

# Effect of Enugu State Debt Management Policy on Enugu State Debt Profile, 2019 – 2023

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**Abstract:** This research examined the effect of Enugu state debt management policy on the state debt profile between 2019 – 2023. Data were sourced through interviews and documents. Hypotheses were tested using Chi-square. The study revealed that between 2019 – 2023, Enugu State borrowing benchmark has no relationship with the state debt profile but has relationship with the state debt services and the state economic growth. The study recommended that the state debt management policy should be religiously adhered in debt procurement and management; the state government should embark on project tied loan that can repay itself; and finally, improve its revenue base.

**Keywords:** Debt Management Policy, Debt Profile, Borrowing, Dept Procurement, Public Debt.

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## I. INTRODUCTION

Public debt management is an essential aspect of the economic system of every country. This is largely because there is no country today, especially among the developing ones that is entirely free from the burden of servicing their public debt. The need for indebtedness among other reasons arises when government seeks to stir up investment, by enabling its citizens to procure assets that will earn returns that exceed the interest paid on the debt. This is much clearer on the understanding that much government expenditure is on public assets that yield returns that probably exceed the interest rate government pays on its debt (Parking, 2012).

Historically, major debt crises emerged in the international scene in 1970s. It was the reactions of the developed countries during the recession of 1973 and 1979 in Europe that led to debt crises of the underdeveloped countries. In other words, it was the aftermaths of Europe restrictive policies in the form of Non-Tariff Barriers during the recession that led to the oil glut in 1980s with dire economic consequences, especially on the underdeveloped countries. Consequently, many underdeveloped countries found it difficult to service their over bloated public debt and it was feared they would default on payment thereby leading to an international crisis (Jhingan, 2005).

The Debt management office posited that the total public debt as at the end of the first quarter of 2023 (Q1) stood at #49.85trillion. This value does not include the Federal Government 22.719 Ways and Means Advances of the CBN whose securitization was approved by the National Assembly in May 2023 (Olalekan, 2023). According to the new figure obtained from Debt Management Office (DMO) as at 24th June 2023, the Nigeria total public debt hits #68.9trillion. The total public debt includes foreign and domestic debt of both Federal government and states government of Nigeria. Specifically, Enugu State debt profile rose from #93.7 billion in 2018 to #99 billion, #115.2 billion and 122.5 billion in 2019, 2020 and 2021 respectively (Budgetpedia, 2023).

Public debt management has become an issue of concern in Nigeria. Successive governments of the federation have through their policies, deployed different strategies which have either increased or reduced the nation's debt burden. For instance, Under President Olusegun Obasanjo Civilian Administration, the total sum of money paid by Nigerian government to completely exit itself in 2006, from the Paris Club debt trap, was 12.4 billion US dollars, which is equivalent to 40% of the total debt owed to the club. The administration between December 2006 and January 2007 also paid 1.4 billion US dollars to London Club of private creditors. The remaining balance of 900 million US dollars was finally paid in March 2007, which effectively

wiped off the debt owed by Nigerian government to London Club of creditors (Olekanma, 2009). Consequently, Obasanjo's Civilian Administration was renowned in its efforts of securing Paris and London debt relief in 2006 and 2007 respectively.

However, what is mind-boggling is that despite these laudable efforts, debt profile has remained on a high increase. According to Tunji (2023), the report by the Nigeria Economic Summit Group and the Open Initiative for West Africa has revealed that based on Debt Sustainability Analysis, Nigeria and 10 other Economic Community of West African States countries were currently in serious debt distress. Specifically, Enugu State external debt stock grew from \$71.83 million in 2015 to \$120.8 million in 2022. This shows an increase of almost 100% in eight years under the administration of Rt. Honorable Ifeanyi Ugwuanyi. During this period the state domestic debt increased from #37.55 Billion to #91.85 billion which portrays an increase of over 100% (Ugwu, 2022). The reason for the continuous increase in debt profile and debt servicing ratio, according to DG of DMO, is that high debt levels lead to heavy debt servicing which reduces resources available for investment in infrastructures and key sectors of the economy. Other reasons include mismanagement or misplacement of priority in the usage of the obtained domestic or external debt, corruption, investment of the obtained debt in consumer goods other than capital goods etc. Therefore, it is against this background that the need to examine the relationship between Enugu State Debt Management Policy and Enugu State Debt Profile between 2019 – 2023. This research was carried out with these questions in view:

- What is the relationship between Enugu State borrowing benchmark and the State debt profile between 2019 – 2023?
- What is the relationship between Enugu State borrowing benchmark and the State debt services between 2019 - 2023?
- What is the relationship between Enugu State borrowing benchmark and the state economic growth between 2019-2023?

## II. LITERATURE REVIEW

### ➤ *Meaning and Essence of Public Debt and Public Debt Management*

The concepts of public debt and public debt management are concepts in the field of public finance management. Many scholars have contributed immensely to their conceptualization. Public debt is a debt which a state owes its citizens or other countries or external organizations (Njoku, 2009). According to Parking (2012), public debt is the total amount that the government has borrowed. In other words, the money borrowed by the government forms the public or national debt (Odoh, 2004). Okeakpu (2019) averred that, public debts are the debts attributable to the government of a country; it is also called national debt because it is a liability owed by the whole state. The government is said to be indebted when it borrows to make up for its deficit budget. Therefore, the term public debt here

means the total amount of money borrowed by government to meet public needs within a specified period. Put differently, it is the total indebtedness of a country to individuals, organizations or countries both within and outside its boundaries.

On the other hand, public debt management is one of the important functions of monetary policy in any country. It aims at proper timing and issuing of government bonds, stabilizing their prices and minimizing the cost of servicing public debt (Jhinghan, 2005). According to Ezeayeji (2015), public debt management is concerned with the determination of structural attributes of public debt.

Therefore, based on the above scholarly contributions, public debt management can be defined in our context as the process by which a government or a country expands its capacity to access credit facilities and also to service its existing debt burden on a lowest cost possible. The main objective of public debt management is to ensure that the financing needs of government and its payment obligations are met at the lowest cost possible, both at medium or long run in a way that is consistent with prudent degree of risk.

### ➤ *Classifications of Public Debts*

#### • *Internal Debt:*

This is a debt which a government borrows from its citizens. It is also known as domestic debt (Njoku, 2009 & Okechukwu, 2013). It is incurred when government owes its citizens, firms and institutions within the country. Internal debt is accessed within the economy via major sources such as Central Bank of Nigeria (CBN), Commercial Banks, Merchant Banks, non-bank financial institutions, other companies or organizations and the general public (Okeakpu, 2019).

#### • *External Debt:*

This is also known as foreign debt. It is a debt which a country owes foreign countries or organizations (Njoku 2009). If a country cannot repay its external debt, it is said to be in sovereign debt, and faces a debt crisis. External debt can take the form of a tied loan where the recipient is under obligation to spend the funds borrowed in the nation that provided it. For instance, during emergencies, the affected nation must spend the loan so collected to provide relief materials for victims by purchasing these relief materials or items from the lending nation.

### ➤ *Enugu State Debt Management Policy*

The main objective of debt policy is to ensure that the financial needs of the state government are met and debt repayment are made at the lowest possible interest over the medium and long term which must be consistent with minimum degree of risk. Enugu state debt policy is designed to implement the State Medium Term Development Plan. It is therefore on this ground that a state debt management policy becomes an essential requirement in administering, borrowing and management of public debt. This is really germane as basic functions of government can only be

realized through the instrumentality of its policies (Nnadozie, 2019).

According to Debt Management Policy and Procedure Manual (2011) of Enugu state, the government should establish benchmarks for Share of domestic to external debt; Share of variable to fixed interest rate debt; duration of debt; average life of a loan portfolio; Share of different currencies in the loan portfolio; and Cost of debt. The following ratios were formulated in line with good practices and represent

standard benchmarks for the State Debt Management Office (SDMO):

- Ratio of total debt to (sub-national) GDP which is 25%
- Ratio of total debt to total revenues which is 40%
- Ratio of service payment to total revenues which is 15%
- Ratio of internal debt (including contractors' debts) to total revenues which is 50%
- Ratio of external debt to total debt which is 70%

Table 1 Enugu State Debt Profile (2006 - 2022)

| ENUGUSTATEDEBTSTOCK |                     |                     |               |                     |                        |
|---------------------|---------------------|---------------------|---------------|---------------------|------------------------|
| Date                | Domestic Debt (NGN) | External Debt (USD) | Exchange Rate | External Debt (NGN) | Total Debt Stock (NGN) |
| 31st December, 2006 | -                   | 22,030,886.48       | 127.00        | 2,797,922,582.96    | 2,797,922,582.96       |
| 31st December, 2007 | -                   | 23,898,266.09       | 116.80        | 2,791,317,479.31    | 2,791,317,479.31       |
| 31st December, 2008 | -                   | 26,620,622.64       | 118.32        | 3,149,752,070.76    | 3,149,752,070.76       |
| 31st December, 2009 | -                   | 33,388,531.97       | 148.10        | 4,944,841,584.76    | 4,944,841,584.76       |
| 31st December, 2010 | -                   | 37,296,208.24       | 149.17        | 5,563,475,383.16    | 5,563,475,383.16       |
| 31st December, 2011 | 10,887,170,000.00   | 44,895,364.74       | 156.70        | 7,035,103,654.76    | 17,922,273,654.76      |
| 31st December, 2012 | 17,354,190,000.00   | 50,074,700.40       | 155.77        | 7,800,136,081.31    | 25,154,326,081.31      |
| 31st December, 2013 | 12,061,395,495.12   | 53,166,642.89       | 155.70        | 8,278,046,297.97    | 20,339,441,793.09      |
| 31st December, 2014 | 22,625,689,450.24   | 68,928,599.36       | 168.00        | 11,580,004,692.48   | 34,205,694,142.72      |
| 31st December, 2015 | 37,550,234,882.49   | 71,828,840.62       | 197.00        | 14,150,281,602.14   | 51,700,516,484.63      |
| 31st December, 2016 | 48,417,542,411.95   | 73,588,934.02       | 305.00        | 22,444,624,876.10   | 70,862,167,288.05      |
| 31st December, 2017 | 59,746,077,051.15   | 133,109,100.89      | 306.00        | 40,731,384,872.34   | 100,477,461,923.49     |
| 31st December, 2018 | 55,032,067,848.83   | 126,177,662.23      | 307.00        | 38,736,542,304.61   | 93,768,610,153.44      |
| 31st December, 2019 | 61,025,443,963.29   | 124,009,342.53      | 307.00        | 38,070,868,156.71   | 99,096,312,120.00      |
| 31st December, 2020 | 68,088,637,239.01   | 124,238,597.23      | 380.00        | 47,210,666,947.40   | 115,299,304,186.41     |
| 31st December, 2021 | 69,169,594,013.02   | 129,193,969.00      | 413.49        | 53,420,414,241.81   | 122,590,008,254.83     |
| 31st March, 2022    | 74,857,380,772.82   | -                   | 416.25        | -                   | 74,857,380,772.82      |

Source: Budgetpedia 2023

#### ➤ *Justification for Public Debt*

Public debts are applied for and procured for variety of reasons. These include:

- *To Meet Huge Capital Projects:*

Borrowing as an engine of growth, enables poor countries and states or regions within them, increase their rate of real investments (Ezeanyeji, 2015). Upteen times the usual sources of government revenue such as taxes, fees, etc are often inadequate for the implementation of capital projects. This invariably makes borrowing inevitable for huge capital projects. (Anyanyuocha, 2013).

- *To Enable and Finance Full Employment:*

According to Ezeanyeji (2015), borrowing may be considered as a second - best alternative to money creation during period of unemployment. This implies that borrowing can be used to invest in job creating projects in order to maintain a high rate of employment of labour and material resources (Anyanyuocha, 2013 & Okechukwu, 2013).

- *To Reduce the Economic Burden on Tax-Payers:*

Public debt procurement helps in reducing high incidence of tax burden on the citizens. For instance, absence of access to debt procurement could worsen economic

hardship on the tax payers, as government will be left with no other option than to generate revenue through increased taxation on the citizens to engender development and run its administration (Anyanyuocha, 2013).

- *To Cater for Emergencies:*

Emergency situations such as war, epidemics, pandemics etc. require huge capital resources to manage. Therefore, because of the costly nature of these exigencies and the quick capital intervention required, governments often resort to borrowing in order to ameliorate their impact on victims and as well as to mitigate or forestall their future occurrence.

- *Supplement for Domestic Resources:*

The regular revenue generation mediums are usually insufficient in meeting government development and administrative needs. To this end, public debt can be resorted to as a means of filling domestic saving gap especially in the face of dwindling government revenues from domestic sources (Ezeanyeji, 2015).

#### ➤ *Principles of Public Debt Management*

Just as in every human endeavor, public debt managements are guided by certain principles. These principles are as follows.

- *The Interest Cost of Servicing Public Debts Must be Minimised:*

This principle demands that government should borrow with the intention to redeem at a minimum interest cost possible. This becomes necessary as the cost of financing public debt may be generated by imposing more taxes which could have adverse effects on the citizens' earnings.

- *Public Debt Policy Must be Coordinated with Fiscal and Monetary Policy:*

This principle demands that public debt policy must be managed and co-ordinated with deep consideration of fiscal and monetary policies so as to maintain economic stability and growth.

- *Satisfaction of the Needs of Investors:*

This principle demands that the needs of investors should be given utmost consideration so as to encourage them to reinvest and retain their existing securities in the security market. The motive or interest for advancing aid by donor nation or organization also matters and should be considered (Ikeanyibe, 2014).

- *Funding of Short-Term Debt into Long Term Debt:*

This principle presupposes that to avoid adverse economic shocks, short term debt should be funded into a long-term debt. This is because the conversion of short-term debt into Long-term debt would improve the liquidity and working capital of government without adversely impacting the nation's economy.

- *Maturity, Distribution and Kinds of Debt Holders:*

These principles stipulate that high liquidity of debt makes the control of inflation difficult. Whereas on the positive side, high debt liquidity held by individuals, can be used as an anti-deflationary device by raising the price of securities, which influences people to convert their securities to cash which increases their aggregate expenditure.

### III. EMPIRICAL REVIEW

Abdulkarim, Saidatulakmal and David (2021), carried out a research titled the effect of government debt on Nigeria's economic growth using annual data from 1980 to 2018. Autoregressive Distributed Lag technique was adopted for data analyses. The empirical results showed that external debt constituted an impediment to long-term growth, while its short-term effect was growth-enhancing. Domestic debt had a significant positive impact on long-term growth, while its short-term effect was negative. In the long term and short term, debt service payments led to growth retardation confirming debt overhang effect. The findings suggested that the government should direct the borrowed funds to the diversification of the productive base of the economy.

Nymphas, Emmanuel, and Auta (2023), examined the impact of public debt on economic growth in Nigeria. Specifically, the study evaluates the impact of external debt, external debt service payment and domestic debt on the GDP of Nigeria spanning 1981 to 2020. The ex post facto research design was adopted for this study. Time series data were obtained from the World Development Index (WDI) and the Central Bank of Nigeria (CBN). To test for stability of the time series data, the Augmented Dickey Fuller unit root test (ADF) was carried out for all the variables and the results were confirmed using the Philips Peron Unit Root Test. The study applied the Autoregressive Distributed Lagged Model as econometric methodology in order to investigate the long-run and the short run relationship between public debt and economic growth in Nigeria. Findings of the study revealed that the time series data became stationary at first difference while the coefficients of external debt and domestic debt had positive and significant impact on economic growth in Nigeria and on the flip, external debt service payment had a negative and significant impact on economic growth of Nigeria in the long run. The Study therefore recommends that; borrowed funds should be adequately utilized for productive and profitable projects.

Abdulkadir, and Abdulazeez (2019), examined the impact of debt management strategies on the Nigeria's public debt profile. Specifically, the study evaluates the impact of debt refinancing (DRF) and measures the impacts of debt forgiveness (DF) and debt conversion (DCV) scheme on the public debt profile of Nigeria. To ensure robust result is achieved, time series data from World Development Index, Central Bank of Nigeria (CBN) and Debt Management office were used. The study applied the autoregressive distributed lagged model econometric methodology to investigate the long-run and the short run dynamics of total debt profile of the country on DRF DF and DCV. The findings of the study reveal that DRF has negative impact on total debt profile in Nigeria. The researchers thereby, recommend that government should strengthen DRF to reduce debt profile of the country, seek for DF and provide more instruments for DCV with a view to drastically reduce the Nigeria's national debt profile following its observed long run effect to the country's economic wellbeing.

Elechi, Ohazuruike and Chukwurah (2020), examined the impact of Debt Management on Nigeria's Economy in the Face of Dwindling Oil Revenue. They Anchored their analysis on the dependency paradigm, and data drawn from documentary sources, with a qualitative descriptive method of analysis. Their findings among others, revealed that the crash of oil price in the international market, plunged the Nigerian economy into recession which affected her ability to manage her debt burden. Other factors include corruption among public officials, and the fact that the country is highly dependent on oil revenue to service her debt and finance other projects. The paper recommends that there is need for Nigeria to seriously diversify her economy and institute the culture of honesty; accountability and transparency in governance to ensure that she pay-off her debt and improve her economy.

Emmanuel and Ekaette (2024), in their study analysed the impact of public debt management on the performance of the Nigerian economy. The ex-post facto research design was adopted in the study and data were gathered from secondary sources. These data were time series data obtained from Central Bank of Nigeria (CBN) Statistical Bulletin, the Debt Management Office (DMO) Annual Debt Reports, and World Bank Database. The researchers employed different econometric tools to analyze the data. These include ADF unit root test, Johansen co-integration test, Bivariate multicollinearity analysis and regression analysis, with the use of the Generalized Method of Moments (GMM) technique. The empirical results indicated that external debt and debt service payments negatively affected both economic growth and development in Nigeria while domestic debt had positive effect. Therefore, the researchers recommended that the Federal Government of Nigeria should encourage fiscal reforms that boost domestic revenue generation by broadening the revenue base, improving the capacity to tax, and curtailing unproductive government expenditures.

#### ➤ Theoretical Framework

- *Big Push Theory*

This theory was propounded in 1943 by Professor Paul N. Rosenstein-Rodan, in his work "Problems of Industrialisation of Eastern and South-Eastern Europe". Other proponents of the theory include: Murphy, Shleifer and Vishny in 1989. Also, some scholarly works by Matsuyama (1992), Krugman (1991) and Romer (1986) contributed immensely to the later literature on the theory ("Big Push Model", 2024). The theory postulates that big push or comprehensive programme is needed in the form of a high minimum amount of investment to overcome the obstacles to development in developing countries and to launch it on the path to progress (Jhinghan 2005).

- *The Major Tenet of Big Push Theory*

The major tenet of this theory is that there is a minimum level of resources that must be channeled to a development programme if it must have any chance of success. According to Jhinghan (2005), the theory states that proceeding bit by bit will not launch the economy successfully on a development path; but a minimum amount of investment is a prerequisite for this to happen. This however necessitates the need for external economies arising from the creation and enhancement of technically interdependent industries. Therefore, the indivisibilities and external economies flowing from a minimum quantum of investment are necessary conditions for launching economic development successful.

- *Application of the Theory to the Study.*

This theory therefore suggests that for a meaningful development to take place, there is minimum amount of resources that must be available for its actualization. This therefore validates the need for indebtedness or borrowing so as to foster and achieve meaningful development. To this end borrowing is seen here as an agent of development so long as

it is invested to realize development. This therefore justifies the existence of Enugu State Debt Management Office and Debt Management Office (DMO) Abuja as governmental agencies designed to provide expert advice to the government on how best to borrow funds necessary to foster investment and development and also its repayment at a minimum cost possible.

- *Materials and Methods*

The researcher adopted a descriptive research design involving a trend study of events and phenomenon. A mixed sampling techniques involving census and purposive techniques were adopted. The entire staff of Enugu State Debt Management Office who were ten (10) in number and two (2) other staff from the office of the Accountant General of the state and the ministry of finance and economic development all totaling 12 constituted the entire population of the study. Unstructured Oral interview was held with some principal officers of Debt Management Office in Enugu State. Data were presented using statistical tools such as tables and percentages. Hypotheses were further analyzed and tested using Chi-square statistical formula stated as follows:

$$X^2 = \frac{\sum (O_{ij} - E_{ij})^2}{E_{ij}}$$

Where  $x^2$  = Chi-square

$O_{ij}$  = Observed cell Frequency of the (ij)th cell

$E_{ij}$  = The expected numbers in the (ij)th cell

$\Sigma$  = Summation

The degree of frequency allowed was 5% level of significance. This was determined using this formula. The decision was made after comparing the calculated value with the value on the P. Value table. The decision rule therefore was: reject  $H_0$  (Null hypothesis) if  $x^2 \geq x^2 \alpha (r - 1) (c - 1)$ .

## IV. DATA PRESENTATION, FINDINGS AND DISCUSSION

The hypotheses for the study were tested using chi-square statistics formula.

#### ➤ *Decision Rule:*

Reject null hypothesis ( $H_0$ ) if the observed value is greater than the critical value.

- *Hypothesis 1*

- ✓  $H_0$ : Enugu State borrowing benchmark has no relationship with the state total debt between 2019 – 2023.
- ✓  $H_1$ : Enugu State borrowing benchmark has a relationship with the state total debt between 2019 – 2023.
- ✓ NB: The policy stipulates that the ratio of total debt to total revenue should be 40%.

Table 2 Enugu State Total Public Debt (2019 - 2023) Amount: #' Million

| CATEGORY                | 2019             | 2020             | 2021             | 2022             | 2023             |
|-------------------------|------------------|------------------|------------------|------------------|------------------|
| DOMESTIC DEBT           | 61,025.44 60%    | 68,088.64. 59%   | 69,169.59 56%    | 91,856.18 63%    | 92,213.24. 46%   |
| EXTERNAL DEBT           | 40,427.05 40%    | 47,334.91. 41%   | 53,355.82 44%    | 54,153.04 37%    | 108,332.92. 54%  |
| TOTAL PUBLIC DEBT       | #101,452.49 100% | #115,423.54 100% | #122,525.41 100% | #146,009.23 100% | #200,546.16 100% |
| EXCHANGE RATE (US \$/N) | 326              | 381              | 412.99           | 448.08           | 899.39           |

Source: Debt Management Office (DMO) 2024

Table 2 above shows Enugu State total debt between 2019-2023. In 2019, the domestic debt and the external debt constituted 60% and 40% respectively out of the total debt. In 2020, the domestic debt and the external debt constituted 59% and 41% respectively of the total debt. In 2021, the domestic debt and the external debt constituted 56% and 44% respectively of the total debt. Furthermore, in 2022 the

domestic debt constituted 63% of the total debt while external debt constituted 37% of the total debt. However, in 2023 the reverse was the case as domestic debt decreased in percentage ratio to the external debt. The domestic debt constituted 46% of the total debt while a tremendous increase on external debt was noticed, which constituted 54% of the total public debt.

Table 3 Enugu State Total Revenue and Total Debt Between 2019 - 2023

| YEAR | TOTAL REVENUE (#) | TOTAL DEBT (#) |
|------|-------------------|----------------|
| 2019 | 102,685.71        | 101,452.49     |
| 2020 | 102,103.20        | 115,423.54     |
| 2021 | 99,619.56         | 122,525.41     |
| 2022 | 111,869.80        | 146,009.23     |
| 2023 | 169,763.24        | 200,546.16     |

Source: DMO 2024 and Financial Summary by Accountant General of Enugu State 2019 – 2023

The hypothesis was tested and analysed using the chi-square formula,

$$X^2 = \frac{\sum (O_{ij} - E_{ij})^2}{E_{ij}}$$

Table 4 Chi Square Table for the Effect of Debt Management Policy on Enugu State Debt Profile

| Year  | Bench Mark % | Actual % | Total | $\frac{\sum (O_{ij} - E_{ij})^2}{E_{ij}}$ |
|-------|--------------|----------|-------|---|
| 2019  | 40(32.78)    | 99(99)   | 3960  | 1.5903                                    |
| 2020  | 40(44.4)     | 133(133) | 5320  | 0.3706                                    |
| 2021  | 40(40.73)    | 123(123) | 4920  | 0.0131                                    |
| 2022  | 40(43.38)    | 131(131) | 5240  | 0.2634                                    |
| 2023  | 40(39.07)    | 118(118) | 4720  | 0.0221                                    |
| Total | 200          | 604      | 24160 | 2.2595                                    |

The critical value is  $x^2 0.05(4) = 9.48773$  Since the  $x^2$  (observed value) 2.2595 is lesser than the critical value 9.48773, we accept the null hypothesis ( $H_0$ ) and conclude that Enugu State borrowing benchmark has no relationship with the state debt profile between 2019 – 2023.

#### ➤ Discussion

The result of the test on the hypothesis actually agreed with the benchmark percentage analysis of the hypothesis. For instance, in the first hypothesis, the percentages of the actual debt incurred between 2019 - 2023 were above 40% being the established Enugu State Debt Management Policy benchmark. This finding was further validated by the Chi-square test whose observed value of 2.2595 was below the critical value 9.48773. This led to the acceptance of the null hypothesis and to the conclusion that Enugu State borrowing

benchmark has no relationship with the Enugu State debt profile between 2019 - 2023. This means that the guideline or benchmark guiding public debt procurement was not adhered to from 2019 - 2023. This was why the amounts procured within this period were far above the 40% policy instituted benchmark.

#### • Hypothesis 2

- ✓ Ho: Enugu State borrowing benchmark has no relationship with the state debt services between 2019 – 2023.
- ✓ H1: Enugu State borrowing benchmark has a relationship with the state debt services between 2019 – 2023.
- ✓ NB: The policy stipulates that the ratio of total debt services to total revenue should be 15%.

Table 5 Enugu State Total Public Debt Service (2019 - 2023) Amount: # Million

| CATEGORY                | 2019              | 2020              | 2021              | 2022               | 2023               |
|-------------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| DOMESTIC DEBT SERVICE   | 4,018.51<br>83%   | 3,693.60<br>74%   | 3,775.85<br>73%   | 23,909.94<br>92%   | 10,827.01<br>69%   |
| EXTERNAL DEBT           | 824.68<br>17%     | 1,276.15<br>26%   | 1,415.47<br>27%   | 2,011.07<br>8%     | 4,769.14<br>31%    |
| TOTAL PUBLIC DEBT       | #4,843.19<br>100% | #4,969.76<br>100% | #5,191.32<br>100% | #25,921.01<br>100% | #15,596.14<br>100% |
| EXCHANGE RATE (US \$/N) | 326               | 381               | 412.99            | 448.08             | 899.39             |

Source: Debt Management Office (DMO) 2024

Table 5 above shows Enugu State total public debt services between 2019-2023. In 2019 when the exchange rate was #326 the domestic debt service was 83%, while the external debt service was 17% of the total debt services. In 2020, at #381 exchange rate, domestic and external debt services constituted 74% and 26% respectively of the total debt services. In 2021 the domestic debt services and the external debt services constituted 73% and 27% respectively

of the total debt services at the exchange rate of 412.99. Furthermore, in 2022 at #448.08 exchange rate, the domestic debt services constituted 92% of the total debt services while external debt constituted 8% of the total debt services. In 2023, at #899.39 exchange rate, the domestic debt services constituted 69% of the total public debt services, while the external debt services constituted 31% of the total public debt services.

Table 6 Total Revenue and Total Debt Services Between 2019 - 2023

| YEAR | TOTAL REVENUE (#) IN MILLIONS | TOTAL DEBT SERVICES (#) IN MILLIONS |
|------|-------------------------------|-------------------------------------|
| 2019 | 102,685.71                    | 4,843.19                            |
| 2020 | 102,103.20                    | 4,969.76                            |
| 2021 | 99,619.56                     | 5,191.32                            |
| 2022 | 111,869.80                    | 25,921.01                           |
| 2023 | 169,763.24                    | 15,596.14                           |

Source: DMO 2024 and Financial Summary by Accountant General of Enugu State 2019 – 2023

The hypothesis was tested and analysed using the chi-square formula,

$$X^2 = \frac{\sum (O_{ij} - E_{ij})^2}{E_{ij}}$$

Table 7 Chi-Square Table for the Effects of Debt Management Policy on Enugu State Debt Services.

| Year  | Benchmark value in % | Actual value in % | Total | $\frac{\sum (O_{ij} - E_{ij})^2}{E_{ij}}$ |
|-------|----------------------|-------------------|-------|---|
| 2019  | 15(12.30)            | 5(7.70)           | 20    | 1.5395                                    |
| 2020  | 15(12.30)            | 5(7.70)           | 20    | 1.5395                                    |
| 2021  | 15(12.30)            | 5(7.70)           | 20    | 1.5395                                    |
| 2022  | 15(23.36)            | 23(14.64)         | 38    | 0.11                                      |
| 2023  | 15(14.75)            | 9(9.25)           | 24    | 7.7657                                    |
| Total | 75                   |                   | 122   | 12.3952                                   |

The critical value is  $x^2 0.05(4) = 9.48773$ . Since the  $x^2$  (observed value) 12.3952 is greater than the critical value 9.48773, we reject the null hypothesis ( $H_0$ ) and conclude that Enugu State borrowing benchmark has a relationship with the state debt services between 2019 - 2023.

#### ➤ Discussion

In this second hypothesis test, the percentages of debt services incurred within 2019 - 2023 were below 15% being the established Enugu State Debt Management Policy benchmark. This finding was further validated by the Chi-square test whose observed value of 12.3952 was greater than the critical value 9.48773. This led to the rejection of the null hypothesis and to reach the conclusion that Enugu State borrowing benchmark has a relationship with the State

debt services. This obviously shows that the guideline or benchmark, guiding public debt services was strictly adhered to within 2019 - 2023 by Enugu State government.

#### • Hypothesis 3

- ✓  $H_0$ : Enugu State borrowing benchmark has no relationship with the economic growth of the state between 2019 - 2023.
- ✓  $H_1$ : Enugu State borrowing benchmark has a relationship with the economic growth of the state between 2019 - 2023.
- ✓ NB: The policy stipulates that the ratio of debt to Gross Domestic Product (GDP) should be 25%.

Table 8 Enugu State Gross Domestic Product and Total Public Debt Between 2019 - 2023

| Year | Gross Domestic Product (GDP) (in # millions) | Total Public Debt (in # millions) |
|------|--|-----------------------------------|
| 2019 | 842,070.4                                    | #101,452.49                       |
| 2020 | 1,014,234.7                                  | #115,423.54                       |
| 2021 | 1,135,218.3                                  | #122,525.41                       |
| 2022 | 1,216,775.5                                  | #146,009.23                       |
| 2023 | 1,807,470.4                                  | #200,546.16                       |

Source: DMO 2024

The table above shows Enugu State Gross Domestic Product (GDP) and total public debt from 2019 - 2023.

$$X^2 = \frac{\sum (O_{ij} - E_{ij})^2}{E_{ij}}$$

The hypothesis was tested and analysed using the chi-square formula,

Table 9 Chi-Square Table for the Effect of Debt Management Policy on Enugu State Economic Growth.

| Year  | Benchmark value in % | Actual value in % | Total | $\frac{\sum (O_{ij} - E_{ij})^2}{E_{ij}}$ |
|-------|----------------------|-------------------|-------|---|
| 2019  | 25(25.41)            | 12(6.10)          | 37    | 5.7132                                    |
| 2020  | 25(24.73)            | 11(5.93)          | 36    | 4.3376                                    |
| 2021  | 25(24.73)            | 11(5.93)          | 36    | 4.3376                                    |
| 2022  | 25(25.41)            | 12(6.10)          | 37    | 5.7132                                    |
| 2023  | 25(24.73)            | 11(6.10)          | 36    | 4.3376                                    |
| Total | 125                  | 30                | 182   | 24.4392                                   |

The critical value is  $x^2 0.05(4) = 9.48773$ . Since the  $x^2$  (observed value) 24.4392 is greater than the critical value 9.48773, we reject the null hypothesis ( $H_0$ ) hypothesis and conclude that Enugu State borrowing benchmark has a relationship with the economic growth of the state between 2019 - 2023.

#### ➤ Discussion

Finally, on the third hypothesis, the percentage of total public debts in relations to the Gross Domestic Product within the period under study, were below 25% being the established Enugu State Debt Management Policy benchmark. This finding was further validated by the Chi-square test conducted on the data. The observed value of 24.4392 was far above the critical value 9.48773 which led to the rejection of the null hypothesis and to reach the conclusion that Enugu State borrowing benchmark has a relationship with the economic growth in Enugu State between 2019 - 2023. This shows that the guideline or benchmark guiding public debt procurement in relation to Enugu State Gross Domestic Product (GDP) was strictly followed by Enugu state Government.

#### ➤ Summary

The objective of this research was to examine the relationship between Enugu State Debt Management Policy and Enugu State Debt Profile between 2019 - 2023. At the end of the study, the following findings were made:

Firstly, Enugu State Debt Management Policy has no relationship with the state debt profile between 2019 – 2023. This is because the percentage values of debts procured between 2019 – 2023 were above the policy stipulated benchmark. The failure of the state government to adhere to

the policy benchmark has led to constant increase in debt profile within this period.

Secondly, Enugu State borrowing benchmark has a relationship with the state debt services between 2019 – 2023. This is because the percentage values of debt services paid between 2019 – 2023 were within the policy stipulated benchmark; except in 2022 when a little hike above the policy benchmark was noticed, which was largely insignificant when compared to the total debt borrowed that same year.

Thirdly, Enugu State borrowing benchmark has a relationship with the economic growth of the State between 2019 - 2023. This is largely due to the fact that the ratios of debts to the state GDPs in the years under review were within the Debt Management Policy stipulated benchmark.

## V. CONCLUSION

Enugu State debt management policy within the period under review (2019-2023), was arbitrarily used as a policy tool by the state government to access debt without due consideration to its impact on the state debt profile. This is evidently clear as the actual debts incurred between 2019 - 2023 were above the policy benchmark of 40%. But the policy benchmark with respect to debt services and Gross Domestic Product considerations, were strictly below their expected benchmark of 15% and 25% respectively.

The above simply means that the state neglected the policy tool during debt procurement, but considered it during debt repayments or services. The direct impact of this arbitrary action has led to constant increase in Enugu State

debt profile despite effort at debt services or repayments during this period.

## RECOMMENDATIONS

With regards to the findings of this research work, the following recommendations are hereby made:

- Enugu State Debt Management Policy should be religiously adhered in debt procurement and management. This will tend to make the people trust the government and bring about rapid development in the state.
- Enugu State government should embark on project tied loans that can repay itself as this shall bring about infrastructural development and industrialization.
- Enugu State government must improve its revenue base, which will have direct impact on the state Gross Domestic Products.

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