola et al., 2024). Investigating the relationship between debt and economic growth, Abubakar and Mamman (2020) employ a two-stage least squares regression to estimate a decomposed model examining the effects of public debt on economic growth in 37 OECD countries. The approach of this study is unique among the literature, in that the authors examine the permanent versus transitory effects of public debt on economic growth. The findings reveal that public debt exerts a significant negative permanent and positive transitory effect on economic growth. The magnitude of the negative permanent effect of debt was found to be larger

than the positive transitory effect. In addition, while all country groups experienced negative permanent effects, not all country groups experienced positive transitory effects (Abubakar & Mamman, 2020). Asteriou et al (2020) also examined the relationship between public debt on both short- and long-run economic growth in 14 Asian countries for the period of 1980–2012. Using an ARDL model and a mean group (MG) estimator to allow for heterogeneity in the short-run and long-run relationship. To overcome omitted variable bias, control variables such as average years of schooling, trade openness, and investment ratios are included in the model. The study revealed that a 1 percentage point increase in the government debt-to-GDP ratio will lower economic growth by 0.012 to 0.125 percentage points. In the long run, the magnitude of the two different regimes is somewhat higher in the region of  $^{\wedge}0.091$  to  $^{\wedge}0.132$  percentage points indicating that an increase in public debt will lead to a significant adverse effect on economic growth (Asteriou, Pilbeam, & Pratiwi, 2020). Another study associated with Pegkas et al., (2020), investigated a time series analysis with a fully modified least squares approach on 12 eurozone countries for the period 1995 to 2016. The study found that there is a negative long-run effect of public debt on growth. Furthermore, the results indicated that there is long-run unidirectional causality running from investment, trade openness, and human capital to growth and bidirectional causality between public debt and growth. The authors recommend that eurozone countries should base their growth strategies on fiscal consolidation (Pegkas, Staikouras, & Tsamadias, 2020). Related research by Wosoweil (2013), investigated the impact of deficit financing on macroeconomic aggregates for the period 1980 – 2010. The study used OLS regressions and Engel Engle-Granger co-integration approach to estimate the models. The study showed an insignificant negative relationship between deficit financing and economic growth. The Engel-Granger co-integration shows a bi-directional relationship between deficit financing and economic growth. The study did not incorporate the effect of deficit financing on inflation or the simultaneous effect of deficit financing on economic growth and inflation (Wosoweil, 2013). Also, Nwanna and Umeh examined the effect of deficit finance on Nigeria's economic growth using secondary data from 1981-2016. Estimation by OLS revealed that deficit financing through external debt borrowing has a significant negative effect on Nigeria's economic growth. Also, domestic debt has a positive significant effect on Nigeria's economic growth, while debt service has no significant effect on Nigeria's economic growth (Nwanna & Umeh, 2019). The works of Were (2001) used Kenya's data for the period 1970-1995, find that increase in debt service ratio negatively affected private investment; thus, confirming the 'crowding-out' effect of debt service (Were, 2001). A similar study by Omotor (2020) revealed a comparative result. The author used country averages of 32 SSA countries from 2005 to 2017, suggest that exports and quality of governance stimulate output positively, while external debt burden hurts economic growth (D.G. Omotor, 2020). Also using available data for 35 SSA countries, Fosu (1999) reported that the economic growth rate would have grown by nearly 50% without the external debt burden (Fosu, 1999). A related study was carried out by Saka and Adamu (2022) where they examined the external debt burden and economic growth relationship in ECOWAS

countries during 2000-2020. The study employed fixed effects panel regression with two-way fixed effects to control for country and time-specific factors using data from ECOWAS Commission and World Bank databases. The methodology included robust standard errors and diagnostic tests. Results demonstrated that external debt stock had significant negative impacts on per capita GDP growth ( $p < 0.01$ ), debt service payments crowded out domestic investment ( $p < 0.01$ ), while institutional quality moderated the debt-growth relationship ( $p < 0.05$ ). The study concluded that external debt burden significantly constrains economic growth in ECOWAS primarily through crowding-out effects on productive domestic investments (Saka & Adamu, 2022). This finding were similar to the results of Kargbo (2023), who examined public debt dynamics and growth performance in ECOWAS member states during 2005-2021. The methodology employed Panel Vector Error Correction Model (PVECM) with cointegration analysis using data from ECOWAS databases and member country statistical offices. The model specification included lag selection and cointegration rank determination. Findings revealed that total public debt had long-run negative equilibrium relationships with growth performance ( $p < 0.01$ ), domestic debt showed less harmful effects compared to external debt ( $p < 0.05$ ), while debt composition significantly affected the magnitude of growth impacts ( $p < 0.01$ ). The study concluded that public debt dynamics across ECOWAS reveal concerning long-run negative relationships with economic growth performance, necessitating strategic debt management reforms (Kargbo, 2023). In a related study conducted by Mensah and Bokpin (2024), examined external debt and economic growth relationships in resource-rich ECOWAS countries during 2000-2022. The study utilized panel quantile regression with fixed effects to capture heterogeneous impacts across growth distributions using data from World Bank, EITI, and national statistical databases. The methodology included quantile-specific coefficient estimation and bootstrap standard errors. Results showed that natural resource rents amplified negative debt effects on growth ( $p < 0.01$ ), external debt had positive effects only in lower growth quantiles ( $p < 0.05$ ), while debt-resource interactions created Dutch disease effects ( $p < 0.01$ ). The study concluded that resource-rich ECOWAS countries experience significantly amplified negative debt effects due to resource curse mechanisms and governance challenges (Mensah & Bokpin, 2024).

## 2.4. Theoretical Framework

The study theoretical framework is anchored on the core logic of the Debt Overhang Theory as elaborated by Myers (1977). This theory posits that when debt burden becomes excessively large, it can discourage the debtor from undertaking economic investments, which in ultimately stiffens growth. The theory primarily addresses the critical issue of debt sustainability and the rationale for debt relief in situations of extreme sovereign indebtedness. It provides a theoretical explanation for why highly indebted countries can become trapped in a cycle of low investment, economic stagnation, and persistent debt.

## 2.5. Gaps in Literature

The study provides a new insight with evidence based on the nexus of external debt and economic growth in ECOWAS. The study extensively covers the period of significant economic shock, such as the 2018 global financial shock, COVID 19, and the persistent geopolitical crisis which has lingered into 2025. The objectives were to empirically determine the impact of external debt, multilateral debt, Bilateral debt, Official development assistance (ODA) and External debt servicing on economic growth in the ECOWAS Region during these periods. To eliminate obvious errors in related study, this study uniquely adopted the PMG (Pooled Mean Group) ARDL model, which stands out due to its robust capabilities to address long term impact and the speed of adjustment from the short run equilibrium, while ensuring the reliability and validity of the results.

## CHAPTER THREE

### METHODOLOGY

The study adopted a panel data set of the fifteen ECOWAS countries in order to statistically estimate the impact of external debt on economic growth.

### 3. NATURE AND SOURCES OF DATA

The study utilized annual time series data sourced from IMF/ World Development Indicator (WDI) and as well as relevant journals from the West Africa Monetary Agency (WAMA).

#### 3.1. Model Specification

This study adapts the model of N'zue (2020) who examined whether external debt hampers growth in the ECOWAS region during 1980-2017. Thus, the model was modified as:

$$GDP_t = f(EXD, MUD, BID, ODA, EDS)$$

The co-integrating ARDL long-run relationship was estimated using the following specifications:

$$\Delta GDP_t = \alpha + \beta_1 EXD_{t-i} + \beta_2 MUD_{t-i} + \beta_3 BID_{t-i} + \beta_4 ODA_{t-i} + \beta_5 EDS_{t-i} + \mu_t$$

The short run dynamics of the parameters was estimated using the Error Correction Model (ECM). This is specified below:

$$\Delta \ln GDP_t = \alpha + \sum_{i=1}^n \beta_1 \Delta \ln EXD_{t-i} + \sum_{i=0}^n \beta_2 \Delta \ln MUD_{t-i} + \sum_{i=0}^n \beta_3 \Delta \ln BID_{t-i} + \sum_{i=0}^n \beta_4 \Delta \ln ODA_{t-i} + \sum_{i=0}^n \beta_5 \Delta \ln EDS_{t-i} + \phi ECT_{t-1} + \mu_t$$

Where:

GDP = Gross domestic product (Proxy for economic growth)

EXD = External debt (\$)

MUD = Multilateral debt (\$)

BID = Bilateral debt (\$)

**Description of variables in the Model.**

S. No.	Variables	Description of Variable	Source
01	Gross Domestic Debt (GDP)	This is the total monetary value of all goods and services produced within a country's borders over a specific time period, typically measured annually.	World development indicators (WDI)
02	External Debt (EXD)	External Debt refers to the total outstanding amount of debt owed by a country to foreign creditors, including commercial banks, international organizations, and foreign governments. External debt encompasses all forms of public and publicly guaranteed debt that must be settled in foreign currency, goods, or services. It is typically measured in current US dollars (USD) and reported annually.	World development indicators (WDI)
03	Multilateral Debt (MUD)	Multilateral Debt represents the portion of a country's external debt that is owed to multilateral institutions such as the International Monetary Fund (IMF), the World Bank, the African Development Bank (AfDB), and other regional development banks. It is typically measured in current US dollars (USD) and reported annually.	World development indicators (WDI)&West Africa Monetary Agency (WAMA) Journals
04	Bilateral Debt (BID)	Bilateral Debt comprises loans and credit extended from one government to another, usually with specific agreements regarding terms of repayment, interest rates, and maturity periods. It is typically measured in current US dollars (USD) and reported annually.	World development indicators (WDI)&West Africa Monetary Agency (WAMA) Journals
05	Official Development Assistance (ODA)	ODA includes grants, concessional loans, and technical assistance by World Bank that are intended to advance development objectives without placing undue financial burden on the recipient. The unit of measurement is the US dollars (USD) and the data is compiled and released on an annual basis.	World development indicators (WDI)&West Africa Monetary Agency (WAMA) Journals

ODA = Official development assistance (\$)

EDS = External Debt servicing (\$)

$\beta_1, \beta_2$  = Parameters

n = Optimal lag order of the model

$\Delta$  = Difference operator

$\mu$  = Stochastic Term

ECT = Error correction term.

$\emptyset$  = Speed of adjustment parameter

**3.2. Techniques of Data Analysis**

The data of the study were analysed using E-View Econometric Software Version 13.0.

(a) Pre-test includes

Descriptive statistics analysis

Panel Unit Root Test: (ADF and PP)

Cointegration Test(ECM in the Short run analysis)

Causality Test

Post-test includes

Normality Test

Cross-Section Dependence Test Result

(b) The Regression Analysis-PMG\_ARDL

**3.3. Model Justification**

The econometric methods applied such as the ADF and PP panel unit root tests, the PMG ARDL model, causality

tests, and serial correlation tests, were employed for their distinctive strengths. The PMG (Pooled Mean Group) ARDL model stands out due to its flexibility in handling variables integrated at different orders, including I(0) and I(1), but excluding I(2). This method is particularly advantageous in analysing dynamic relationships among variables, capturing both short-term adjustments and long-term equilibrium effects. The causality test is crucial in identifying directional relationships among variables, typically through methodologies such as the Granger causality test (Granger, 1969). Serial correlation tests are instrumental in validating the independence of residuals within the regression framework.

**3.4. A-priori Expectation**

The model a-priori expectation becomes  $\beta_1 > \beta_2 > \beta_3 > \beta_4 > 0$   $\beta_5 < 0$

**CHAPTER FOUR**

**4. DATA ANALYSIS AND INTERPRETATION OF RESULTS**

**4.1. Descriptive Statistics Analysis Results**

Presented in Table 4.1 below is the result of descriptive statistics analyses carried out on the study variables (GDP, EXD, MUD, BID, ODA, and EDS).

The descriptive statistics shows that all the variables' data appear to be normally distributed, making it suitable for many parametric statistical tests except for GDP and Multilateral debt.

**Table 4.1. Descriptive statistics analysis result.**

	<b>GDP</b>	<b>EXD</b>	<b>MUD</b>	<b>BID</b>	<b>ODA</b>	<b>EDS</b>
Mean	1.484692	21.79312	18.08190	16.60662	19.97403	18.45130
Median	1.608643	21.52211	18.16223	16.53271	20.10028	18.20026
Maximum	4.666075	25.38847	21.57284	22.14900	23.26813	22.97046
Minimum	-2.678056	18.80982	9.680344	10.11067	17.72493	12.14412
Std. Dev.	0.763975	1.308108	1.442145	1.990016	0.974826	1.854193
Skewness	-1.213827	0.529516	-0.653912	-0.072167	-0.093537	0.132393
Kurtosis	8.003046	2.775696	5.194630	2.924311	2.587514	2.943790
Jarque-Bera	536.0155	22.70479	126.4568	0.514622	3.974607	1.419638
Probability	0.000000	0.000012	0.000000	0.773128	0.137064	0.491733
Sum	617.6318	10133.80	8408.083	7722.079	9287.924	8579.854
Sum Sq. Dev.	242.2182	793.9718	965.0186	1837.516	440.9324	1595.246
Observations	416	465	465	465	465	465

Source: Author's Computation 2025, using E-view 12.0 version.

**Table 4.2. Augmented dickey-fuller (ADF) and philip perron test results.**

	<b>Order of Integ</b>	<b>ADF</b>	<b>PP</b>
GDP	I(0)	-16.01229	-16.41713
		0.0000**	0.0000**
EXD	I(0)	-4.824104	-4.830910
		0.0001**	0.0000**
MUD	I(0)	-6.812369	-6.911572
		0.0000**	0.0000**
BID	I(0)	-3.833167	-11.36121
		0.0029**	0.0000**
ODA	I(0)	-5.792751	-5.530243
		0.0000**	0.0000**
EDS	I(0)	-5.480071	7.817368
		1.0000	0.0876
	I(1)	-28.21578	-28.95041
		0.0000**	0.0000**

Source: Computed using Eviews 13.

Selected based on Schwarz Bayesian criterion.

\*\*\*, \*\*, \*Indicates level of significance at 1%, 5%, and 10%.

## 4.2. Panel Unit Root Test Results

The unit root test results indicate that all variables, except EDS, are stationary at their level, or integrated of order zero, I(0). The presence of both I(0) and I(1) variables demonstrates a mixed order of integration, which justifies the use of

a Pooled Mean Group (PMG) Autoregressive Distributed Lag (ARDL) model.

## 4.3. Causality Test Results

The result of the Granger causality test is shown in Table 4.3 below.

**Table 4.3. Granger causality test results.**

Null Hypothesis:	Obs	F-Statistic	Prob.	Decision	Remark
EXD does not Granger Cause GDP	405	0.15835	0.9592	Accept H <sub>0</sub>	No Causality
GDP does not Granger Cause EXD		0.05699	0.9940	Accept H <sub>0</sub>	
MUD does not Granger Cause GDP	405	1.64098	0.0031	Reject H <sub>0</sub>	Unidirectional
GDP does not Granger Cause MUD		0.21568	0.9297	Accept H <sub>0</sub>	
BID does not Granger Cause GDP	405	0.28375	0.8885	Accept H <sub>0</sub>	No Causality
GDP does not Granger Cause BID		0.18460	0.9464	Accept H <sub>0</sub>	
ODA does not Granger Cause GDP	405	0.02164	0.0091	Reject H <sub>0</sub>	Bidirectional
GDP does not Granger Cause ODA		0.24836	0.0106	Reject H <sub>0</sub>	
EDS does not Granger Cause GDP	405	0.06608	0.9920	Accept H <sub>0</sub>	No Causality
GDP does not Granger Cause EDS		0.04820	0.9956	Accept H <sub>0</sub>	

Source: Author’s Computation 2025, using E-view 12.0 version.

EXD and GDP: With p-values of 0.9592 and 0.9940 for the two tests, both are greater than 0.05, leading to the acceptance of the null hypothesis in both directions. This indicates there is no causal relationship between EXD and GDP. MUD and GDP: The p-value for the test where "MUD does not Granger Cause GDP" is 0.0031, which is less than 0.05. This leads to the rejection of the null hypothesis, suggesting that MUD Granger-causes GDP. However, the p-value for the reverse test, "GDP does not Granger Cause MUD", is 0.9297, which is greater than 0.05, so we accept the null hypothesis. This indicates a unidirectional causal relationship from MUD to GDP.

BID and GDP: The p-values for both tests are 0.8885 and 0.9464, both greater than 0.05. We accept the null hypothesis in both cases, concluding there is no causal relationship between BID and GDP. ODA and GDP: The p-value for "ODA does not Granger Cause GDP" is 0.0091, which is less than 0.05, leading to the rejection of the null hypothesis. The p-value for the reverse test, "GDP does not Granger Cause ODA", is 0.0106, also less than 0.05, which leads to the rejection of the null hypothesis. Since we reject the null in both directions, this indicates a bidirectional causal relationship between ODA and GDP.

EDS and GDP: The p-values for both tests are 0.9920 and 0.9956, both greater than 0.05. We accept the null hypothesis in both instances, indicating there is no causal relationship between EDS and GDP. In summary, the results reveal diverse causal relationships with GDP. There is a unidirectional causality from MUD to GDP, a bidirectional causality between ODA and GDP, and no causality for EXD, BID, and EDS with GDP.

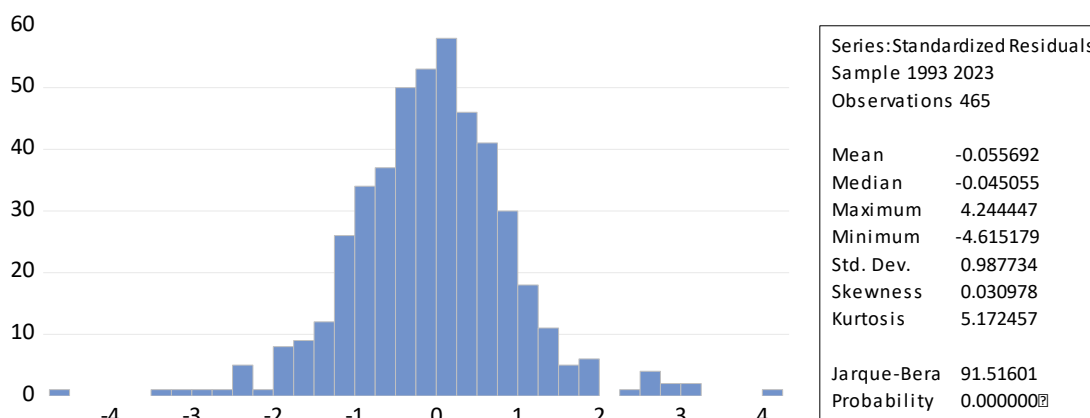
**4.4. Regression Analysis and Results**

Presented in Table 4.4 below are the results of the PMG/ARDL estimation of the variable’s coefficients.

**Table 4.4. PMG/ARDL Regression Result.**

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
<b>Long Run Equation</b>				
EXD	1.74E-11	1.28E-10	0.136118	0.8918
MUD	4.26E-09	2.78E-09	1.529731	0.1270
BID	-1.40E-09	2.52E-09	-0.554839	0.5794
ODA	2.79E-09	9.57E-10	2.915025	0.0038
EDS	-1.27E-09	8.27E-10	-1.529487	0.1270
<b>Short Run Equation</b>				
COINTEQ01	-0.803731	0.090281	-8.902520	0.0000
D(EXD)	-5.18E-09	3.93E-09	-1.318647	0.1881
D(MUD)	-1.28E-09	2.09E-09	-0.612874	0.5404
D(BID)	-3.78E-08	2.87E-08	-1.316494	0.1889
D(ODA)	4.62E-10	2.48E-09	0.186420	0.8522
D(EDS)	5.68E-09	1.31E-08	0.433424	0.6650
C	2.612519	0.536556	4.869053	0.0000
Root MSE	6.134112	Mean dependent var		0.184746
S.D. dependent var	8.640051	S.E. of regression		7.020434
Akaike info criterion	5.652483	Sum squared resid		17496.71
Schwarz criterion	6.632320	Log likelihood		-1204.202
Hannan-Quinn criter.	6.038149	=		

\*Note: p-values and any subsequent tests do not account for model selection  
Source: Author’s Computation 2025, using E-view 12.0 version



Source: Author's Computation 2025, using E-view 12.0 version

The long-run PMG ARDL model equation can be written as:

$$GDP = 2.612519 + 1.74E-11(EXD) + 4.26E-09(MUD) - 1.40E-09(BID) + 2.79E-09(ODA) - 1.27E-09(EDS)$$

The long-run analysis shows the long-term relationship between the variables and GDP. Only ODA has a statistically significant long-run impact, although the magnitude of this effect is negligible. The short-run PMG/ARDL results show that none of the differences in the short-run equation D(EXD), D(MUD), D(BID), D(ODA), and D(EDS) are statistically significant. This suggests that short-term changes in these variables do not have a significant immediate impact on GDP. However, the high speed of adjustment to the long-run equilibrium (over 80%) is a positive sign for the stability of the relationship as shown by the Error Correction Term. The findings point towards the need for a long-term perspective when assessing the economic effects of external debt components and development assistance. The Root Mean Squared Error (Root MSE) and S.E. of regression measure the model's prediction error, while the Akaike Info Criterion (AIC) and Schwarz Criterion (SC) are used to compare the fit of different models. In general, the values from the result suggest a well-fitted model that accurately captures the relationships between the variables.

#### 4.5. Post-Estimation Tests Results

Presented below are results of post-estimation test carried out:

##### 4.5.1. Normality Test

The normality test is designed to check whether the residuals (errors) from the estimated model follow a normal distribution. The normality test indicates that the residuals are indeed normal, it suggests that the model's predictions are reliable, and statistical inferences drawn from the model are valid.

##### 4.5.2. Cross-Section Dependence Test Result

The cross-section dependence test results, as presented by the Breusch-Pagan LM, Pesaran scaled LM, and Pesaran CD statistics, shows evidences that leans towards residuals

being independent across countries within the ECOWAS bloc. This means that shocks or deviations in one member state's economic performance are not systematically mirrored in others, at least within the context of the estimated model. The Breusch-Pagan LM statistic, with a high probability value ( $p = 1.0000$ ), suggests no evidence of cross-sectional dependence among the residuals. This is reinforced by the Pesaran CD statistic ( $p = 0.8394$ ), which similarly fails to reject the null hypothesis of cross-sectional independence.

Table 4.6. Residual cross-section dependence test.

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	21.20884	105	1.0000
Pesaran scaled LM	-5.782139		0.0000
Pesaran CD	-0.202598		0.8394

Source: Author's Computation 2025, using E-view 12.0 version.

#### 4.6. Discussion of Findings

The findings revealed that external debt has an insignificant positive influence on economic growth in the ECOWAS region by a magnitude of 1.7%. Several factors may explain why this relationship. Structurally, many ECOWAS countries face challenges in effectively utilising borrowed funds due to governance issues, limited absorptive capacity, and inefficiencies in public investment, which align with the debt overhang hypothesis in economic theory. This hypothesis posits that high levels of external debt can dampen the incentives for investment and growth, as future returns may be diverted to debt servicing rather than productive use. The finding is consistent with recent studies by Mensah and Bokpin (2024) and Tarawalie and Jalloh (2021), which all report that external debt has a positive impact on economic growth, particularly when debt is effectively channelled into productive sectors. Conversely, this result contrasts with studies such as N'zue (2020), Saka and Adamu (2022), Kargbo (2023), and Yusuf and Hassan (2024), which demonstrate a negative association between external debt and economic growth, often attributing this to the crowding out of private investment and macroeconomic instability caused by systemic debt accumulation. Thus, the mixed empirical evidence underscores the importance of country-

specific factors and the effective management of external resources to ensure that debt contributes meaningfully to economic development.

The finding also reveals that multilateral debt has an insignificant positive impact on economic growth in the ECOWAS region by a magnitude of 4.2%. Several explanations underlie this finding: Structurally, the limited absorptive capacity of many ECOWAS economies stemming from weak institutional frameworks, inefficiencies in public investment, and governance challenges undermines the effective use of borrowed multilateral funds. Consequently, even concessional loans from multilateral agencies often fail to translate into substantial productivity gains, as resources may be diverted to non-productive uses or lost through administrative inefficiency and corruption. This finding aligns with both the neoclassical growth theory and the debt overhang theory. Empirically, the result resonates with recent studies such as Okafor *et al.* (2023), and Bello and Akinyemi (2024), all of which document that external or multilateral debt in sub-Saharan Africa tends to have either marginal or statistically insignificant effects on economic growth when not effectively managed. Conversely, this outcome is at odds with findings from N'zue (2020), who report a negative relationship and attribute them to the crowding out of private investment and macroeconomic instability resulting from excessive debt accumulation. Collectively, the mixed evidence highlights the central importance of robust institutional frameworks, sound debt management strategies, and targeted investment of multilateral funds for ensuring that borrowing meaningfully supports economic development in the ECOWAS region. The findings revealed that bilateral debt has an insignificant negative impact on economic growth in the ECOWAS region by a magnitude of 1.4%. This can be attributed to a range of structural and institutional factors. Frequently, the limited absorptive capacity of ECOWAS economies, coupled with governance challenges and inefficiencies in public investment, diminishes the potential benefits of bilateral borrowing. Funds sourced through bilateral agreements often fail to reach productive sectors, being redirected to recurrent expenditures or lost through administrative inefficiencies and corruption, thereby muting their positive effect on economic output. This outcome resonates with the debt overhang theory. The finding aligns with recent empirical studies, for instance, N'zue (2020) and Tanko (2021), which document similarly negative effects of bilateral debt on economic growth across sub-Saharan Africa when debt is not effectively channelled into development priorities.

The findings revealed that official development assistance has a significant positive impact on economic growth in the ECOWAS region by a magnitude of 2.7%. The result implies that a unit change in official development assistance tend to increase the economic growth by about 2.7%. Primarily, ODA often serves as a critical supplement to domestic resources, bridging savings-investment gaps and enabling financing for key infrastructure and social projects that may not attract private investment. The finding aligns with the neoclassical growth model, which posits that external inflows like ODA can temporarily raise the steady-state level of income by increasing capital formation and supporting productivity-enhancing investments. It also resonates with endogenous growth theories, where aid can foster long-term

growth through positive spillovers in human capital, technology transfer, and institutional capacity. Empirically, this result finds agreement with recent studies such as N'zue (2020), which report a significant positive influence of ODA on growth in sub-Saharan Africa, especially when funds are effectively targeted toward productive sectors. The findings revealed that external debt service has an insignificant negative impact on economic growth in the ECOWAS region. The result implies that a unit change in external debt service tends to decrease the economic growth by about 1.2%. From a theoretical perspective, this result is consistent with the debt overhang hypothesis. However, if debt servicing remains manageable, as appears to be the case in ECOWAS, its adverse effects on growth may be muted, resulting in statistical insignificance. This outcome aligns with recent empirical findings by Tarawalie and Jalloh (2021), N'zue (2020), Saka and Adamu (2022), Diallo (2023), Kouakou (2022), Sesay (2023) and Ndiaye (2024), all of whom report similarly negligible or marginal impacts of external debt service on growth, particularly where debt management strategies are moderately effective.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSION, AND RECOMMENDATIONS

#### 5.1. Summary

The objective of this study was to examine the impact of external debt on economic growth in the ECOWAS region during the period of 1993-2023. In achieving the broad objective of the study, focus was on the analysis of the impact of external debt (EXD), multilateral debt (MUD), bilateral debt (BD), official development assistance (ODA), and external debt services (EDS) on economic growth in the ECOWAS region, proxied by gross domestic product (GDP). Time series data on the study variables were extracted from secondary sources and were subjected to pre-estimation tests such as descriptive statistics analysis of the variables, ADF and PP stationarity test, co-integration, causality, and post-estimation tests for normality, and cross-section dependence test. Also, the PMG/ARDL model of estimation was employed to derive the long-run and short-run coefficients of the variable's parameters and significance of their impact. Finally, the study hypotheses formulated were tested based on p-values. The outcomes of the model estimations were captivatingly quite revealing as follows:

- External debt was found to have a positive and statistically insignificant impact on economic growth in ECOWAS region. This is evident by the positive coefficient and p-value, which is greater than 5% level of significance.
- Multilateral debt was found to have a positive and statistically insignificant impact on economic growth in the ECOWAS region. This is evident by the positive coefficient and p-value, which is greater than 5% level of significance.
- Bilateral debt was found to have a negative and statistically insignificant impact on economic growth in the ECOWAS region. This is evident by the neg-

ative coefficient and p-value, which is greater than 5% level of significance.

- Official development assistance was found to have a positive and statistically significant impact on economic growth in the ECOWAS region. This is evident by the positive coefficient and p-value, which is less than the 5% level of significance.
- External debt services were found to have a negative and statistically insignificant impact on economic growth in the ECOWAS region. This is evident by the negative coefficient and p-value, which is greater than the 5% level of significance.
- The Granger causality test reveals diverse causal relationships with GDP. There is a unidirectional causality from MUD to GDP, a bidirectional causality between ODA and GDP, and no causality for EXD, BID, and EDS with GDP.

## 5.2. Conclusion

The study examined the impact of external debt on economic growth in the ECOWAS region for the period spanning 1993 to 2023. Given the result of the unit root test and the short run Error Correction Term (COINTEQ01) it was revealed that the variables are co-integrated based on the high speed of adjustment to the long-run equilibrium. The model was analysed using the PMG/ARDL analysis. The initial unit root tests demonstrated a mixed order of integration among the variables; all variables were stationary at their level  $I(0)$ , except for external debt servicing (EDS) that became stationary only after first differencing  $I(1)$ . This mixed order of integration, justified the use of the Autoregressive Distributed Lag (ARDL) model. The ARDL model's ability to handle variables with different orders of integration and its strength in capturing both long-run and short-run dynamics made it the most suitable analytical framework. This approach allowed for a comprehensive analysis of how various components of external debt (multilateral, bilateral, etc.) and debt servicing affect economic growth both immediately and over the long term. The key finding from the ARDL analysis was the presence of a stable long-run equilibrium, as evidenced by a significant and negative error correction term, indicating that the system corrects for short-term deviations and converges back to this long-term relationship. Based on the analysis, the long-run regression estimate revealed that only ODA has a statistically significant long-run impact, although the magnitude of this effect is negligible. This relationship supports the finding of the granger causality test, which finds a bidirectional relation between ODA and GDP. Making a strong case for the application of ODA in economic growth. In addition, the short-run PMG/ARDL results show that none of the differences in the short-run equation  $D(EXD)$ ,  $D(MUD)$ ,  $D(BID)$ ,  $D(ODA)$ , and  $D(EDS)$  are statistically significant. This suggests that short-term changes in these variables do not have a significant immediate impact on GDP. Rather, in the short run, all the variables will converge to equilibrium in the long run. The findings point towards the need for a long-term perspective when assessing the economic effects of external debt components. The insignificant negative impact of external debt servicing on economic

growth suggest that debt servicing remain manageable in the region.

## 5.3. Recommendations

Based on the empirical results of the study, the following recommendations are considered very crucial in enhancing better management frameworks that will lead to the achievement of sustainable economic growth in the ECOWAS region:

- The study found no significant long-run impact of these debt components (multilateral and bilateral debt) on economic growth. Therefore, ECOWAS governments should prioritize the quality and strategic use of borrowed funds over simply accumulating more debt. Loans should be directed towards high-return productive investments like infrastructure, technology, and human capital development. To prevent the misuse of funds, robust fiscal oversight and anti-corruption measures are crucial. This approach ensures that borrowing contributes directly to sustainable economic growth rather than merely increasing debt burdens.
- The findings show that ODA has a significant but negligible positive long-run impact on growth. To maximize its effectiveness, governments should collaborate with development partners to align ODA with national development plans. Funds should be targeted at sectors with high multiplier effects, such as agriculture, renewable energy, and SME development, to generate broader economic benefits. Improving a country's absorptive capacity its ability to use funds efficiently, is also essential to ensure that ODA translates into tangible economic gains.
- The insignificant negative impact of EDS on long-term growth suggests that current debt repayment policies are not a major drag on the economy, but there's room for improvement. Policymakers should implement prudent and sustainable debt management strategies. This includes negotiating more favorable loan terms, exploring debt-restructuring options, and boosting domestic revenue to reduce reliance on external borrowing. A well-managed debt portfolio ensures that debt servicing does not compromise the ability to finance essential public services and key investments, thereby securing long-term economic stability.
- From the evidences of no cross-sectional independence in the residuals, this suggests that each country's growth response to external debt dynamics is relatively distinctive, shaped by domestic policies, structural features, or unique external exposures, rather than regional spillovers or contagion effects. Therefore, from a policy perspective, strategies aimed at managing external debt and fostering economic growth can be tailored to individual country circumstances, rather than relying solely on region-wide policy coordination. It underscores the importance of domestic macroeconomic frameworks,

institutional quality, and governance in mediating the debt-growth relationship in each ECOWAS nation.

#### 5.4. Contribution of the Research

This study advances the understanding of the relationship between external debt and economic growth within the ECOWAS region by deploying a robust methodological approach that leverages the ARDL model. By covering an extensive period from 1993 to 2023, the research provides new empirical evidence on both the short- and long-term dynamics of external debt, including the effects of its various components—multilateral, bilateral, ODA and debt servicing—on economic performance. The findings reveal that neither multilateral nor bilateral debt exerts a significant long-run influence on economic growth in the region. This insight challenges prevailing assumptions about the developmental efficacy of external borrowing and underscores the importance of strategic allocation and effective management of borrowed funds, rather than mere debt accumulation.

Additionally, the research highlights the comprehensive role of Official Development Assistance (ODA), demonstrating that while ODA has a statistically significant long-run effect on growth, its actual impact remains marginal. This calls attention to the need for improved coordination with development partners and a more targeted application of aid resources to sectors with substantial multiplier effects. Furthermore, the study's results on debt servicing indicate that current repayment practices are not significantly detrimental to long-term growth, yet prudent debt management and the pursuit of more favourable loan conditions remain essential for sustained economic stability. Finally, the research enhances methodological knowledge by demonstrating the suitability and strength of the ARDL model in cases where variables exhibit mixed orders of integration. This methodological technique ensures accurate estimation and robust inference in the presence of non-stationary data. Collectively, the study fills gap in the literature by offering region-specific policy recommendations, empirically validating the limited growth effects of external debt, and affirming the foundational importance of sustainable economic progress in West Africa.

#### 5.5. Limitations of the Research

One limitation of this study is its reliance on time series data from 1993 to 2023, which, while comprehensive, may not capture the full spectrum of short-term shocks or structural changes within the ECOWAS region during this period. Additionally, the study employs the ARDL model based on the mixed integration order of the variables, but the results may be sensitive to the choice of lag lengths and model specification. Another constraint is the focus on broad indicators such as external debt, ODA; more delicate factors like debt composition, or sector-specific investments were beyond the scope of this analysis. Furthermore, data limitations and potential measurement errors, particularly in developing contexts, may affect the accuracy and generalizability of the findings. Finally, the study does not extensively explore the role of policy implementation quality or external economic

shocks, which could also influence the observed relationships.

#### 5.6. Suggestions for Further Research

Suggestions for further research include exploring more dimensions of external debt and economic growth in the ECOWAS region, such as examining sector-specific investments, the quality of policy implementation, and the effects of external economic shocks. Future studies could address data limitations by incorporating more recent or granular datasets and applying alternative methodological approaches to validate the robustness of current findings. By broadening the analytical scope and refining empirical techniques, subsequent research can yield deeper insights and more tailored policy recommendations to promote sustainable economic progress in West Africa.

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