FOREIGN DEBT MANAGEMENT AND NIGERIA’S DEBT PROFILE 1999-2007
A CRITICAL ANALYSIS

BY

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This work is dedicated to God Almighty the creator of the universe.
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ABSTRACT

This work examines the Nigeria’s foreign debt profile, in relation to the debt management plans adopted to manage Nigeria’s increasing debt stock. The theory of dependency is used as a framework of analysis. This views the foreign debt problem as arising from the peripheral nature in the world capitalist economy which Nigeria belongs, including the structures of the international capitalist economy, that ensures the periphery depend on the core for everything including finance, technology et cetera. Data were gathered through qualitative method of data collection from secondary sources like books, journals, government publications and so on. To ensure that data from the secondary sources were given qualitative interpretation and analysis, we applied qualitative descriptive method of data analysis. Through the historical research design we were able to observe and carefully analyzed the Nigeria’s debt management strategies and relate it to the present and future nature of Nigeria’s foreign debt. We find out that Nigeria debt looked sustainable in relation to the GDP, since Nigeria exited from the Paris club debt which returned the country’s debt to sustainable levels. We equally submit that some of the management strategies Nigeria adopted reduced the country’s total debt stock. Finally, we draw our recommendations based on the findings of our research work, which was vividly summarized in our conclusion.
CHAPTER ONE

INTRODUCTION

1.1 Introduction

The issues of foreign debt have enveloped the whole of African states; and are of external and internal in nature. Internally, the high importation rate, African huge dependence on foreign aids, high rate of corruption by the government official induces borrowing of loan. Externally, the global economic crisis, the changing on prices of oil in the international market, and so on, initiated debt in Africa states.

Nigerian foreign indebtedness started during the Gen. Obasanjo regime in 1977. The government first set to borrow ₦600 million (1 billion Us dollar) which was followed with another huge borrowing of ₦734 million (1.456 billion us dollar) in 1978. Thereafter, there were borrowings by both the federal and state governments which later aggravated the Nigerian debt problem (www.centralbank.org/paymentstem/externaldebt.htm). By 2005 Nigeria external debt stood at ₦35 billion and its domestic burden stood at ₦1.87 trillion (Fasan, 2006; Usman, 2007.1-2) servicing of this debt and interest payment on the loan took over 40 billion naira.

Nations embark on borrowing in order to stimulate development that would better the conditions of its citizenry. This was showed in the aftermath of the Second World War that devastated Europe. Germany embarked on reconstruction and rehabilitation through external borrowing under the umbrella of the Marshal plan. Seemingly after the colonial rule countries needed external credits to develop their countries as well as the socio-economic needs of citizenry.

The heavy reliance on external credits for development in the newly independent African countries turn out to be the albatross that trapped most African
countries which Nigeria is among from developing and unable to repay the debt, and
got trapped in debt crisis which effected their socio-economic development, foreign
policy interest and the nation’s relation in international system. These were
occasioned by the unfavourable terms usually attached to these loans, mismanagement
and policy inconsistency.

The African debt reached its peak in the early 1980s, when the economic
misfortunes of the continent started to rear its ugly head. Prescriptions to revive
African economy were offered by IMF which includes deregulations, privatization
and liberalization (Obaseki and Bello, 1995). The servicing of these debts became a
big problem. The Obasanjo administration in 1999 was faced with this excruciating
debt burden and servicing that gulp up to $2 billion annually. This huge debt burden
which the Obasanjo administration inherited prompted it to canvass for debt
relief/cancellation; that yielded good result in the Paris Club cancellation of $30
billion about 60 percent of total debt owed by Nigeria in 2006 and 2007 (Omemma,
2008). With the annual debt services payments failing from $1.8 billion, it was
thought that annual earnings would be directed at enhancing investments in national
development and economic growth. Four years after this great achievement, the
figures from the Debt Management Office (DMO) shows that Nigeria’s external debt
as at last August, 2010 stood at $3.95 billion. Both domestic and external debt
portfolio was put at $27.36 billion or $4.104 trillion, representing 13.8 percent of the
gross domestic product (GDP) (The Daily Sun, 2010). Thus, the main focus of this
study is to critically examine the Nigerian debt profile as regard to the management
strategies adopted by Nigeria within the period under study.
1.2 STATEMENT OF PROBLEM

Nigeria owed about $28 billion from 1980 to date; out of which $4.8 billion was incurred during the import licensing period. Similarly, the Federal Government owed the Central Bank of Nigeria (CBN) about ₦596 billion (about 60 percent of the domestic debt) the financial system about ₦386 billion and the non-banking sector, additional ₦6 billion. These sums represent about 10 percent and are larger than the budget allocation for health and education sectors (Debt Management Office, 2003).

In 1999 when the Obasanjo regime came into office, Nigeria owed ₦537.5 billion domestic debt and ₦633.1 billion external public debt. The debt problem started from the jumbo external loans and the flippant domestic loan which the regime took in 1978, even when such loans were not needed by Nigeria. Succeeding regimes wallowed in spurious domestic and external borrowings that by the end of 2005, the outstanding domestic debt stood at ₦1, 525.9 billion, and the external debt increased to $35.95 billion.

This was the situation the country found itself at the inception of the Obasanjo’s regime in 1999. The regime canvassed chiefly for debt cancellation or relief, since $2 billion was used annually to service these external debts. The country had expended over $31 billion on debt repayments.

Seemly, it was uplifting to know that Nigeria was almost free from debt even though all the indices of growth were almost absent, and inflation did not significantly reduce. The little gain we got from the debt reprieve could not be managed adequately to foster economic development in Nigeria. Instead of the Debt Management Office, Central Bank and Federal Government to carefully manage the debts; it appears that
the federal government is interested in contacting more debts for the country. This was just as the warming from the former Finance Minister, Okonjo-Iweala who played a major role in the country’s 2005 Paris Club debt relief deal, at the 2010 World Bank/International Monetary Fund Annual Meetings in Washington D.C. She warned that Nigeria should stop the accumulation of domestic debt, to prevent unfavorable consequences such as clouding out private sector.

The main concern of this study can be stated specifically in form of the following research questions.

1. Is debt profile from 1999-2007 sustainable in relation to Nigeria’s GDP?
2. Did Nigeria’s debt profile undermine her development initiatives?
3. Is the debt management plan adopted by the Nigerian government effective in managing her foreign debt?

1.3 OBJECTIVE OF STUDY

The broad objective of this study is to critically assess the Nigeria’s foreign debt profile (1999-2007) and its management plans. However, its specific objectives are:

1. To determine whether debt profile from 1999-2007 sustainable in relation to Nigeria’s GDP.
2. To find out if Nigeria’s debt profile undermine her development initiatives.
3. To ascertain whether debt management plans adopted by Nigerian government is effective in managing her foreign debt.
1.4 SIGNIFICANCE OF STUDY

This research is of both theoretical and practical significance to the students, policy makers, the Debt Management Office (DMO), economists as well as the general public. Theoretically, this research work seeks to fill a gap in existing literature relating to Nigeria’s foreign debt profile and management strategies.

Practically, this study attempts to provide vital information for future academic research bordering on the topic and other related issues/topics. The findings of this study will be relevance to policy makers, diplomatic personnel engaged in negotiating debt on behalf of Nigeria, as well as the Debt Management Office that is saddled with the responsibility of prudently managing Nigeria’s debt in order to achieve the nation’s objectives as regards to debt management.

1.5 LITERATURE REVIEW

In this section of the study, we aimed at conducting a careful review of relevant and related literature focusing on the research questions with a view to identify a gap in the related literature.

Debt Profile and Nigeria’s GDP

Foreign debt (external debt) is that part of the total debt in a country that is owed to creditors outside the country. The debtor can be the government, corporations, or private households. The debt includes money owed to private commercial banks, other governments or international financial institutions such as the IMF and World Bank (Wikipedia, 2010).

The International Monetary Fund (IMF) in its definition sees foreign debt as the gross external debt at any given time; the outstanding amount of those actual
current and not contingent liabilities that require payments of principal and/or interest by the future and that are owed to non-residents of an economy. In this definition however, IMF defines the key elements as follows:

(a) **Outstanding and Actual Current Liabilities**: For this purpose, the decisive consideration is whether a creditor owes a claim on the debt. Debt liabilities here include arrears of both principal and interest.

(b) **Principal and Interest**: When this is paid periodically as commonly occurs, it is known as an interest payment. Every other payment of economic value by the debtor to the creditor that reduces the principal amount outstanding is known as principal payment. This definition of external debt does not distinguish between if the payments that are needed are principal or interest or both. The definition does not equally indicate particularly that the timing of the future payments of principal or interest need be known for a liability to be grouped as debt. IMF still went further to assert.

(c) **Residence to Quality as an Indicator of External Debt**: The debt liabilities must be owed by a residence to a non-resident. Residence is determined by where the debtor and creditor have their centre of economic interest – that is where they are ordinarily located and not their nationality.

(d) **Current and Contingent**: Contingent liabilities are not included in the definition of foreign debt. They are normally seen as arrangements in which certain conditions must be fulfilled before a financial transaction takes place. From the standpoint of understanding vulnerability. There is analytical interest in the potential impact of contingent liabilities on the economy and on
particular institutional sector such as government. Foreign/external debt is classified into four headings:

(a) Public and publicly guaranteed debt.
(b) Private non-guaranteed credits.
(c) Central banks deposits, and
(d) Loans due to the IMF: This can differ from country to country (IMF debt – and reserve related indicators of external vulnerability, Policy Paper, 2000).

Nwoke (1990) defined foreign loan/debt as organized credit negotiated between two countries on terms acceptable to them that are usually between industrialized creditors and the underdeveloped borrowing countries. He maintained that the sole aim for lending by the western creditors were basically for profit making, and therefore may be impossible for loan to improve on the economy of the nation and the living standards of the citizenry; especially as we depend on the western economy for investments, technology, market and so on.

In order to foster our national reliance and provide improved economic well being for the people; Nigeria took loans, aids and grants both internally and externally for development; and those loan have turn into a huge burden to her, and making it difficult to have adequate financial resources for social services and the provisions of infrastructure essential for development (Momoh, 2005).

In his analysis however, we observed that large percentage of the foreign loan Nigeria got has not necessarily used for financing of development project but were rather looted and shared by the political leaders; and its repayment/servicing became a big burden for the country.
But Ake (2001) observed that the foundation for debt in Africa was laid soon after independence when the new leaders of Africa settled on economic development. His observation revealed that the debt crisis in Africa is a shared responsibility between the countries of Africa and their creditors. He insisted that the creditor countries should take the large share of the blame because it was their activities in Africa during the colonial era that actually weakened the structures of Africa's economy. This resulted in the emerging leaders at the independence of African state, to hook on the developed economy of the western states for their economic and development survival. Ake argues that the consequence was what has become known as dependent development, because the conditions attached to the foreign loan/aid took for granted the validity of its inherited economic structure (Ake, 2001:19).

This view was collaborated in Igwe (2005) writing on the World Bank and International Monetary Fund (IMF) and Nigeria’s Reform process, noted that Nigeria is a peripheral state in the world capitalist system. Nigeria political independence was not liberation from the claws of colonial masters inasmuch as economic independence is absent. The inherited structures (economic, political and social) which were meant to help in economic advancement were well under the influence and control of the imperialist capitalism. These equally apply to our government and national development plans.

In his argument, he maintained that the poor performance of the public sector helped to increase the depression in the midst of harsh economic conditions in most countries including Nigeria, which as a consequence lead to balance of payment problems, debt servicing obligations, default in loan repayment. This forced the
leaders to turn to multilateral financial institutions, which in turn prescribed measures that were meant for economic reforms of distressed countries in need of assistance.

The important issue here is what are the indicators for external debt sustainability and how would Nigeria be able to keep or maintain its debt at a sustainable level? In order to at least, escape from dictates from multilateral financial institutions, default in loan payment, debt servicing obligations and so on. Sustainable debt is however the level of debt which allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling and avoiding accumulation of arrears, while allowing an acceptable level of economic growth (UNCTAD/UNDP, 1996).

According to IMF Debt, and Reserve-related indicator of external debt sustainability analysis is generally conducted in the context of medium term scenarios. These includes numerical evaluations that take account of expectations of the behavior of economic variables and other factors to determine the conditions under which debt and other indicator would stabilize at reasonable levels, the major risks to the economy, and the need and scope for policy adjustment. In these analysis macroeconomic uncertainties, such as the outlook for the current account, and policy uncertainties, such that fiscal policy, tend to dominate the medium-term outlook.

On the other hand, IMF and World Bank maintained that a country can be said to achieve external debt sustainability if it can meet its current and future external debt service obligations in full, without recourse to debt rescheduling or the accumulation of arrears and without compromising growth. According to these two institutions, external debt sustainability can be obtained by a country by bringing the net present
value (NPV) of external public debt down to about 150 percent of a country’s exports or 250 percent of a country’s revenues. High external debt is believed to have harmful effects on an economy.

According to data from CIA Fact book (2009) there are various indicators for determining a sustainable level of external debt. As each has its own advantage and peculiarity to deal with a particular situation, there is no unanimous idea/opinion amongst economists as to one sole indicator. These indicators are primarily in the nature of ratios – comparison between two heads and the relation thereon and thus facilitate management exercise. These indicators can be thought of as measure of the country’s solvency in that they consider the stock of debt at certain time in relation to the country’s ability to generate resources to repay the outstanding balance. The CIA Fact book still revealed that examples of debt burden indicators include the

(a) Debt to GDP ratio

(b) Foreign debt to exports ratios

(c) Government debt to current fiscal revenue ratio. This include structure of the outstanding debt and

(d) The share of foreign debt

(e) Short term debt and

(f) Concessional debt in the total debt stock.

There are set of indicators which focused on the short-term liquidity requirements of the country with respect to its debt service obligations. Examples of liquidity monitoring indicators include the (a) Debt service to GDP ratio, (b) Foreign debt service to exports ratio, (c) Government debt service to current fiscal revenue
ratio. The final indicators are more forward looking as they point out how the debt burden will evolve over time, given the current stock of data and average interest rate. These indicators are not only useful early-warning signs of debt service problems, but also highlight the impact of the inter-temporal trade-offs arising from past borrowing decisions. These ratios show how the debt burden ratios would change in the absence of repayments or new disbursements, indicating the stability of the debt burden.

The assessment of external debt sustainability beyond the medium term is subject to considerable uncertainty, as long term rates of interest, economic growth, export income and government finances cannot be predicted with any degree of precision (Adam, 2009). He maintained that uncertainties on external debt sustainability, is viewed from standpoint of government committed to servicing its debt in every circumstances. He warned that such government would need to take into account the fact that its future revenue, growth outcome and other resource balance are uncertain, and that it could face possibility of a long period of low revenue in the future. To be credibly committed to servicing its debt in all circumstances, the government cannot borrow-more than the debt that it would be able to sustain with the resource balances that would occur with these low revenue outcomes. If actual debt were below the maximum sustainable debt level, the government would be able to borrow until the threshold was reached, at which point it would need to reduce expenditures or imports to sustain the credibility of its commitments.

Solomon (1977), Avramovic et al. (1964) in their analysis stated that the key relationship in assessing the debt sustainability is that between the interest rate on debt and the rate of growth of output. Emphasis is placed on the role of external finance in
raising investment; so, if the marginal return on investment exceeds the real interest rate, no debt difficulties are foreseen.

Other group assesses debt sustainability, by looking at the debt strategy as sustainable if it covers a ratio of external debt to GDP ratio that is stable, and then to calculate the trade or non-interest current account that would achieve that. If the actual traded balance is less than the debt stabilizing balance. The difference between the actual and debt stabilizing trade balance indicates the degree of trade adjustment that is needed to achieve a constant debt-to-GDP ratio (Gary, 1998; Gunning and Mash, 1998; Blanchard, 1990; Chalk and Hemming, 2000).

**Debt Profile and Nigeria’s Development**

According to Obadan, (2004) Nigeria started to experience external debt problems from the early 1980s, as a result of fall in the prices of oil in international market that caused a reduction in foreign exchange earnings of the country. The increase in the volume of Nigeria’s debt is a reflection of increase in the loans from the International Capital Market (ICM) and multilateral institutions, bilateral sources, the accumulation of trade arrears, default charges on over-due scheduled payments, capitalization of unpaid interest and the depreciation of the dollar.

Most of the loans taken by Nigeria, particularly in the pre-structural adjustment period, were sourced to finance development projects. It was during the period of the Structural Adjustment Programme (SAP) that borrowing for balance of payments support became very popular. But before now, borrowed funds were used to procure import needed for development projects. The country’s borrowings from the World Bank are mainly for agriculture, water supply, road network, education, port
development, small and medium-scale industrial projects, urban development, and aspects of infrastructural development (Debt Management Office, 2008). Nigeria’s resort to the international capital markets for loans was the beginning of reckless borrowing by the successive governments. This caused a very deep deterioration in the internal debt profile and generated payments crisis, thus creating the need for rescheduling and refinancing.

Looking at the introduction of structural Adjustment Programme (SAP) in restructuring the economy of Nigeria, as a form of compliance to the dictate of International Monetary Fund, World Bank, Paris Club, and other International Finance Institutions. According Adeyemi (1996) the philosophy of SAP was predicated on demand management as a measure of curtaining external imbalance with a restrictive monetary policy. The main objective of SAP, he maintained was to achieve non-inflationary growth and to stimulate domestic production of tradable goods. Moreover, SAP was to achieve a sustainable external debt service profile and hence, domestic savings and investment and inflow of external resources.

Under the SAP period the external debt burden increased from $19.5 billion in 1985 to $34.4 billion in 1991 as a result of new borrowings, increased in foreign interest rate, capitalization of unpaid interest charges as well as the appreciation of exchange rates of various European and Japanese currencies against US dollar. The debt service ratio which stood at an annual average of 16.3% from 1982-1985 increased to 26.7 percent from 1986-1994 creating a great strain on the foreign exchange earnings.

However, Udoka, (2010) maintained that:
The pains of SAP include foreign exchange shortage, inflation increased unemployment, deterioration ink health and educational standard while money income was failing. The cost of living was escalating destroying the welfare of the citizen (Udoka, 2010:5)

Thus, accepting the implementation of the Bretton Wood institutions and the international capitals since 1988, in Nigeria resulted in declining real income, high cost of living, rising inflation, widespread poverty, unemployment, social inequality and collapsing essential services (Ifesinachi, 2008). This scenario had been lead credence to by Akpuru-Aja (2000) when he maintained that accepting the IMF conditionality and Structural Adjustment Programme (SAP) in the Buhari and Babangida administration had multiple negative trends in the economy; such as those mentioned above.

In the views of Arikawe, (2003) Nigeria’s debt burden has grave consequences for the economy and the welfare of the citizens; as the servicing of the huge external debt has severely encroached on the resources available for socio-economic development and poverty alleviation. This has also effect negatively the inflow of foreign investments, as debt service problem persisted.

A total of $8,943.45 million was paid in 2005, in servicing the external debt an amount considered as the largest debt service payment in the country (DMO, 2005). The Obasanjo government made effort to free the country from this huge debt service burden and free up resources for development in the country. Attention was paid in obtaining rapid and sustainable external debt reduction from the nation’s main creditors. The major strategy employed by the regime include regularization of relations with the international financial community to pave way for constructive
engagement with members of the Paris Club; negotiation of favourable terms for debt rescheduling and restricting under traditional debt relief tools in the short run, and building on that in the medium term, to secure deeper and more substantive reduction (Arikawe, 2004).

However, the debt service burden if removed can improve the developments particularly as the views of Obadan (2004) and Muhtar, (2005) suggest according to Obadan, (2004) the need to reduce the debt service burden substantially in order to release foreign exchange to fund economic recovery programmes as well as make the continued contracting of burdensome new loans unnecessary. While Muhtar, (2005) suggested that the removal of the debt overhang will help to restore investors confidence in Nigeria, attract increased foreign direct investment and facilitate the smooth conduct of trade with other countries by improving access to the facilities of export credit guarantee agencies.

But the important issue here is how would Nigeria avoid strenuous debt which usually attached strident measures that affects her negatively? This is because the issue of debt service payments; as it affect development negatively have faced Nigeria and other countries since early eighties. At a time when as result of the faster growth of debt service over external reserve; the Nigeria’s debt burden increased and made payment a difficult task. Just as the country expanded annually $3 billion about 30% of our total revenue on servicing the foreign debt that was initially $17 billion, being the actual capital borrowed (Okonjo-Iweala et al., 2003).

Obasanjo in his view tried to locate the factor responsible for the huge foreign debt burden. This views flows like this:
Those that ran up the huge national debt are indeed a minority but they had power and opportunity. They signed all sort of agreement at outrageous interest rates; squandered loans obtained in the name of development, drew down on foreign loans without executing any jobs and in other cases, stole or wasted such loans (Obasanjo, 2006:23).

According to him, factors responsible for Nigeria’s foreign debt burden are political rascality, bad leadership, abuse of office and power, criminal corruption, mismanagement and wastes, misplaced priorities, fiscal indiscipline, weak control and a common unity that was openly tolerant of corruption and extralegal methods of primitive accumulation. Thus, by implication Nigeria appeared to be prone to debt trap; if it continued to borrow without internally restructuring of its institutions which promotes fiscal indiscipline and mismanagement.

According to the opinion of Dr. Maiyakin in the Nigeria Daily Independent, he stated that debt relief has the capacity of transforming the country from poor nation to an industrialized sovereign state. He explained that debt relief will strengthen the National Economic Empowerment and Development Strategy (NEEDS). According to him, the accruals from the relief can be ploughed to the depressed sectors of the economy such as education, housing and other poverty alleviation programme that would better the life of the people.

Whereas in the views of Aluko (2007) the regime of Obasanjo was pressured to pay much of the remaining $5 billion external debt, even when the high domestic public debt of ₦1.526 billion was still left unattended to he stated that the regime owed ₦875 billion pension and salary arrears; and another ₦160 billion to the Lagos State government. All these with the increased withdrawal of government from
actively promoting the economy have led to the increased miseration of Nigerians. Majority of Nigerians are poor, economically, today than they were at the inception of the Obasanjo regime in May 1999 (Aluko, 2007). The implication of this analysis is that debt relief granted Nigeria in 2006 does not yield any appreciable growth in the economy. This also underlined the penchant of the international financial institutions in deepening dependency, by attaching stringent conditions for debt relief, which invariably brought Nigeria back in debt trap.

In the case of using public debt as one of the instruments of financing government expenditures; have lead to decline in the nation's external assets, decline in the productive capacity of the national economy with all its attendants effects on macroeconomic environment has huge social and human cost. It was noted by (UNICEF) in 1990 that about a thousand people die in Africa due to debt burden hanged on the neck of the continent (The Daily Times Editorial, 2003).

**Debt Management Plan and Nigeria’s Foreign Debt**

External debt management according to Ajayi, (2001) refers to the gamut of international and technical arrangements in organizing the external liabilities of a country so that the debt service burden is kept within sustainable level. He maintained that technical aspect of debt management is concerned with the determination of the amount or level of debt the economy can sustain and the conditions of borrowing are on favourable terms and are consistent with the future debt servicing capacity. While the institutional aspect to include the administrative, organizational, legislative, accounting and monitoring aspect of managing both the new borrowings and old stock of debt. More emphasis is laid in the both aspects, in reducing the debt service burden
or keeping it stable. External debt management involves among other things estimate of foreign exchange earnings, sources of external finance, projected returns from the investment the loans have financed, the repayment schedule and debt service burden, choice of debt instruments, the amount to be borrowed and the currency composition and the terms of the debt service; an assessment of the country’s capacity to service existing debt and judgment as to the desirability or otherwise of contracting further loans.

In order to improve on sustainability of debt management, the Federal Government in 2000 created a debt management office (DMO) to assume more proactive management of commercial debts. Other debt functions were consolidated in this single semi-autonomous debt management office. Proactive debt management involves continuously seeking possibilities to restrictive debt by taking advantage of market opportunities (Udoka, 2010). He however, maintained that prior to the establishment of DMO, debt management in Nigeria was characterized by systematic and structural deficiencies, which includes:

- Inaccurate and incomplete loan records,
- Diffusion of responsibilities across numerous agencies,
- Inadequate data recording system and poor information flows across agencies,
- Complicated and inefficient debt service/payment arrangement,
- Low quality human resources and poor incentive system,
- Lack of a coherent, well defined debt strategy. It was against this background that the debt management office (DMO) was created.
The new Debt Management Office is charged with the following responsibilities.

- Maintenance of comprehensive, accurate and timely records of the country’s debt;
- Prudent management of the debt portfolio and ensuring its effective servicing;
- Negotiating with, and ensuring debt relief from creditors;
- Assessing and advising government on new borrowing;
- Advising government on national debt strategy and borrowing policy;
- Issuance of FGN domestic debt instruments tradable in the capital market and having long term tenure, with a view to depending on the capital market and eliminating the monetary financing of deficits (Nwankwo, 2011).

The new Debt Management Office (DMO) is being developed in phased manner, with initial focus set on the centralization and consolidation of external debt management functions hitherto undertaken by the Federal Ministry of Finance and the Central Bank of Nigeria. The second phase will focus on incorporation of domestic debt management activities, to ensure proper linkage with fiscal and monetary policies (Arikawe, 2001). He further maintained that DMO has made considerable progress in auditing the country’s loan portfolio, updating and computerizing the debt database, and reconciliation of figures. Efforts are also currently been put in place to strengthen the external debt service procedures, with a view to improving efficiency and timeliness, while maintaining effective controls and safeguards.

Debt Management Office (DMO) collaborates with other government agencies for various activities, including the conduct of Debt Sustainability Analysis (DSA),

Nwankwo, (2011) posited that the new Debt Management Office, articulated the following as its vision and mission. The vision is to manage Nigeria’s debt as an asset for growth, development and poverty reduction. The mission is to rely on a well motivated, professional workforce and state of the art technology, to be among the emerging markets’ top ten Debt Management Offices, in terms of best practice and contribution to national development, by the year 2012.

In the area of national debt strategy, the main objective is to achieve sustainable debt profile and continue to maintain growth supporting debt portfolio. Though the debt management strategies and measures varied from time to time since the 1980s, when the external debt became a serious issue that borders the government. The government over the years adopted strategies which are aimed at the debt problem; and to reduce the debt stock and servicing obligations. Thus, according to Debt Management Office (2008) to achieve substantial reduction in the debt stock, thereby reducing debt burden of Nigeria. The debt management office, introduced measures and strategies aimed at reducing the debt burden; and it includes:
• Debt conversion scheme, which was aimed at promoting foreign investment and job creation, and thereby reduce the debt stock.

• Embargo on new loans is aimed at restricting external borrowing to the barest minimum, and to check the increase in the total debt stock.

• Limits on debt service involve setting aside portion of export earnings to allow for internal development.

• Debt restructuring includes the reduction in the burden of contracted loan, through refinancing, buy back, issuance of collateralized bonds and provision of new money. Thus, in accordance with Paris Club Agreed Minute IV, the Debt Management Office of Nigeria had been negotiating on a bilateral basis with the fifteen creditor countries on the specific details of each agreement. The negotiation centered on the final reconciliation of eligible debt, as well as bilateral negotiations on the specific terms of rescheduling the eligible debts, including the applicable interest rates (Debt Management Office, 2004).

According to DMO (2004) there are three measures or strategies that have been applied to developing countries by creditors, these are; Traditional Approach; HIPC (Heavily Indebted Poor Countries) initiatives; and Evian Approach.

1. **Traditional Approach – Endless Cycle Rescheduling**

The creditor countries have relied on the traditional approach towards addressing international debt crisis for many decades now. This have taken the form of debt rescheduling and refinancing, and complemented in varying degrees by minor cancellations especially for Overseas Development Assistance or ODA debts; debt buy-back; debt conversion and other restructuring mechanism. This relief strategy
centered on a number of key elements including – (i) requirement for adoption of macroeconomic stabilization and structural reform programmes endorsed by the Bretton-Woods Institutions and (ii) the requirement for establishing a track record of economic reform performance before qualifying for debt relief. The major relief measures involved are as follows:

**The Venice Terms:** The term provided for lower interest rates, and longer repayment and grace periods. It was introduced in 1987 for the poorest countries that were undertaken adjustment. Nigeria did not benefit under this.

**The Toronto Terms:** It was introduced to succeed the Venice Terms in June 1988 and was made available for the low income heavily indebted IDA only (for International Development Association-only) countries. The term provided lower interest rates, further lengthening of maturities and partial debt service write-offs that together could provide about 33 percent debt service relief. Nigeria was not a beneficiary under the terms.

**The Houston Terms:** These terms were proposed for the middle-income countries and allowed for deferrals of payments, rather than debt reduction. These terms were introduced in July 1990. Nigeria’s debts were rescheduled four times under this arrangement.

**The Enhanced Toronto Terms:** These were formulated in 1991 to provide 50 percent service reduction as well as other enhancements that could ensure more even spread of debt service payments. Nigeria did not benefit here as well.

**The Naples Terms** was adopted in December 1994 for the poorest and most indebted countries. It provided up to 67 percent relief on the net present value of the
debt which could apply to stocks and flows depending on each country’s balance of payment. Nigeria’s Paris Club debt deal was under Naples Terms.

2. **The HIPC (Heavily Indebted Poor Countries) Initiatives**

The major objective of this initiative according to Ezeabasili, (2011) is to reduce the debt burden of those poor countries adjudged to be heavily indebted. They would have the capacity to repay; that is to a sustainable levels. It was founded in 1996 before the Enhanced version replaced it in 1999 before the enhanced is designed to provide according to the Bretton Woods Institutions faster, deeper and broader debt relief and strengthen the links between debt relief, poverty reduction and social policies.

Eligible country requesting for HIPC initiative assistance must have prepared a poverty reduction strategy paper (PRGF). They are also required to adopt adjustment and reform programs supported by the IMF (in form of Poverty Reduction and Growth Facility, (PRGF) and the World Bank, with satisfactory record of compliance. The debt sustainability analysis also would show that the country’s debt capacity indicator meet the criteria. On attaining the decision point, the country would get the debt stock relief. Both the official and commercial creditors are supposed to participate in the enhanced initiative. Thus, during the period between decision and completion points; the country would have to establish a further track record of good policy performance under the IMF/World Bank – supported programs including satisfactory implementation of key structural and macroeconomic policies and poverty-reduction strategy.
Eligibility for HIPC debt relief is based solely on low per capital income level, high debt sustainability indicators (mainly high external debt/export ratio), and having the status of being an IDA country. While many countries with similar debt sustainability indicator and per capital income level as Nigeria have either benefited or are deemed to be potentially eligible to benefit under the initiative. Nigeria was denied eligibility technically, because Nigerian does not have the ‘IDA-Only’ Status. Ezeabasili, (2011) maintained that a country is accorded by the World Bank an ‘IDA-Only’ status if it has a low per capital income not more than $885 and lack access to foreign credit markets, Nigeria should have been accorded the ‘IDA-Only’ status and, hence should have been eligible to seek HIPC-debt relief. But surprisingly, Nigeria has been denied eligibility. Some moderately indebted low-income countries and even some middle-income countries are eligible HIPCs (and accorded ‘IDA-Only Status) while Nigeria, severely indebted low-income country was not. The only reason for excluding Nigeria by the Bretton Woods Institutions was Nigeria’s policy stance. The stance has since improved dramatically recently, and the status of Nigeria still was reviewed (DMO, 2004).

3. The Evian Approach

This is an agreement reached towards debt relief; by the G8 summit in Evian in 2003. The approach set out changes to the way in which Paris Club will treat non-HIPCS low—and middle-income countries. The Paris Club has offered debtor countries a menu of options, depending on their level of indebtedness but also on their income grouping. However, the poorest (IDA-Only) countries could receive debt relief on Naples Terms; a two-third (2/3) reduction in their debt stock or for countries
involved in the Enhanced HIPC initiative, which is around 90% debt reduction (though only in principle) under the Evian approach, the Paris Club adopted more flexible approach. Thus, for other countries, the most generous deal available was Houston Terms under which debts are rescheduled for over 20 years, but with no debt write off. The Evian approach is designed to be a tailor-made approach and it is linked to a debt sustainability analysis prepared by the IMF. The Paris Club would now look at the sustainability of a debtor country’s long term debt position, as opposed to short term cash needs. If the debt position is clearly seen to be unsustainable, creditors will adopt a more active approach, including debt reduction if necessary, with the view of offering a long term solution. This approach only affects bilateral debts; and ignored multilateral and commercial debts, which constitute about 20 percent of Nigeria debt stock (DMO, 2004).

There have been studies on impact and sustainability of external debt, Nigeria debt relief from Paris Club. Foreign policy and politics of debt relief causes, and profile of Nigeria’s external debt. These includes: Ajayi (1991), Onuoha, (2008), Adams (2007), Ezeabasili (2011), Klein (1994) these studies were limited in scope, nature and analysis of foreign debt and the management strategies. It is however, important to analyze in detail sustainability of Nigeria’s foreign debt and link it to developments in Nigeria. Thus, much has not been done in the area of analyzing Nigeria’s foreign debt profile within the debt management framework applied to reduce the debt burden/profile, within the period under review. It is therefore against this background that the study is considered as a modest contribution to this literature gap.
1.6 THEORETICAL FRAMEWORK

In this work we adopted the dependency theory as a framework of our analysis. The theory was developed and popularized by eminent third world political economist such as Andra Gunder Frank (1969), Samir Amin (1976), John Galtung (1972), Fernando Cardoso (1972), Water Rodney (1969), Chinweizu (1974), Claude Ake (1981) and other proponents.

The assumption of the theory was based on the implication that economic developments of the less developed countries are dependent on the advanced countries. It holds that there is one functional integrated whole in which the underdeveloped periphery is necessarily backward and underdeveloped because the periphery is systematically exploited and prevented from developing by international capitalism and its reactionary domestic allies in the third world economics themselves (Gilpin, 1987).

The implication of the above is that the increased quest for Nigeria, as a third world country to be integrated into the capitalist economy increases its dependency status. For example many of the third world merchandise are shipped mainly in foreign vessels and the attraction of foreign capital investments in order to avert economic bankruptcy. As within the capitalist system, the debtor countries manage economic crisis by attracting foreign investment or borrowing from the IMF and the World Bank. This is captured in Olukoshi (1990) that the origins of Nigeria’s external debt problem are structural, arising from its peripheral nature in the world capitalist economy. Thus, through the official Development Assistance (ODA) loans were disbursed with high interest rates and shorter repayment periods; this later form a
mechanism for transferring surpluses from the periphery to the core. Since a huge percentage of the foreign aid is required simply to cover the less developed countries repayments of the past aid disbursements. The dependency theorists viewed debt crisis as extreme cases of a debt trap; exploits the developing countries in the periphery and binds them to the developed countries of the core.

Some scholar views or rather relate debt crises with the legacy of colonialism. The colonial economies established a division of labour in which the colonies provided agricultural products and raw materials to the metropole, and in turn served as market for the manufactures from the metropole. This pattern still characterized the export and import structures of many third world countries, preventing them from earning the foreign exchange necessary for development. Although some third world countries are industrializing, they cannot escape from the indebtedness because they remained dependent on the core for technology and finance (Cheryl Payer, 1974; Peter Korner et al, 1986; Peter Evans, 1979).

Nigeria as a monoculture economy depends almost totally on export earnings from oil for its developments. Nigeria dependence on oil exposes the economy to the volatility of the international prices of oil. Over 90 percent of Nigeria foreign exchange earnings are from oil; a glut in the world oil market which began in 1977/78 financial year affected the implementation of the fourth National Development plan that was expected to cost about ₦80 billion; since projection was based on income from crude oil (Onoh, 1983). The implication is that the dependence economy of Nigeria would resort to internal and external borrowings to make up the deficit resulting from fluctuations in the international price of oil.
The debt relief granted Nigeria in 2005 reduced the debt burden; but it appeared systemic in nature. As Nigeria exit from Paris Club debt ignited her borrowing new loans that viciously brought her back in debt again. These underscore the utility of the dependency theory in this study.

1.7 HYPOTHESES


2. Nigeria’s debt profile undermine its development efforts.

3. Debt management plan adopted by the Nigerian government tends to worsen her foreign debt.

1.8 METHOD OF DATA COLLECTION

In respect to data collection in this study, we relied on qualitative method. Qualitative method is used to obtain in-debt information and concept clarification so as to facilitate instrument designs. Qualitative method is specifically useful when the task is to extract, illuminate and interpret valuable information so as to draw inference from available evidence in order to draw conclusion (Biereenu-Nnabugwu, 2006). Thus, the usefulness of qualitative method situates in its ability to gain access to organizational and bureaucratic structures. Accordingly, the study primarily depends on secondary sources of data. Secondary sources of data refers to a set of data gathered or authored by another person, usually data from the available data, archives, either in form of document or survey results, and books (Ikeagwu, 1998; 211) Selltiz, et al (1977; 317) captures the advantages of secondary sources of data to include that of economy. Also much of the information sort is collected periodically
thereby making the establishment trends over the time possible. Finally, information gathering from secondary sources does not require the cooperation of the individual of whom information is being sort. Thus, the main reason for depending on secondary sources of data is essentially because of the nature of this study, and the nature of data needed to test and validate our hypotheses.

In this study, we therefore rely on institutional and official documents from Central Bank of Nigeria (CBN), World Bank, IMF, Nigeria’s Debt Management Office (DMO) that contain information with respect to Nigeria’s foreign debt and debt management strategies. Equally, documents, statistics, graphs, tables on Nigeria’s debt profile; debt service payments, and in debt management plans is sourced from Nnamdi Azikiwe library university of Nigeria, Nsukka, and Center for American Studies (CAST) . These institutional and official documents mentioned, shall be complemented by other secondary data sources like published textbooks, journals, newspapers, conference and seminar materials, as well as electronic information, including other written works that borders on foreign debt management.

Finally, our reliance on the qualitative method in this study will be greatly enhanced by the experience of the researcher over the years as a keen observer of contentious national and international issues particularly that of Nigeria’s external debt.

1.8:1 METHOD OF DATA ANALYSIS

For the purpose of analyzing of our data, we adopted the qualitative descriptive method of data analysis. This is scientific method of transforming the symbolic content of a document be they words or images from a qualitative unsystematic form
to a quantitative systematic form (Festinger and Katz, 1966) Biereenu-Nnabugwu, (2006;384) on his own views qualitative descriptive analysis as analyzing qualitative data or information, and is used to find out the relative emphasis or frequency of various communication items. He maintained that it is the most popular technique for analyzing data from documentary sources. Qualitative descriptive method of data analysis is particularly useful as it enable the researcher to gain an insider view of the subject matter.

1.8:2 RESEARCH DESIGN

A research design is simply a plan that specifies how data should be collected and analyzed. In this view, data is information gathered through investigation with the aid of their instruments, techniques and other means and they have meaning only in relation to a particular problem being investigated (Obasi, 1999 citing Cohen and Manion, 1980). For the purpose of this study we adopted historical research design; for interpretation and analyzing our data. However, historical design involves the interpretation of the data in order to link the past to both the present and the future. The interpretation of the data must be made from the standpoint of whatever the hypotheses or theory that data will most adequately support (Osuala, 2005;164).

The historical research design involves the ability to arrive at an accurate account of the past. Through the historical research design, we were able to know what happened in the past and how and why (Nigeria’s debt management and profile 1999-2009) were observed and carefully analyzed and related to the present and future nature of Nigeria Foreign Debt.
Thus, this study as a scientific endeavour, we tend to make use of qualitative hypotheses, qualitative technique of data collection, and qualitative descriptive method of data analysis including, historical research design upon which we were able to make empirically generalized explanation and prediction of events.

1.8:3 METHOD OF DATA AUTHENTICATION

It is important to subject historical research data to internal and external test of validity in order to ensure its objectivity. Validity refers to the accuracy of a measuring instrument to measure what it is set to measure. In other words it reflects the true differences among individuals, groups, or situations in the characteristic which it seeks to measure, or the true differences in the same individual group, or situation from one occasion to another rather than constant or random errors (Selltiz et al., 1974).

In establishing the authenticity of the data, and the validity of its contents, a clear unbiased evaluation and explanation of the past event were made. Basically to arrive at clearer and better understanding of the present and make a reliable prediction of the future, that may ensure the reliability of our results. By reliability we refer to the ability of our measures to yield consistent result each time it is applied (Ifesinachi, 2010).
CHAPTER TWO
DEBT PROFILE AND NIGERIA’S GDP

2.1 THE HISTORY OF NIGERIA’S FOREIGN DEBT

External borrowing by Nigeria started towards the end of British colonial rule in the country. The last of such borrowing was the 1958 World Bank loan which was used to finance the Nigerian Railways Extension to Bornu in the Northern Nigeria. The loan stood at US $250 million about N₢82.4 million, the major component of these loans was a soft World Bank loan. And because not much borrowing took place in that decade, public charges were relatively small, averaging N₢3.2 million per annum and representing 0.2 percent of GDP (Obadan, 2002).

Nigeria borrowed sparingly and cautiously during the attainment of independence in 1960, when the shortage of foreign exchange became one of the bottle necks to national economic development. The country enacted laws guarding external borrowings. The Promissory Notes Ordinance and the External Loans Act were enacted respectively in 1960 and 1962. A backing fund for loan redemption was established under the Promissory Notes Ordinance while the External Loans Act required that external loans be used for development programmes and for lending to regional governments. The 1962 Act was amended in 1965 to broaden the end use of external loans. During this period, debt servicing was never a problem; hovering around 2% of exports. This cautious attitude prevailed throughout the 1960s and most of the 1970s (Umoren, 2001).

The country’s external debt was N₢82.4 million, N₢435.2 million and N₢488.8 million as at 1960, 1965, and 1970 respectively. The values of exports were N₢337.4
million, ₦536.5 million and ₦885.4 million respectively during these years. The legal frameworks failed to stop successive governments from abusing the external borrowing process. During the 1975-1976 periods, loans were contracted in mainly small amounts and were largely to supplement domestic resources for the provision of infrastructural facilities and agricultural projects.

By the mid-1980s, the debt profile had worsen seriously due to flippant acquisition of short term loans and trade arrears with little or no regard to the efficient management of the ensuring debt and its servicing. This have invariably resulted in rising arrears and unmanageable growth of the debt stock relative to avoidable resource stock, which was about US $9 billion in 1980, and grew to nearly US$ 19 billion by 1985. The debt stock as a percentage of total export earnings and GNP rose to uncomfortable levels of 151% and 24% respectively. In that year, the debt service payment due was a little above US$ 4 billion, which was about 33% of the total export earnings (Okonjo-Iweala, 2001).

According data from the World Bank’s Global Development Finance (2002) shows that between 1998-2000, the country’s key indebtedness ratios averaged as follows:

(a) Total debt stock to export of goods and service – 203%.
(b) Present value of debt service to export of goods and service – 112%.
(c) Total debt stock to gross national income – 105%.
(d) Present value of debt service to gross national income – 84%.
(e) Total debt service paid to export of goods and service – 6%.
The borrowing profile of the country changed drastically; as the then Head of State Gen. Olusegun Obasanjo obtained a jumbo loan of one billion (1 billion dollars). This singular act breaks the tradition of taking external loans in relatively small amount. With this the country’s external debt ballooned from million dollar category to that of billion dollars. Obasanjo also departed from the tradition of borrowing from multilateral/bilateral institutions to source loan from the international capital market. It was at the point that the country exposes itself open to possibility of external debt peonage. This was as result of the shorter majority date, higher and variable interest as well as shorter repayment period. The regime of Obasanjo took more loans before he handed over power to the civilian administration of President Shehu Shagari. The debts had climbed to $2,824.6 billion, ever since, the debts have increased until they peaked in 1988 to $29,282.0 million. Later in 2005, the debts hit an astronomical height of about $35.6 billion. Some reasons have been given for the skyrocketed debts, and include:

(a) More loans were obtained from both bilateral and multilateral institutions.
(b) More loans were sourced from the international capital market at commercial rates.
(c) The accumulation of trade arrears.
(d) Fines/penalties on the debts arising from over-due scheduled payments.
(e) The capitalization of unpaid interests.
(f) Depreciation of the US dollars against other major international currencies in which the loans were taken.
Giving reason why Nigeria’s debt skyrocketed, Dr. Ngozi Okonjo-Iweala, said that Paris Club debt payment of $12.119 billion demand before Nigeria’s other Paris Club debt $18 billion written off was accumulated interest arrears of the debts, several times over. In fact, the actual initial loan was $17 billion. Nigeria has not only paid $35 billion for this loan but paradoxically still owed about $35 billion until the Paris Club debt relief came.

2.2 THE CATEGORIES OF EXTERNAL CREDITORS

The Nigeria’s external debt could be grouped into two main categories – official and private. Official debts consist of Paris Club debts, multilateral debts and non-Paris Club bilateral debts. The private debts components on the other hand, are made up of uninsured short-term trade arrears contracted through the medium of bills for collection open account, etc and commercial bank debt acquired through loans and letter of credit, commonly referred to as London Club debts.

(a) Paris Club

The Paris Club is a cartel of creditor countries that provides an informal forum where countries experiencing difficulties in paying their official debt meet with the creditors to reschedule the debts. The club is an informal group with no permanent members and operates under the principle of consensus. Nigeria owed much of its external debt to the fifteen creditor countries belonging to the Paris club. Paris club debts are government-to-government creditors or market-based term loans which were guaranteed by various export creditor agencies of the creditor countries. Paris club member countries, to which Nigeria is indebted, are: USA, Switzerland,
Australia, Germany, Denmark, Italy, the Netherlands, Japan, the UK, Spain, Israel, France, Belgium, Russia and Finland.

(b) London Club

The London club falls into the category of commercial debts. The London club is a group of commercial banks that join together to negotiate the restructuring of their claims against debtor countries. London club debts are arrears of commercial bank term loans; it includes also some arrears of letters of credit, bills for collection, open accounts, dividends, airline remittances etc. The debts were consolidated in 1991 and amounted to US$ 5,437 billion. The term loans contracted by the Federal Government and the arrears of the non-term loan components were bought-back in January, 1992. The portion bought back accounted for 6.2 percent of the stock, which was bought at 40 cents to the dollar; the remaining $2.043 billion made up of state government’s term loans were collateralized with US treasury zero coupon bond maturing on November 15, 2020 (Arikawe, 2003).

(c) Multilateral Debts

These are project loans owed to multilateral financial institutions (Example the World Bank Group, the African Development Bank Group, the European Investment Bank Group, IFAD, and ECOWAS Fund).

(d) Non-Paris Club Bilateral Debts

This is another category of debts that are owed to countries, which are not members of the Paris Club and creditors resident in Paris Club countries but whose debts are not insured by the Export Credit Agencies.
(e) **Promissory Notes**

Promissory Notes are the second group of commercial debts, and are regarded as the Central Bank of Nigeria (CBN) promissory notes. They are trade arrears contracted by ordinary Nigerians, between 1981 and 1986 but who deposited local currency equivalents of the cost of their imports, through their local banks with the CBN, which in turn had no foreign currencies with which to make the remittances. This is why promissory notes are regarded as Federal Government of Nigeria’s (FGN) debt. The arrears were finally covered with promissory notes in January 1988; the stock amounted to $4.8 billion to be amortized quarterly ending on January 5, 2010 (Debt Management Office, 2005).

### 2.3 THE DOMESTIC VERSUS EXTERNAL DEBT PROFILE

At the inception of the democratic rule in 1999, Nigeria owed ₦537.5 billion domestic debt and ₦633.1 billion external public debt. The debt problem started in Nigeria mainly as a result of the jumbo loan the Gen. Obasanjo administration took in 1978, even when it appeared that the loans were not needed. Other succeeding regimes borrowed indiscriminately that by the end of 2005, the outstanding domestic debt of Nigeria increased to ₦1, 525.9 billion about three times that of 1999, and outstanding external public debt had increased to ₦4, 890.3 billion ($35.95 billion), also about three times that of 1999 in naira terms mainly because of the fall in the value of the naira over the period (Aluko, 2007).

In spite of the rise in the price of crude oil from $16.5 per barrel in 1999 to $70.2 per barrel in 2005, the country still wallowed in domestic and external debts. The wasteful attitude of the federal government increases the repulsion of domestic
and external debt in Nigeria. The repayment of the external debt the country were to pay $12.5 billion of the debt at a swoop, in order to receive $18 billion debt relief, an amount which no other debtor-nation in history has ever paid at once. This even when some other African countries, Asia, and Latin America, 42 of them obtained complete debt write-off. These western creditors observed that Nigeria had more money than they think; and they mounted pressure on the government to pay the remaining $5 billion external debt. Even at the face of high domestic public debt of ₦1.526 billion. The country still owed ₦875 billion as pension and salary arrears and another ₦160 billion statutory allocation to the Lagos State Government.

2.3:1 THE EXTERNAL DEBT PROFILE – 1999-2009

The actual initial loan Nigeria took was $17 billion. Nigeria has not only paid $35 billion for this loan but paradoxically still owed $35 billion until the Paris Club debts relief in 2006. The club debts accounted for about 75.26% of Nigeria’s total debt stock. There are other categories of debt make up the balance 25.74%. These other debts are breakdown as follows.

- **Bilateral debts** - $121.04 billion
- **London club** - $1.44 billion
- **Promissory notes** - $580.49 million

*(Debt Management Office, 2005)*.

All these approximated to $85 billion according Okonjo-Iweala, multilateral and bilateral debt portfolio are more manageable because large bulks of them are owed to multilateral institutions. The loans were secured under concessionary
arrangement with little or no interest rates; with 10 years moratorium and about 30 years of payment period.

Table 2.1: Nigeria External Debt Profile (US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Multilateral</th>
<th>Paris Club</th>
<th>London Club</th>
<th>Promissory Notes</th>
<th>Others</th>
<th>Total Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>3,933</td>
<td>20,507</td>
<td>2,043</td>
<td>1,486</td>
<td>69</td>
<td>28,038</td>
</tr>
<tr>
<td>2000</td>
<td>3,460</td>
<td>21,180</td>
<td>2,043</td>
<td>1,447</td>
<td>144</td>
<td>28,274</td>
</tr>
<tr>
<td>2001</td>
<td>2,798</td>
<td>22,093</td>
<td>2,043</td>
<td>1,292</td>
<td>121</td>
<td>28,347</td>
</tr>
<tr>
<td>2002</td>
<td>2,961</td>
<td>25,381</td>
<td>1,442</td>
<td>1,153</td>
<td>56</td>
<td>30,993</td>
</tr>
<tr>
<td>2003</td>
<td>3,042</td>
<td>27,470</td>
<td>1,442</td>
<td>911</td>
<td>52</td>
<td>32,917</td>
</tr>
<tr>
<td>2004</td>
<td>2,824</td>
<td>30,847</td>
<td>1,441</td>
<td>783</td>
<td>47</td>
<td>35,942</td>
</tr>
<tr>
<td>2005</td>
<td>2,512</td>
<td>15,412</td>
<td>1,441</td>
<td>649</td>
<td>461</td>
<td>20,475</td>
</tr>
<tr>
<td>2006</td>
<td>3,080</td>
<td>0.0</td>
<td>0.0</td>
<td>509</td>
<td>184</td>
<td>3,773</td>
</tr>
<tr>
<td>2007</td>
<td>3,080</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>184</td>
<td>3,264</td>
</tr>
<tr>
<td>2008</td>
<td>3,172</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>182</td>
<td>3,354</td>
</tr>
<tr>
<td>2009</td>
<td>3,093</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>182</td>
<td>3,272</td>
</tr>
</tbody>
</table>


Nigeria’s foreign debt profile changed immediately after her exist from the Paris Club debt deal in 2006, though Nigeria still maintain foreign debt stock with London Club at $1.4 billion; multilateral debts at $2.7 billion, promissory notes at 80.6 billion. Other non-Paris Club debt stood at $9.1 billion. Thus, as at the end of 2006 Nigeria’s total foreign stock outstanding stood at $3.5 billion. By 2007 the total foreign debt changed and stood at $3.6 billion down from about $35 billion in 2004. In 2008 it stood at $3.67 billion. According to Central Bank of Nigeria (CBN) reports, Nigeria has since 2006 been accumulating other debts.
Nigerian government was accumulating fresh foreign debts which raised up to $5 billion as at the end of 2009. However, the debt overhang increased slightly in 2008 to $3.72 billion, and later to $4.3 billion as at March 2010. Even when the Excess Crude Account rather than growing in line with global rise in price of oil, depleted from $20.1 billion in 2008 to $7.8 billion at the end of 2009 (*The Nigerian Compass*, 2010).

### 2.3.2 THE DOMESTIC DEBT PROFILE

On the domestic front, Nigeria have accumulated up to $22 billion equivalent of domestic debt, these are debt taken within the country. According to the DMO, about 85 percent of Nigeria’s public borrowing comes from the domestic market, while 15 percent represent external debt (DMO, 2010). The implication is that it have grave consequences on the economy and is capable of returning the country to debt crisis. The domestic debt stock stood at ₦1.7 trillion in 2007; and moved up to ₦2.1 trillion in 2009, and at present stood at ₦3 trillion, 2010. Concerns have been raised by credible persons like the former Governor of the Central Bank of Nigeria (CBN) Prof. Charles Chukwuma Soludo, and the former Finance Minister and Managing Director of the World Bank, Dr. Ngozi Okonjo-Iweala, on the rising nations domestic debt stock and the likely unpleasant economic and political consequences.
Table 2.2: Nigerian Domestic Debt Outstanding (₦ Million)

<table>
<thead>
<tr>
<th>Years</th>
<th>Treasure Bills</th>
<th>Treasure Certificate</th>
<th>Treasure Bonds</th>
<th>Development Stock</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>361,758.4</td>
<td>-</td>
<td>430,608.2</td>
<td>2,440.0</td>
<td>-</td>
<td>794,806.6</td>
</tr>
<tr>
<td>2000</td>
<td>465,537.7</td>
<td>-</td>
<td>430,608.2</td>
<td>2,110.0</td>
<td>-</td>
<td>898,25.9</td>
</tr>
<tr>
<td>2001</td>
<td>584,535.8</td>
<td>-</td>
<td>430,608.2</td>
<td>2,830.0</td>
<td>-</td>
<td>1,016,974.0</td>
</tr>
<tr>
<td>2002</td>
<td>733,762.5</td>
<td>-</td>
<td>430,608.2</td>
<td>1,630.0</td>
<td>-</td>
<td>1,166,007</td>
</tr>
<tr>
<td>2003</td>
<td>825,054.5</td>
<td>-</td>
<td>430,608.2</td>
<td>1,470.0</td>
<td>72,560.0</td>
<td>1,329,692.7</td>
</tr>
<tr>
<td>2004</td>
<td>871,577.0</td>
<td>0.0</td>
<td>424,938.2</td>
<td>1,250.0</td>
<td>72,650.0</td>
<td>1,370,325.1</td>
</tr>
<tr>
<td>2005</td>
<td>854,828.4</td>
<td>0.0</td>
<td>419,268.2</td>
<td>980.0</td>
<td>250,300</td>
<td>1,525,906.6</td>
</tr>
</tbody>
</table>

Sources: Adapted from D.A Omenma, Debt Crisis And Underdevelopment in Nigeria: An Assessment. Department of political science, university of Nigeria, Nsukka, 2005, p.31.

Looking at the table, the government’s issuance of bonds and treasury bills were just at continuous increase over the years. It seems the trend is vicious, since the state governments were increasing their debt profile through the issuance of bonds for a total of ₦90 billion during 2008-2009. It is often said that these issuance are usually without appropriate approval. There is practically nothing to show for these loans; and it seems that these loans were incurred specifically for non-tangible purpose with dubious and immeasurable yardsticks. This could hamper economic development; however, many factors have been advanced to explain the increasing domestic debt profile. It includes increased high budget deficits, low output growth, large expenditure, high inflation rate and narrow revenue base that were occasioned due to crash of price of oil at the international market (Daily Sun, 2010).

2.4 NIGERIA’S FOREIGN DEBT AND SERVICING OBLIGATIONS

In Nigeria, the debt service payment started on a soft, tolerable level in 1958, up to years later when it became a hard bargain. The average debt service in the late
fifties was ₦3.2m annually which worked out at 0.2% of the GDP (Obadan, 2002). Initially debt serving was not a big cut on the nation’s purse; but later became a burden too much for Nigeria to bear. The issue of debt serving became worse in 2003 when one of Nigeria’s creditors the Paris Club demanded on all time high $3 billion annually for debt service payment. An amount considered economically unsustainable for the country (Okonjo-Iweala, 2005).

Dr. Ngozi Okonjo-Iweala negotiated with the club and got to accept $1.7 billion debt service payment annually on behalf of Nigeria. This left an unpaid debt service of $1.3 billion, which the club added to the principal alongside other interest. This is one reason the nation’s total debt stock kept on rising (Vanguard, 2005).

Before the debt exit payment to the Paris Club was made by Nigeria in 2005, the total foreign debt service payment was $1,367.54 million made up of principal repayments of $978.38 billion; interest payments and commitment charges of $389.17 million. With the addition of a debt service payment of $7,575.92 million under the first and second phases, payment made for debt service in late 2005 was $8,943.45 million. This appeared to be the highest debt payment ever made in a single year in the history of Nigeria (Debt Management Office, 2005). In addition a total of $476.60 million or 46.63 percent was made to the promissory notes holders. The second largest payment of $392.77 million or 38.43 percent made to multilateral creditors. Payments to London Club creditor amounted to $102.59 million, or 10.04 percent of the total debt payments. The amount of $27.48 million or 2.69 percent was paid to non-Paris club bilateral creditors and a total $22.60 million, or 2.21 percent to other creditors.
Table 2.3: External Debt Service Payment (1999-2007) (US$ Million)

<table>
<thead>
<tr>
<th>Creditor Category</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Office</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Bilateral Paris Club</td>
<td>644.05</td>
<td>813.14</td>
<td>1,273.62</td>
<td>161.58</td>
<td>1,020.18</td>
<td>994.44</td>
<td>8,072.55</td>
<td>4,519.87</td>
<td>0.00</td>
</tr>
<tr>
<td>Non-Paris Club</td>
<td>35.67</td>
<td>2.101</td>
<td>33.81</td>
<td>75.86</td>
<td>13.26</td>
<td>11.65</td>
<td>15.83</td>
<td>25.56</td>
<td>27.48</td>
</tr>
<tr>
<td>2. Multilateral</td>
<td>659.25</td>
<td>623.37</td>
<td>491.48</td>
<td>192.12</td>
<td>509.23</td>
<td>487.28</td>
<td>471.66</td>
<td>426.62</td>
<td>392.77</td>
</tr>
<tr>
<td>Non-Paris Club</td>
<td>NA</td>
<td>NA</td>
<td>121.21</td>
<td>0.43</td>
<td>55.55</td>
<td>.018</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>760.97</td>
<td>1,438.61</td>
<td>1,798.91</td>
<td>709.54</td>
<td>1,542.66</td>
<td>1,493.37</td>
<td>8,560.06</td>
<td>4,972.05</td>
<td>420.25</td>
</tr>
<tr>
<td>B. Private</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Promissory Notes</td>
<td>259.75</td>
<td>150.20</td>
<td>195.18</td>
<td>192.12</td>
<td>176.42</td>
<td>171.23</td>
<td>213.55</td>
<td>170.84</td>
<td>476.60</td>
</tr>
<tr>
<td>2. Banks (London Club)</td>
<td>128.09</td>
<td>129.29</td>
<td>134.08</td>
<td>266.75</td>
<td>90.21</td>
<td>90.15</td>
<td>169.86</td>
<td>1,584.58</td>
<td>102.59</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>387.75</td>
<td>279.49</td>
<td>329.26</td>
<td>458.87</td>
<td>266.62</td>
<td>261.38</td>
<td>38341</td>
<td>1,755.54</td>
<td>999.44</td>
</tr>
<tr>
<td>Grand Total</td>
<td>1,148.72</td>
<td>1,718.10</td>
<td>1,218.17</td>
<td>1,168.40</td>
<td>1,809.28</td>
<td>1,754.75</td>
<td>8,943.45</td>
<td>6,727.59</td>
<td>1,419.69</td>
</tr>
</tbody>
</table>


The total debt service payments for the year 2007 were $1,022.04 million, compared to $6,729.20 million in 2006, reflecting a decrease of $5,707.16 million. The significant decrease observed was due to large payments made for the Paris Club and London Club debt exit, which constituted a substantial part of the debt service payment obligations to 2006.

Thus, the country should ensure that a reasonable level of resources is earmarked, for debt servicing to avoid the risk of default and to maintain conducive relations for debt relief negotiations with the creditors. Also the budget resources should be release in time to effect debt service payment since much of Nigerian’s debt stock build-up was accounted for by the capitalization of interest arrears and penalties for default (Adepoju et al., 2007). The debt service payments to the World Bank are due every 15 days, while African Development Bank (ADB) service payments occur frequently. The debts carry stiff penalties in case of default that may come 30 days after the due date. Also these debts are not subject to rescheduling or debt relief.
The implications for default include:

(i) Suspension of disbursement in respect of all bank group loans granted to the borrower/guarantor.

(ii) Prohibition of borrower/guarantor from signing new loan or guarantee agreement with the background.

(iii) Suspension of the granting of any new loan by the bank group to the borrower/guarantor. Adepoju et al. (2007) observed that these sanction may adversely affect the credit worthiness of a country as well as access to further foreign credits or loans.

(A) **Bilateral:** Defaulters in this category incur penalty charges in form of late interest, which are usually about 1-3% above the normal interest charged.

(B) **Paris Club:** The failure of debt service obligation will undermine Nigerian’s effort to obtain substantive debt relief over the medium term, coupled with the inability to benefit from normal credit facilities as Export Credit agencies in Paris Club creditor countries in default of debt service payment. Also business and government agencies from such debtor countries seeking to import goods and services are required to pay in full the 100% up front, even against deliveries that will take several months and at times years.

(C) **London Club:** The consequences of default are stiff as the instruments carry legal obligations like if the par bonds on promissory notes payment is not received as at when due, creditors could acquire the assets of the Central Bank of Nigeria (CBN) and Nigerian National Petroleum
Cooperation. NNPC anywhere in the world, as Nigeria has expressly waived her sovereign immunity under the terms of the agreement. It is important to put in place the best arrangement from time to time, in consonant with the consequences of default in debt service payment in response to changes in the economy and the polity.

2.5 THE NIGERIA’S DEBT SUSTAINABILITY IN RELATION TO THE COUNTRY’S GDP

The unsustainability of Nigeria’s debt could be linked to high interest rate, high initial debt, lower real GDP growth and trade deficits. However, it is difficult to maintain at a stable the debt ratio when the interest rates, GDP growth rate falling, and the levels of debt ratios are high. To maintain the debt at sustainable path, the government need to step up its GDP growth or performance and obtain/use concessionary loans with little interest rate; with an increased export revenue.

Table 2.4: Projected sustainable level of external debt/GDP rate in Nigeria 2004-2010

<table>
<thead>
<tr>
<th>Years</th>
<th>Real Interest Rate</th>
<th>Real GDP Growth Rate</th>
<th>External Debt/GDP</th>
<th>Trade Balance/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>6</td>
<td>5</td>
<td>64.4</td>
<td>-3.07</td>
</tr>
<tr>
<td>2005</td>
<td>6</td>
<td>5</td>
<td>60.54</td>
<td>0.79</td>
</tr>
<tr>
<td>2006</td>
<td>6</td>
<td>5</td>
<td>56.9</td>
<td>0.75</td>
</tr>
<tr>
<td>2007</td>
<td>6</td>
<td>5</td>
<td>53.49</td>
<td>0.70</td>
</tr>
<tr>
<td>2008</td>
<td>6</td>
<td>5</td>
<td>50.28</td>
<td>0.66</td>
</tr>
<tr>
<td>2009</td>
<td>6</td>
<td>5</td>
<td>47.26</td>
<td>0.65</td>
</tr>
</tbody>
</table>

Source: Adapted from J.A Adams the debt servicing capacity of Nigeria’s Economy. Department of Economics University of Abuja, 2009. P.50.

Thus, if the real GDP growth rate of the economy slides below 5 percent, while the interest rate remained stable, the government has to achieve higher surpluses to keep the debt stock sustainable. Within the period 2001-2005 the external debt
continued to dominate total public debt, the Paris Club exit in 2006 changed the scenario. External debt changed from 63.39 percent to 20.68 percent of the total debt, while the domestic debt changed from 36.61 percent to 79.32 percent. The changes were clearly reflected in Nigeria’s external debt solvency ratios over the period. The ratio of external debt stock to GDP and export remain above their thresholds, and appeared unsustainable over the period 2001-2004. From 2005, these ratios show sustainability of external debt stock to GDP, following Paris Club debt exit deal.

Table 2.5: Domestic Debt Ratios 2001-2006(%)  

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Debt Stock/Total Public Debt</td>
<td>24.30</td>
<td>23.72</td>
<td>23.81</td>
<td>22.30</td>
<td>36.61</td>
<td>79.57</td>
<td>NA</td>
</tr>
<tr>
<td>Domestic Debt Service/Government Revenue</td>
<td>10.89</td>
<td>10.62</td>
<td>9.94</td>
<td>7.66</td>
<td>4.96</td>
<td>28-63</td>
<td></td>
</tr>
</tbody>
</table>


The domestic debt stock/GDP ratio was on a decreasing trend and at sustainable levels from 2004-2006. In spite of the increase in the domestic debt stock, as the GDP growing at a higher rate than the domestic debt stock, the ratio was on decreasing trend. The domestic debt service/government revenues ratio is also at sustainable levels and on a decreasing trend. This is due to the restructuring exercise, which has lengthened the maturity period of the portfolio. It is also due to high government revenues over the period.
Table 2.6: External Debt Ratios 2001-2006 (%)

<table>
<thead>
<tr>
<th>Debt Ratio</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Debt Stock/Total Public</td>
<td>75.70</td>
<td>76.28</td>
<td>76.19</td>
<td>77.70</td>
<td>63.39</td>
<td>20.43</td>
<td>NA</td>
</tr>
<tr>
<td>External Debt Stock/GDP</td>
<td>46.24</td>
<td>50.45</td>
<td>42.95</td>
<td>41.86</td>
<td>18.08</td>
<td>3.7</td>
<td>30</td>
</tr>
<tr>
<td>External Debt Stock/Export</td>
<td>159.33</td>
<td>220.01</td>
<td>152.36</td>
<td>103.41</td>
<td>41.86</td>
<td>6.32</td>
<td>100</td>
</tr>
<tr>
<td>External Debt Service/Export</td>
<td>11.96</td>
<td>8.29</td>
<td>8.37</td>
<td>5.05</td>
<td>18.28</td>
<td>12.00</td>
<td>15</td>
</tr>
<tr>
<td>External Debt Service/Government Revenue</td>
<td>16.77</td>
<td>9.23</td>
<td>16.63</td>
<td>8.78</td>
<td>38.02</td>
<td>15.89</td>
<td>20</td>
</tr>
</tbody>
</table>


The external debt service/export ratio and the external debt service/government revenues ratio show sustainability until 2004. This is as a result of Nigeria not servicing the full amount due over that period. In the first two payments made under the Paris Club debt deal, the ratios indicate an unsustainable situation for 2005. The situation stabilized in 2006 with the final exit payment made to the Paris Club and the Par Bonds portions of the London Club debt.

According to IMF and the World Bank Framework for assessing debt sustainability in low income countries in consonance with the Country Policy and Institutional Assessment (CPIA). Nigeria is ranked as a poor performer, and as such is predicated to be able to sustain external debt levels within the thresholds in the table below. Looking a the Debt Sustainability Analysis (DSA) conducted by Nigeria in July, 2007, the predicted values of Nigeria’s external debt solvency indicators are shown in the table

Table 2.7: External Debt Solvency Indicators

<table>
<thead>
<tr>
<th>Solvency Indicators</th>
<th>2007</th>
<th>2010</th>
<th>2012</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Debt/GDP</td>
<td>3.4</td>
<td>2.5</td>
<td>2.2</td>
<td>30</td>
</tr>
<tr>
<td>External Debt/Exports</td>
<td>8.1</td>
<td>8.1</td>
<td>8.3</td>
<td>100</td>
</tr>
</tbody>
</table>

The table shows that Nigeria should not have any external debt sustainability problems at present and in medium term – period. The final exit from Paris Club debt obligations is the main factor responsible for the change in Nigeria’s external debt profile between 2005 and 2006. As long as Nigeria commits to obtaining mainly concessional loans and maintain sustained economic reforms, then, external debt should be maintained in the medium term.

Table 2.8: Domestic Debt Solvency/Liquidity Indicators (%)

<table>
<thead>
<tr>
<th>Solvency Indicators</th>
<th>2007</th>
<th>2010</th>
<th>DRI Thresholds Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Debt Stock/GDP</td>
<td>9.7</td>
<td>8.6</td>
<td>20-25</td>
</tr>
<tr>
<td>Domestic Debt Service/Revenue</td>
<td>3.1</td>
<td>10.0</td>
<td>28-63</td>
</tr>
<tr>
<td>Interest Payments/Revenue</td>
<td>5.2</td>
<td>8.2</td>
<td>46-68</td>
</tr>
</tbody>
</table>


It seems that Nigeria have no domestic debt sustainability problem over the medium term. The Domestic Debt Service/Revenue and Domestic Debt Stock/GDP are below the lower thresholds for the indicators. The interest payments/domestic budget revenue is within the threshold boundaries in the medium term. While in the year 2010, its value is higher than the upper boundary of the threshold.

Meanwhile, there are no internally agreed thresholds for assessing the sustainability of domestic debt. However, Debt Relief International (DRI) has indicated a series of internationally accepted benchmarks to be used as a rule of thumb in domestic debt sustainability analysis (Debt Management Office, 2008) which is included in the table above with the projections from Nigeria’s 2007 Debt Sustainability Analysis exercise.
The increase of the interest payments/domestic budget revenue indicator could be seen as a warning, as the most values are already in the middle range. If not checked properly it could easily lapse into liquidity problem. The lesson to learn from the above analysis is that domestic debt will feature in an increasingly prominent manner in Nigeria’s debt management issues in the coming years. In fact, increasing attention to the development of the domestic debt market is presently being paid by DMO. The drawing of a sound domestic debt management strategy must be taken serious to prevent the shift into an unsustainable debt position in the long-run. Thus, with the external debt of around $3 billion as at December, 2007 made up of mainly of 85 percent multilateral loans on concessional terms, Nigeria’s external debt portfolio is sustainable in relation to GDP.

Moreover, according to the Director General of DMO, Dr. Abraham Nwankwo, at the Debt Sustainability Analysis (DAS) workshop, he maintained that the nation’s debt position was still sustainable as the debt/GDP ratio was about 18 percent (*Vanguard*, 2011).

Thus, it is observerable from the analysis that the debt profile from 1999-2007 in relation to Nigeria’s GDP is sustainable. Though the external debt stock to GDP and export are above their thresholds, and appeared unsustainable from 2001-2004. But appeared sustainable in relation the GDP from 2005-2009 mainly because of the Paris Club debt exit plan. This therefore rejects our first hypothesis.
CHAPTER THREE
DEBT PROFILE AND NIGERIA’S DEVELOPMENT EFFORTS

3.1 THE STRUCTURE OF NIGERIA’S PUBLIC DEBT

Nigeria was characterized by insufficient internal capital formation arising from the vicious circle of low productivity, low income, and low savings. This position calls for financial support, technical and managerial support from abroad to bridge the resources gap. These accesses to external finance largely influence the economic development process of nations. It is an essential resource required to foster sustainable economic growth. In normal scenario, the economic growth should depend largely on domestic capital goods and complementary raw materials that are internally available.

The country’s external debt stock in 1999 remained at about the same level as it was in 1988- $28.77 billion, even at the lifting of the embargo on foreign loans, as no new loans were contracted. Some categories of loans especially those from the Paris Club were not serviced. The sum of $1.5 billion was set aside to service external debt in the year 2000, even at the face of financial difficulties.

The government resumed concessionary borrowing from multilateral and bilateral sources especially from the World Bank. Borrowed funds were strictly to be used for projects with satisfactory social and infrastructural projects and export – increase/import-decreasing features for economic projects (Obadan, 2000). The debt overhang of $31.0 billion in 2004 constituted a deterrent to private investment and generally to growth and developments in Nigeria including government new debt commitments that have amounted to $3,807.85 million over the period 2001-2007.
Table 3.1: New External Debt Commitments

<table>
<thead>
<tr>
<th>Creditor Type</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paris Club</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Multilateral bilateral</td>
<td>414.88</td>
<td>45.63</td>
<td>673.99</td>
<td>268.69</td>
<td>674.79</td>
<td>301.26</td>
<td>704.91</td>
<td>308.15</td>
</tr>
<tr>
<td>Non-Paris Club</td>
<td>-</td>
<td>509.70</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>208.00</td>
<td>-</td>
<td>717.7</td>
</tr>
<tr>
<td>Total</td>
<td>414.88</td>
<td>555.33</td>
<td>673.99</td>
<td>268.69</td>
<td>674.79</td>
<td>509.26</td>
<td>704.91</td>
<td>3801.85</td>
</tr>
</tbody>
</table>


About 81 percent of these were from Multilateral Creditors (Mainly IDA) while the remaining 19 percent was from non-Paris Club Bilateral Creditors. Recently China has emerged as a new creditor with a new commitment of $509.7 million in 2002 and another $208.0 million in 2006 for telecommunication support project. At present the nations external debt portfolio at the end of 2010 stood at about $4.5 billion, with the domestic debt at ₦4.5 trillion; and government setting for itself, a debt/GDP ratio limit projection of not more than 25 percent up to 2015.

3.2 THE RISING DEBT PROFILE AND ITS EFFECTS ON DEVELOPMENTS IN NIGERIA

The country’s high debt burden had grave consequences for the economy and the welfare of the people. Since 1986, Nigeria had taken a decision to limit debt service to no more than 30 percent of oil receipts; this has not brought much relief. As the servicing of the external debt had severely encroached on resources available for socio-economic development and poverty alleviation.

Nigeria spent over $2 billion on external debt servicing, from 1985-2005. Debt service due in year 2000 was over $3.1 or 14.5 percent of export earning; excluding arrears of $19.6 billion owed to members of Paris Club. An actual servicing outlay in year 2000 was $1.9 billion translating to about 4 times Federal Government budgeting
to alleviate education and about 12 times the allocation to health. Yet these two sectors need substantial public expenditure to upgrade the level of facilities and services for any meaningful alleviation poverty to take place. Also the external debt overhang had adverse impact on the Nigeria’s economy in the inflow of foreign investments. Due to Nigeria’s problem with servicing of her debts, Export Credit Guarantee Agencies (ECGAS) suspended insurance cover for exports for goods and services as well as investment capital to the country (Udoka, 2010).

This has seriously hampered the inflow of foreign resources needed for investment stimulation, growth and employments. Nigeria importers faced serious difficulty, as they are required to provide 100% cash over for all orders and this, therefore place them to a competitive disadvantage compared to their counterparts. This scenario worsens the pains of external debt burden as it blocks off the relief that would have been received through speedy economic recovery, growth and development.

Also looking at socio-economic implications of the Paris Club debt relief; the Paris Club debt repayments have invariably transferred the social cost to the poor citizen. Particularly since Nigeria remained in the debt crisis, the national economy has been in complete ruins. The burden and pain over the years are transferred to members of the under-class or the poor, women and other vulnerable members of society. Over 70 percent of Nigeria lives below the poverty line. According to United Nation Development Programme (UNDP) report on Human Development Index (HDI), Nigeria was ranked 151 out of 177 countries in terms socio-economic development; while between 105 and 159 children die out of every 1000 born
(Human Development Report, 2004). Nigerians labour daily under crushing neo-liberal policies of IMF and World Bank which preach liberalization, deregulation, cuts in social welfare, and withdrawal of government subsidies to education, health, agriculture and privatization of national institutions. The IMF and World Bank imposed neo-liberal agenda, rather than alleviate poverty as the government claims to be doing; imposes poverty on the majority of the Nigerian people. The government “down sizing” or “right sizing” of job cuts have rendered thousands of the citizens jobless. The majority of Nigerians is poor and is bearing the brunt of Nigeria’s unguarded and irresponsible borrowings of the past years and the greed of the country’s creditors.

3.3 THE DEBT REPAYMENT IMPACT ON DEVELOPMENT

Nigeria is a cash strapped country, therefore demanding for debt repayment to her creditors deprives her of the fund needed for development. A critical look at the Nigeria show critical areas where funds are needed.

(a) Education

Nigeria has made substantial investments in education since 1999. For example, from 1999-2005, she spent about ₦400 billion on tertiary educations (Obaji, 2005). In spite of this high expenditure in education, Nigeria has not met the UNESCO recommendation that 26% of a country’s annual budget should be allocated to education. Thus, more capital outlay is required in the educational sector. The literacy level in Nigeria is as low as 41%. About 62.5% of the nation’s literate population is males while 62% are females. Up to 9.3 million children of school going age are out of school in Nigeria. This is about 10% of the over 70 million children in
the world who are not attending school (Common Wealth Education Fund, CWEF, Nigeria Document, 2005). Raising the literacy rate and giving all the Nigerian children access to Universal Basic Education (UBE) needs huge investment.

(b) **The Niger Delta Region**

The Niger Delta area is the source of oil that provides over 80% of Nigeria’s foreign exchange earnings, and still remained under developed. Following the inauguration of the Socio-economic council for Development of Costal States of the Niger Delta Region; the federal government would spend a whooping ₦20 billion on health, education, telecommunication, water resources, transportation as well as other essential social services in the region. The Federal Government in August 2006 seek for approval of $1.062 billion to finance all these projects including creation 20,000 jobs for the region, independent power project and to settle claims for the two extra days of the March 2006 National Census (*Thisday*, 2006).

(c) **Health**

The life expectancy in Nigeria is now 44, according a World Health Organisation Report (April, 2006). The report stated that if urgent moves were not to be made in the next 10 years, the figure might drop to 35 years. Twenty-five years ago, according to the report the life expectancy was 60 years. Thus, the sector needs investments.

(d) **Food Security**

According to the UNICEF Report Launched in Abuja, and titled: Progress for Children/A Report Card on Nutrition, Nigeria tops the list of countries with the highest number of malnourished children in the world. The report showed that out of
a total of 146 million underfed children in the world, 73% of them live in Africa countries including Nigeria. About 6 million malnourished children live in Nigeria. To eliminate the scourge, it would certainly task Nigeria’s resources.

(e) Power Generation

Nigeria’s major problem is how to finance energy development. At present, she does not have the fund needed for battling the epileptic power supply. Thus, Nigeria needs enormous resource to maintain a steady and reliable power generation.

(f) Poverty Alleviation

The poverty level rose from 15% of the population in 1960 to 28% in 1980, 45% in 1985 and 66% in 1996. About 70% of Nigeria today lives on less than one dollar a day. This according to UNDP report implies that 67 million Nigerians are living below the poverty line. Using the UN’s Human Development Index (HDI) Nigeria is ranked 25th among the world’s poorest nation. In fact, Nigeria has a big task at hand alleviating poverty through massive fund investment (Ogunfowora, 2006).

(g) The Domestic Debt Payments

The Nigeria’s domestic debts stood at ₦1.33 trillion, in 2006, and at ₦4.5 trillion in 2011; this is a source of concern to the government out of this amount ₦75 billion are owed to pensioners. Nigeria is finding it difficult to settle these local debts; as it owed another ₦4 billion salary arrears for 4 months as at June 2006.

What have undoubtedly demonstrated so far is that Nigeria has several pressing development needs calling for huge capital outlays which are not within reach of the three tiers of government. This is because of the Paris Club debt
repayment; it caused a lot of distortions in the Nigerian economy, through deepening its cash crunch.

By eliminating totally the Paris Club debt, Nigeria’s annual debt service payment fall from $1.8 billion to $0.8 billion. This implies that $1 billion can be diverted to spending on poverty reduction. The annual debt service savings on debt for Nigeria are diverted to health and this spending on health would doubled from $6.59 per head to $14 per head in year 2004 (Adepoju et al., 2007). The annual aid flow from the Western States to Nigeria is of about $2 per head, but Nigeria spend more on debt owed to Paris Club which is almost seven times more than payment used for servicing of the whole of its external debt every year. It is believed in some quarters that Nigeria can use more of her resources to help herself on reducing poverty and working towards the Millennium Development Goals.

3.4 NIGERIA’S RISING DEBT PROFILE AND THE ECONOMY

The rising profile of domestic and external debt is generating serious concern among economic experts who fear that the future of the Nigeria economy might be doomed if urgent measures are not taken, to put to an end to the increasing accumulation of debts. The increasing accumulation of domestic debt that stood at $22 billion as at 2010; left at the present level; expert predicts that it may lead to clouding out the private sector (Okonjo-Iweala, 2010).

Analysts identified several factors that can be responsible for the rising debt portfolio to include: lack of fiscal discipline, fall in oil prices, corruption in the high places and wasteful spending on the part of public office holders. In the angle of rising domestic debt, three reasons were advanced for government domestic debts. It
includes, first, for budget deficit financing. Another is for implementing monetary policy (buying and selling of treasury bills in the open market operation) and finally to develop the financial instruments so as to deepen the financial markets. However, in Nigeria, many factors have been advanced to explain the changing domestic debt profile. The major factors are: high budget deficits, low output growth, large expenditure growth, high inflation rate and narrow revenue base witnessed since crash of oil price at the international market.

Economic data have shown that output growth of the country declined as it recorded annual average values of 5.9 percent between 1980 and 1984; 4 percent in 1990-1994 and 2.8 percent in 1998-1999 periods respectively. However, growth was recorded between 2003 and July 2008 when crude oil prices touched $147 before it once again slide in a precipitous crash to $33 only to resurge again beyond $86 since last April, 2000 (Daily Sun, 2010).

Thus, the danger in accumulating debts lies in the principal and interest repayment, which actually affects current expenditure that should be utilized for economic development. A high amount of N497 billion was appropriated in the 2010 budget for debt servicing alone. This money ordinarily could have been channeled to infrastructure development and social services like health care and education. The growth of domestic debt has affected negatively the growth of the economy, as majority of the debt market participants are unwilling to hold longer maturity and as a result the government has been able to issue more of short term debt instruments. This have affected the proper conduct of monetary policy and affected other
macroeconomic variables like inflation, which makes proper prediction in the economy difficult (Financial Institutions Training Centre, FITC, 2010).

Nigeria appeared to be in the lower rank of development index – because of years of debt overhang and the stringent conditionality imposed by the World Bank and the IMF. A debtor nation cannot negotiate favourably or do so on equal terms with the creditor which will always have the upper hand. In fact, it is literally a master servant relationship. Our sovereignty can only be respected by equality and fair dealing with the creditor nations in collaboration with the International Financial Institutions (IFIS). Thus, the continued accumulation of debts would only have to enrich a few Nigerians and impoverish the majority. Since Nigeria have the penchant for not properly utilizing loan taken in the past.

3.5 THE UTILIZATION OF THE PAST BORROWINGS

Nigeria resorted to a large-scale commercial borrowing from the international capital market (ICM), this caused a very deep deterioration in the external debt profile and generated payments crisis, thus creating the need for debt rescheduling or refinancing. Experts have established that Nigeria’s restore to loan from international capital markets was the beginning of reckless borrowings by Nigeria successive governments. The state also took money from ICM to finance projects, some of which were abandoned, while others were viable smack of the irresponsibility and corrupt nature of the Nigeria ruling class.

General Sani Abacha revealed how the ruling class embezzled borrowed funds in his 1997 annual budget broadcast to the nation. He stated inter alia:
During 1996 an appraisal of project with loans from international capital market (ICM) loans was conducted with a view to determine whether the country obtained commensurate value from the borrowings; this produced remarkable results. Field visits to the 145 projects with total ICM loans amounting to 13.157 billion US Dollars revealed that 18 projects with total loan amount of 836 billion US dollars were never executed. The proceeds of the external loans obtained for their execution were drawn in all cases. These projects are classified as ‘failed’. The failed loans are being serviced by government. Another 44 projects with loans amount of 4.81 billion US dollars are classified as ‘distressed’ were either not commissioned or were commissioned and then closed down shortly after. The potential economic and social benefits of these projects cannot be achieved with further injection of funds. The third category classified as ‘successful’ comprise 83 projects with an amount of 7.503 billion US dollar were surviving and at some capacity during the appraisal (Abacha, 1997.p.13).

Thus, Offiong and Oriakhi, (1998) observed that the 18 projects which worth about 836 million US dollars that were never executed were awarded to members of the ruling class – top bureaucrats, top military brass, serving and retired, renowned pro-government academics, politicians, businessmen and other apologists of the status quo fronting as contractors. The exploited working people, artisans, rural peasants, students, the unemployed and other members of the underclass were not the one who was awarded the failed projects. This practice partly explains the proliferation of abandoned projects in the country (Onyeiwu, 1999).
Table 3.2: Some bad utilization of loans which contributed to Nigeria’s debt portfolio

<table>
<thead>
<tr>
<th>State of location</th>
<th>Project</th>
<th>Amount</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Kaduna</td>
<td>Purchase of 100 buses</td>
<td>French franc 60.55315</td>
<td>The 100 buses were purchased to boost transportation network of state but state officials claim no knowledge of the loan.</td>
</tr>
<tr>
<td>2. Kwara</td>
<td>Ilorin food mill</td>
<td>French franc 1.27 million</td>
<td>Plant built but sold to private company – Panat industries for ₦8 million in 1996 to repay debt owed to Panat. This was done. Without the knowledge of Kwara State government.</td>
</tr>
<tr>
<td>3. Anambra</td>
<td>Specialist hospital in Abakaliki 23 rural clinics in the then Anambra, Enugu State</td>
<td>Spanish pesetas 220,011,160</td>
<td>Hospital/clinics were built but equipment supplied to the hospital was carted away by the directors in charge to private hospitals.</td>
</tr>
<tr>
<td>4. Edo</td>
<td>3 ring roads projects, 2 Ekiadorokolihua Elumegbimi Ake, etc.</td>
<td>French franc 27, 64, 470</td>
<td>The contract was paid 85% of the amount but abandoned roads with only 1% of job done.</td>
</tr>
</tbody>
</table>


Fig. 3.1: Utilization of external borrowing: 1970's - 2005

Source: Adapted from J Akintunde *Nigerian Public Debt Octopus*, 2010, p. 3.

Nigeria’s foreign debts were contracted for different purposes. The various purposes may be classified as those contracted for project-tied loans, balance of
payments support credit and those for developmental needs such as financing infrastructure, health education and other fictitious non-existing project.

A cursory look at the table shows that the foreign debt mobilized was directed towards improvement of certain basic infrastructures ranging from roads construction to provision of hospitals, manufacturing and provision of transport facilities. However majority of these projects were either abandoned or facilities in them looted. Other categories of loan mismanagement were shown below.

Table 3.3: Some cases of lack of planning in loan management

<table>
<thead>
<tr>
<th>State of location</th>
<th>Project</th>
<th>Amount</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Kwara</td>
<td>Jebba Paper mill (Federal Project)</td>
<td>USD 85m</td>
<td>The mill was built and commissioned but plant has not been producing since 1995 due to lack of working capital.</td>
</tr>
<tr>
<td>2. Akwa-Ibom</td>
<td>International biscuit factory</td>
<td>Austrian shilling 82.52m</td>
<td>Factory was completed and initially produced at full capacity but subsequently closed due to federal government ban on wheat. The factory was vandalized.</td>
</tr>
<tr>
<td>3. Kaduna</td>
<td>Zaria pharmaceutical company</td>
<td>NA/Not (available)</td>
<td>The project was completed, and was manufacturing at 35% capacity, but suffers from imported syringes.</td>
</tr>
<tr>
<td>4. Ebonyi</td>
<td>Abakaliki ring road</td>
<td>USD 38m</td>
<td>Road built but in several state of disrepair since 1996 due to lack of maintenance.</td>
</tr>
</tbody>
</table>


Manufacturing gulp majority of the disbursement, however, road construction took about $38 million. One significant congruence between the loans ranges from federal government import/export policy, vandalization and absence of culture of maintenance prevalent in the government circles. Thus, it could be noted that Nigeria over the years has poor utilization of borrowed loan. Some of these loans were contracted without looking at its impact on the national economy. This is just as the present administration of President Good luck Jonathan, loan request breakdown
shows that $1,854.71 billion will be spent on existing projects, $1073.2 million on appraised projects while $2.4150.0 billion will go for pipeline projects, the three categories of projects amount to a total of $5.242 billion. If adequate measures were not taken to ensure proper utilization of these loans, it may go the way other previous loan went. The debt management office should ensure that purpose for the loan should be defined including duration and commitments before such loans are contracted.

It is implicit from the analysis that the Nigeria’s debt profile undermines Nigeria’s development effort; as debt repayment took away resources dearly needed for developments in the key sectors of the economy that need huge capital investments. It equally affects the free flow of foreign capital needed for investment stimulation, growth and employments. Borrowed fund were poorly utilized in the past, and these loan were project tied, to finance infrastructural developments. These and more of the qualitative and quantitative data support our second hypothesis that states: Nigeria’s debt profile undermines her development efforts.
CHAPTER FOUR
DEBT MANAGEMENT PLANS AND MANAGEMENT OF NIGERIA’S FOREIGN DEBT

4.1 THE ROLE OF DEBT MANAGEMENT OFFICE (DMO)

Before September 2000 when Debt Management Office (DMO) was created in Nigeria debt management functions were conducted by the Federal Ministry of Finance, Central Bank of Nigeria (CBN), and the National Planning Commission (NPC). The Federal Ministry of Finance (FMF) was responsible for servicing the debt and debt recording, particularly public and publicly guaranteed medium and long term debts. It generally provides the yardstick and regulations for borrowing abroad. It was also responsible for identifying the sources of the loans, approving such sources and drawing-up agreements. The CBN was charged with the recording of private sector external debt and debt analysis. Apart from being directly in charge of managing, monitoring and controlling private sector non-guaranteed debt and other short term debts, the CBN is directly in charge of foreign exchange remittance and verification of foreign exchange payments. It is also responsible for ensuring the availability of foreign exchange to meet the country’s debt service obligations. Apart from being charged with responsibility of managing grants the NPC identifies projects that require external financing and gives information on the relationship between projects and loans.

The Debt Management Office (DMO) is made up of three main units responsible for external debt management activities. The units are the International Capital Market (ICM) Unit, the Multilateral Institutions Unit, the Africa and Bilateral Economic Relations Unit (ABER). The functions of these units are complemented by
that of the office of the Accountant General of the Federation. The problem frequently experienced in the institutional arrangements was the rivalry that existed between the FMF, NPC, and CBN. These institutional lapses may be due to the lack of clear-cut delineation of responsibility for authorizing, monitoring and managing public and private sector debts. The institutional structure was deficient as reflected in the lack of data which further complicates the formulation of sound debt management policies (Adam, 2009).

The specific functions of the Debt Management Office (DMO) include:

(a) Maintenance of a comprehensive inventory of loans and credits, together with a forecast of the debt service requirement;

(b) Provision of timely and accurate information on the country’s debt stock to assist policy makers and improve transparency in debt management;

(c) Effecting debt service payments in an accurate and timely fashion as and when due;

(d) Managing the country’s debt portfolio so as to minimize cost and maximize returns with an acceptable risk profile;

(e) Advising the Government on borrowing policy;

(f) Assisting in formulating and implementing the country’s debt management strategy and ensuring appropriate linkage to fiscal and monetary policies as well as overall macroeconomic management; and

(g) Negotiating with, and securing debt relief from Nigeria’s creditors.

In line with the functions of the DMO the strategic plan was articulated to represent long-term view, the shared values and the behavior and necessary to achieve
its vision and mission—equally to achieve sustainable debt profile and to maintain
growth-supporting debt portfolio for Nigeria. In 2003 DMO made bold attempts to
achieve the targets articulated in the strategic plan. That includes comprehensive
database auditing, takeover of domestic debt management functions, obtaining legal
status for DMO, commissioning a review of organizational structure and processes to
effect codification and internationalization of administrative procedures, and lines of
communication and protocol.

Major progress was achieved in rescheduling Paris-Club debts and canvassing
significant debt stock reduction. The office signed bilateral agreements with eight
Paris Club creditor countries (France in January 2003, UK in March, Spain in April,
Belgium in August, Denmark, USA and Japan in September, and Netherlands in
October) DMO also participated actively in the formulation of a medium term
economic programme in the context of the National Economic Empowerment and
Development Strategy (NEEDS) that will facilitate the quest for debt stock reduction
from the Paris Club Creditors. The office in conjunction with other government
agencies obtained approval for the implementation of the National Savings Certificate
Scheme in respect to macro-economic policies, and debt management issues. The
office also initiated the process of installing an adequate system of data collection,
storage and retrieval with respect to domestic debt, and developed borrowing
guidelines for federal, state and local governments.

Many debt management policies and strategies have been proposed and applied
in managing the external debts of the Less Developed Countries LCD which includes
Nigeria. The measures adopted so far have been aimed at reducing the debt-stock
outstanding and increasing debt inflow, embarking on economic reform to correct macroeconomic imbalances. However, the internal control measures adopted by Nigeria so far includes, setting of limits on the volume of debt to be contracted, statutory provision of maximum level of commitments, issuance of directives or guidelines by federal government on foreign borrowings, placing of embargoes on new loans, refinancing of trade arrears and debt rescheduling (Ajayi, 1989).

4.1:1 EXTERNAL DEBT MANAGEMENT

This refers to the gamut of institutional and technical arrangements in organizing the external liabilities of a country so that the debt service burden is kept within sustainable level (Ajayi, 2001). The technical aspect is concern with the determination of the amount of debt the economy can sustain and that the conditions of borrowing are on favourable terms and are consistent with the future of debt servicing capacity. The institutional aspect include the administrative, organizational, legislative, accounting and monitoring aspects of managing both the new borrowings and old stock of debt. Attention is paid to reducing the debt service burden or keeping it stable, in the both aspects – institutional and technical aspects.

The objective of debt management include: to provide policy guidelines to maintain optimum structure of maturity, currency composition and interest rate; determine new sustainable level of borrowing by minimizing risks and assisting in restructuring; to maintain a comprehensive inventory of loans (forecast debt service, monitor loan utilization) to ensure debt service capacity is kept at sustainable level (Omoruyi, 2000). The major characteristics of an efficient debt management will be such that the debt burden ratios should be decreasing, kept stable or at sustainable
levels; prevalence of stable macroeconomic environment, adequate spread of maturities and diversification of sources of debt so that there are no bunching of maturities nor roll over of loans. Others are the marginal product of investment must equal or not lower than the cost of loans; growth rate of debt must not exceed growth rate of export or the GDP. The good administration of debt in terms of effective coordination of debt activities, computerization of activities, a compliment of qualified and trained personnel and a motivating reward system must be in place (Adam, 2009).

4.2 THE MANAGEMENT STRATEGIES AND THE DEBT PROFILE

The government over the years have adopted these measures and strategies to tackle the debt problem, it includes.

1. **Limit on debt service payments:**

   This involve the setting aside portion of export earnings to allow for internal development or to allow for debt service obligations. The government of General Ibrahim Babangida introduced this mechanism in 1986. In an apparent bid to solve the problem believed to have been generated by the encroachment of debt servicing obligation on the resources available for socio-economic development and poverty alleviation. The government took the decision to limit debt service to not more than 30% of oil receipts.

   However, this measure which was in place since 1986 to 2000, had a suicidal effect as it, not only reduced the country’s credit worthiness but also stampeded the accumulation of the country’s external debt stock to an unmanageable proportion of over $31 billion in 2000 (Odiaka, 2000) consequently this forced both lender and
investors to stay clear of Nigeria’s economy. This measure was supplanted in 2000 with a macroeconomic stabilization and structural reform policies supported by IMF approved stand-by-arrangement.

**Fig. 4.1: Trends in External Debt Service Payment 2003-2007**

The debt service payments were on an alternating trend throughout the period 2003-2007. In 2007, the total external debt service payments were $1,022.04 million, compared to $6,729.20 million in 2006, reflecting a decrease of $5,707.16 million. This major decrease was due to large payments made for the Paris Club and London Club debt exit, which constituted the major bulk of debt service payment obligations in 2006. Amount of $8,940.93 was paid in 2005 reflecting the highest debt payment by Nigeria. This was mainly in respect of settlement of London Club debts. Another debt service payment of $476.60 million was made to the promissory notes holders. Total of $392.77 million was made to multilateral creditors. Payments to London
Club creditor amount to $102.59 million; and amount of $27.48 million paid to non-
Paris Club bilateral creditors and another $22.60 million to other creditors.

The implication is that Nigeria have spend about $20,256.21 in debt servicing
payment from 2003-2007 an amount huge enough to stimulate development in the
sectors of the economy like health, education, security and other social services. It
could be noted also that the debt service payment represents the interest on the actual
debt holding; which reflected a decrease to $6,779.20 in 2006 as against high sum
paid in 2005 amounting $8,940.93. That later decreased to $1,022.04 in 2007, this is
because of the Paris Club debt exit payments. Thus, limit on debt service payment as
debt management plan is not effective in tackling Nigeria debt profile, since the debt
profile continued to be at increasing tread in 2003-2005, only to decrease because of
Paris Club exit plan.

Table 4.1: External Debt Service Payment 2003-2007 (US$ Million)

<table>
<thead>
<tr>
<th>Creditor Category</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paris Club</td>
<td>1,020.18</td>
<td>994.45</td>
<td>8,070.79</td>
<td>4,519.87</td>
<td>0.00</td>
</tr>
<tr>
<td>Non-Paris Club</td>
<td>13.26</td>
<td>11.65</td>
<td>11.39</td>
<td>25.56</td>
<td>27.48</td>
</tr>
<tr>
<td>Multilateral</td>
<td>509.23</td>
<td>487.28</td>
<td>471.67</td>
<td>426.62</td>
<td>392.77</td>
</tr>
<tr>
<td>London Club</td>
<td>90.21</td>
<td>90.15</td>
<td>169.86</td>
<td>1,584.58</td>
<td>102.59</td>
</tr>
<tr>
<td>Promissory Notes</td>
<td>176.42</td>
<td>171.23</td>
<td>213.55</td>
<td>170.84</td>
<td>476.60</td>
</tr>
<tr>
<td>Other Commercial</td>
<td>0.0</td>
<td>0.00</td>
<td>3.67</td>
<td>1.60</td>
<td>22.60</td>
</tr>
<tr>
<td>Total</td>
<td>1,809.28</td>
<td>1,754.76</td>
<td>8,940.93</td>
<td>6,729.20</td>
<td>1,022.04</td>
</tr>
</tbody>
</table>


2 Economic Reforms and Debt Inflows

Nigeria introduced structural adjustment programme SAP in 1986, which
attracted trade and investment loans. Foreign loans worth $450 million and $500
million were contracted between 1986 and 1989. The SAP measure seeks to realign domestic production, investment and consumption patterns as well as exchange rate, so as to reduce dependence on imports and enhance non-oil export, which will generate foreign exchange for debt service and put the economy on the part of steady and sustainable growth. The main debt management plans under SAP included debt restructuring, limiting debt service to a maximum of 30 per cent of annual export earnings and attracting new loan facilities on concessional terms of ameliorate the debt burden.

The implementation of SAP stimulated the various debt restructuring agreements signed since 1986 with various creditors. In February 1988, the federal government introduced new policy guidelines aimed at reducing the increasing debt service burden. The guidelines stipulated vigorous viability test for projects to be financed by external loans; and were issued with regard to the viability and ranking of economic and social service as well as setting priorities for foreign borrowing by government – federal and states, private sector and parastatals. External loan requirements of private and public sector projects that are of a commercial and quick profit yielding nature may be sourced from the international capital market, while concessionary financing may be secured for social service and infrastructural project (CBN, 1999). Moreover, federal government approval must be obtained before fresh loans are contracted under the guidelines. Other measures as contained in the guideline are: economic sector projects should have positive internal rate of return not lower than the cost of borrowing; state government and public parastatals should service the debt through the foreign exchange, and failure of these organs to service
their debts would attract the deduction in the Naira equivalent. For the private sector, industries that are export-oriented should service their debt from their export earnings while others should patronize the foreign exchange market to service their debts; and approval of private sector borrowing will no longer receive the federal government guarantee (CBN, 1999).

The government of Olusegun Obasanjo after inauguration in 1999 began to religiously implement the IMF/World Bank inspired reforms. Based on the government commitment to obtain rapid and substantial external debt reduction; it initiated an economic reform programme encapsulated in the IMF approved ‘home grown’ National Economic Empowerment and Development Strategy (NEEDS), National Poverty Eradication Programme (NAPEP), Independent corrupt practices and other related offences commission (ICPC), Economic and Financial Crime Commission (EFCC) and so on. These institutions were created to demonstrate to the International Financial Community of Nigeria’s commitments toward the crusade against economic waste and corruption; and to create an enabling environment for foreign investment. Above all as a strategy put in place by Nigeria, in reducing her debt burden.

The implementation of the Bretton Wood Institutions’ approved structural reform package by the Obasanjo regime, even at the face of socio-political difficulties, finally yielded substantial gain. 60 percent of debt owed to the Paris Club was cancelled in 2006, reflecting the acceptance of the reform process by the International Financial Community. Nigeria paid to total sum of $2.6 billion as it foreign debt to both the multilateral agencies and the London Club in March, 2007
This equally showed a significant reduction in the country’s debt profile.

Thus, before the country exit from the Paris Club and London Clubs debt in 2005/2006, the external debt stock, by December 2004, was about $35.94 billion. Since the debt exit, the debt profile kept a steady trend of $3.54 billion in 2006 and $3.62 billion in 2009.

3 Debt Conversion Programme

The debt conversion programme was established in 1988 in Nigeria; it is used in combination with other debt management initiatives aimed at reducing the burden of private debts. The programme is meant to reduce the external debt stock and lighten the debt service burden, encourage capital inflows including repatriation of flight capital, and assist the capitalization of the private sector investment and the generation of employment opportunities. It equally involves the sale of an external debts instrument at a discounted rate for domestic debt or for equity participation in local enterprises. The debts eligible for conversion were initially limited to promissory notes, but later expanded to include other Bank Debt (Usman, 1995). The total amount redeemed as at December, 1992 stood at $760.9 million. At the end of 1993, it stood at $800 million, and later moved up to $813.43 as at the end of 1994. Within the period 1989 and 1995, the programme was able to reduce the total debt stock by $949.49 million. Another total of 423 applications worth $3.48 billion were so far granted approval in principle at the end of 1998 (Adam, 2009).

There are significant reductions on the categories of debt, for instance the promissory notes which had stood at $4.58 billion as at the end of December 1989. It
was reduced to $3.15 billion, while London Club debts reduction was $236.25 million
between 1989 and 1995. Thus, the total amount of debt actually redeemed from the
scheme up to 1998, included total discount of $564.4 million and commission of 21.6
million (CBN, 1999). The problems of dual exchange rates, persistent depreciation of
exchange rate, inflation, political instability, and unstable prices of Nigeria debt
instruments, hindered obtaining maximum benefit from the scheme.

However, foreign investors are free to invest in Nigeria through the country’s
debt conversion scheme. The scheme involves the whole or part of promissory notes
issued in international market for the country’s foreign debt into domestic equity by
the redemption of promissory notes and other debt instruments. If the redemptor, uses
foreign exchange to purchase, at a discount, promissory notes issued for part of the
country’s sovereign debt either from an original creditor or in the international
financial market. The redemptor then nominates a local bank agent to negotiate with
the government agency that is charged with the responsibility of managing the debt
conversion programme. As an investor purchases designated promissory notes at
discount and converts it into equity, he acquires an asset that qualifies for ‘certificate
of capital importation’. Thus, foreign investors may find the debt conversion scheme
as one of the options for financing their new investments in Nigeria.

Between 2000 and 2003 Nigeria external debt worth $150.94 million was
redeemed under the programme, however, during the year there were some disturbing
trends in the performance of the debt conversion programme. For instance, Nigerians
made no applications for debt conversion. The total number of applications from
foreigners fell from 6 valued at $1,444.3 million in 2002 to 3 valued at $76.6 million
in 2003; representing decrease of about 9.7 percent from the amount received in 2002.
Equally the amount redeemed or cancelled under the debt conversion programme fell from $21.50 million in 2002 to $17.50 million in 2003, a decline of 18.6 percent (Debt Management Office, 2003).

The summary of disturbing trends in the debt conversion scheme within the period of 2000-2003 were presented in the table below:

Table 4.2: Disturbing Trends in Debt Conversion Programme 2000-2003
(US million)

<table>
<thead>
<tr>
<th>Category</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of application received</td>
<td>20</td>
<td>14</td>
<td>10</td>
<td>3</td>
<td>47</td>
</tr>
<tr>
<td>Value</td>
<td>358.18</td>
<td>935.53</td>
<td>1,489.3</td>
<td>76.60</td>
<td>2,859.61</td>
</tr>
<tr>
<td>2. No. of applications received from Nigeria</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Value</td>
<td>106.20</td>
<td>45.00</td>
<td>45.00</td>
<td>-</td>
<td>196.2</td>
</tr>
<tr>
<td>3. No. of applications received from foreigners</td>
<td>14</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>32</td>
</tr>
<tr>
<td>Value</td>
<td>247.45</td>
<td>2,199.0</td>
<td>1,444.3</td>
<td>76.6</td>
<td>3,967.35</td>
</tr>
<tr>
<td>4. No. of auctions held: CBN: Note</td>
<td>12</td>
<td>11</td>
<td>12</td>
<td>9</td>
<td>44</td>
</tr>
<tr>
<td>Paris Club</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5. Amount offered CBN Notes</td>
<td>6.20</td>
<td>6.00</td>
<td>6.00</td>
<td>4.50</td>
<td>22.70</td>
</tr>
<tr>
<td>Paris Club</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6. Debt redeemed or cancelled ($m)</td>
<td>57.79</td>
<td>27.35</td>
<td>45.47</td>
<td>20.33</td>
<td>150.94</td>
</tr>
<tr>
<td>Out of Auction</td>
<td>1.23</td>
<td>0.78</td>
<td>23.97</td>
<td>2.74</td>
<td>28.72</td>
</tr>
<tr>
<td>Within Auction</td>
<td>56.56</td>
<td>26.57</td>
<td>21.50</td>
<td>17.590</td>
<td>122.22</td>
</tr>
<tr>
<td>7. Category of Debt Cancelled Promissory Notes</td>
<td>57.79</td>
<td>27.35</td>
<td>21.50</td>
<td>17.59</td>
<td>124.23</td>
</tr>
</tbody>
</table>


Table 4.3: Nigeria’s Foreign Debt Outstanding by Creditor Category (1999-2009)
(US$ Million)

<table>
<thead>
<tr>
<th>Creditor Category</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paris Club</td>
<td>20,507</td>
<td>21,093</td>
<td>22,093</td>
<td>25,381</td>
<td>27,470</td>
<td>30,847</td>
<td>5,412</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Multilateral</td>
<td>3,933</td>
<td>3,460</td>
<td>2,789</td>
<td>2,961</td>
<td>3,042</td>
<td>2,824</td>
<td>2,512</td>
<td>3,080</td>
<td>3,080</td>
<td>3,172</td>
<td>3,093</td>
</tr>
<tr>
<td>Others (Non-Paris Club)</td>
<td>69</td>
<td>144</td>
<td>121</td>
<td>56</td>
<td>52</td>
<td>47</td>
<td>461</td>
<td>184</td>
<td>184</td>
<td>182</td>
<td>182</td>
</tr>
<tr>
<td>Promissory notes</td>
<td>1,486</td>
<td>1,447</td>
<td>1,292</td>
<td>1,153</td>
<td>911</td>
<td>783</td>
<td>649</td>
<td>509</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>London Club</td>
<td>2,043</td>
<td>2,043</td>
<td>2,043</td>
<td>1,442</td>
<td>1,442</td>
<td>1,441</td>
<td>1,441</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>


Looking at the trends in the categories of external debt; from the table above. It is observable that reduction of promissory notes debt is as a result of the conversion programme. Between 1999-2006 there is continued decreasing trend in the total amount of the promissory note debt; as well as London Club debt that decreased from $2,043 million to $1442 million with 2001-2002. It is however, implicit that debt conversion programme introduced reduction in the Nigeria’s debt profile; particularly as regard to promissory notes, London Club and other debt instruments. However, there are complexities usually associated with debt conversion scheme, such as instability in the macroeconomy; the unwillingness of promissory notes holders to sell based on interest rate or amortization, and the continued disparity between the exchange rate in the market.

4. Debt Buy – Back Scheme

This scheme involves a situation whereby a substantial discount is offered to pay off an existing debt. The debt undertaken between 1988 and 1993 under the Babangida administration was beneficial to Nigeria, excerpt for the Ajaokuta debt buy-back scheme (Daily Vanguard, 2000) under this programme, Nigeria bought $3.4 billion or 62 percent of the commercial debt owed the London club of creditor at 60 percent discount in February, 1992, that is $1.4 billion paid to liquidate the commercial debt. The collateralization option offered the remaining 38 percent of commercial debt is the sum of $2.1 billion to be collateralized at 30 years par bonds with the London Club.

According to Senate Committee report on debt buy back (2000) disclosed that the debt buy back through the Greenland Holdings; under the Babangida
administration was transparent, as it covered by the CBN procedure for debt buybacks. The committee pointed out that the Greenland debt buy back resulted in a reduction of Nigeria’s debt by $5 billion and a re-scheduling of the balance of London Club debts. The committee however revealed shortcomings in the Ministry of Finance debt buy back transaction deals in Ajaokuta Steel Complex Limited.

The amount owed the London Club were bought back within the period 2001, 2002, 2003, 2004 and 2005 were represented in the table below.

**Table 4.4: External Debt by Creditor Category 2001-2005**

<table>
<thead>
<tr>
<th>Creditor Category</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral</td>
<td>22,214.14</td>
<td>25,436.3</td>
<td>27,521.55</td>
<td>30,847.81</td>
<td>15,412.40</td>
</tr>
<tr>
<td>Paris Club</td>
<td>22,092.93</td>
<td>25,380.75</td>
<td>27,469.92</td>
<td>30,847.81</td>
<td>15,412.40</td>
</tr>
<tr>
<td>Non-Paris Club</td>
<td>121.21</td>
<td>55.55</td>
<td>51.63</td>
<td>47.750</td>
<td>461.79</td>
</tr>
<tr>
<td>Multilateral</td>
<td>2,797.87</td>
<td>2,960.59</td>
<td>3,042.09</td>
<td>2,824.32</td>
<td>2,512.19</td>
</tr>
<tr>
<td>Sub-total</td>
<td>25,012.01</td>
<td>28,396.89</td>
<td>30,563.63</td>
<td>33,719.63</td>
<td>18,386.38</td>
</tr>
<tr>
<td>Promissory notes</td>
<td>1,291.78</td>
<td>1,153.18</td>
<td>911.39</td>
<td>783.23</td>
<td>649.80</td>
</tr>
<tr>
<td>London Club</td>
<td>2,043.21</td>
<td>1,441.79</td>
<td>1,441.79</td>
<td>1,441.79</td>
<td>1,441.79</td>
</tr>
<tr>
<td>Sub-total</td>
<td>3,334.99</td>
<td>2,594.97</td>
<td>2,353.19</td>
<td>2,225.03</td>
<td>2,091.59</td>
</tr>
<tr>
<td>Grand Total</td>
<td>28,347.00</td>
<td>30,991.87</td>
<td>32,916.81</td>
<td>35,944.66</td>
<td>20,477.96</td>
</tr>
</tbody>
</table>


In 2002, the Debt Management Office carried out a debt buy back arrangement which brought a significant reduction in the stock of the Par Bonds from $2,043.21 million to $1,441.79 million. The total amount outstanding to the London Club as at 2005 was $1,441.79 million reflecting no change from the previous years. This is as a result of the interest is paid on the bonds as the principal amount natures in 2020, which is to be settled in one full payment.

Under the Paris Club debt deal with Nigeria, the sum of $6 billion would be paid up front; which was in arrears; the total debt that amount to $31 billion would be reduced by 60% or $18 billion and the remaining amount of about $7 billion would be
bought back at discount. Thus, in the debt exit strategy with the Paris club, the debt
carry back option effect of a reduction in the debt stock, as about $7 billion was bought
back at discounting rate.

5. **Embargo on New Loans:**

This debt management plan was introduced to check or temporary stop the
accumulation of further external borrowings, to minimize additional debt burden, until
the debt situation improves it was aimed at preventing accretion of the debt burden.
This strategy was applied in 1984 to governments’ borrowings from external sources;
although exceptions were granted in respect of on-going core projects. The Shagari
administration adopted this strategy under the stabilization Act to reduce the reckless
borrowings of state governments, and to check the escalation of total debt stock as
well as reduce the problem of additional debt burden. The government adopted
austerity measures, as an approach towards reducing government spending and to step
up the external reserve.

The Buhari administration that forcefully toppled the Shagari’s regime on the
ground of corruption, squander mania and alter neglect to the economy. Later adopted
the austerity measures which was a measure aimed at reducing the further debt
burden. The administration refused to devalue the Nigeria currency because of the
consequences; but opted to apply up to 44% of the foreign exchange earnings to settle
parts of outstanding external debts. This led to a contraction in imports especially
imports of raw materials for industries, unemployment and social problems multiplied
However, the embargo on sourcing new foreign loans was lifted in January 1999; it has not been effective in abating the debt stock. Within the period 2001-2007, new external borrowings have amounted to $3,801.85 million; as the table indicates.

**Table 4.5: New Commitments by Creditor Category 2001-2007 (US$ Million)**

<table>
<thead>
<tr>
<th>Creditor type</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paris Club</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Multilateral</td>
<td>414.88</td>
<td>45.63</td>
<td>673.63</td>
<td>268.69</td>
<td>674.79</td>
<td>301.26</td>
<td>704.9</td>
<td>3084.15</td>
</tr>
<tr>
<td>Bilateral</td>
<td>-</td>
<td>509.70</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>208.00</td>
<td>-</td>
</tr>
<tr>
<td>Non-Paris Club</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>717.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>414.88</td>
<td>555.33</td>
<td>673.99</td>
<td>268.69</td>
<td>674.79</td>
<td>309.26</td>
<td>704.91</td>
<td>3801.85</td>
</tr>
</tbody>
</table>


It is discernible from the table that Paris Club debts have been completely cleared: and Nigeria maintained no further loan from the club. However, she still maintained new loan commitments from the multilateral sources over the period 2001-2007. New loan commitments maintained a steady rise from $414.88, 673.99, to 674.79 to 704.81 in 2001, 2003, 2005 and 2007. This implies that embargo on new loans as debt management strategy was not effective in preventing increasing debt profile of Nigeria.

**6. Debt Rescheduling/Refinancing**

Rescheduling includes changing the maturity structure, interest spread and repayment period of a loan. It is an essential tool for the alleviation of the official debt, especially the Paris Club debt. The main objective is to postpone payment of matured debt so as to correct the underlying economic fundamentals in order to expand the countrys’ productive and export capacity. While debt refinancing involves procurement of a new loan contracted either from the old or new creditor by a debtor
to pay off an existing debt. Its objective involves shifting repayment forward and easing the medium-term foreign exchange liquidity squeeze. Refinancing exercise was first undertaken in Nigeria, in 1993. Nigeria refinanced about $2 billion worth of trade arrears. The arrears were refinanced at an interest rate of 1 percent above the London Inter-Bank Offer Rate (LIBOR) with repayment period of 30 months and a grace period of six months. Another arrears of uninsured short term debts were refinanced; that worth $3.2 billion. Other refinancing agreements were contracted between 1984 and 1988; within this period, trade arrears amounting to over $4.8 billion were refinanced and covered with promissory notes. The amount was refinanced over a 22 years period with a 2 years grace period and at 5 percent interest rate (Adams, 2009).

With regards to debt refinancing, it is basically interested in increasing the volumes of new credit, this tends to perpetuate the colonial economic pattern of ensuring that debtor countries do not stand on their feet economically as the new loan is the debt repayment burden of further years. Refinancing is attached to purchases in the creditor country; and discounts from its normal values (Payer, 1974). Thus debt refinancing do not result in reduction in the total debt stock since the refinancing increases the volume of new credit, which is the debt repayment burden of future years.

Rescheduling is the consolidation of debt into new long term obligations; that may include arrears as well as further maturities interests and short-term debts. Rescheduling is the main scheme of debt restructuring in which some or all of the debt service falling due during a defined period. Rescheduling debt is a way of
providing a debtor with a period of reduced debt service, a means of encouraging for economic recovery (Klein, 1994:221). About $1.6 billion commercial bank debt, due to the London Club was rescheduled 1986 to extend to 1996 with four years grace period. In 1987, Nigeria took another rescheduling of the arrears of commercial banks’ debts due to the London Club. By the end of 1987 a total amount of $5.8 billion was rescheduled for over 20 year’s period with a 3 years grace period. Nigeria have equally rescheduled her debts due to the Paris Club and multilateral creditors.

In 1991, Nigeria succeeded in rescheduling the repayment of debt stock totaling $3.3 billion over the period of 8 to 15 years, with moratorium varying from 10 to 14 years. Nigeria signed a bilateral agreements under the Paris Club agreed minutes between December, 2000 and March 2001, Nigeria signed rescheduling agreement with Paris Club; the agreement show that after paying off $820 million and taking into consideration the sum $2.76 billion to be paid over the period between March, 2001 and September, 2009, the remaining debt not repaid would be rescheduled over a 20-21 year period with grace period of 3 and 10 years.

It is implicit that debt rescheduling strategy has not reduced the debt profile; however, Paris Club debt rescheduling has provided varying degrees of temporary cash flow relief. This situation was succinctly put by Usman, (1995):

This is because the package was always structured to apply to current maturities falling due within a consolidation period of about 15 months and not the entire debt stock, and the capitalisation of the interest thereon. Thus, instead of reducing the debt stock has tended to increase it without the country contracting new loans (Usman, 1995:24).
Payer, (1974:47) captures this further when he asserts that “the rescheduled debt will still have to be paid back in the future, with interest charges in the deferred payment. The potential for repeated payments crisis and rescue operations stretches into the indefinite future in a vicious circle…” Thus, the debtor country will have to run faster and faster just to stay in the same place. Not only that the package scattered repayment over a number of years, it usually increases the future cost of the debt.

4.3 THE POLITICS OF DEBT RELIEF AND PARIS CLUB DEBT EXIT STRATEGY

Debt relief or debt forgiveness is a creditor’s act of excusing a borrower’s repayment of an existing obligation. Carrasco, et al. (2007) assert that it is important for poor countries struggling to meet their welfare needs. This is the act of excusing heavily indebted developing countries from all part of their unsustainable debts. The World Bank and IMF consider a country’s debt unsustainable if either the size of the country’s external debt exceeds the value of its exports by ratio of 150% or the ratio of the country’s debt-to-government revenues ratio is above 250%. These ratios are indicators of a debtor – country’s inability to repay its debt without exposing it to excessive social and economic hardship.

Poor countries such as Uganda spend an average of $3 per person on health care while spending $15 per person on debt service. Liberia on the other hand has a total external debt of $3.7 billion and can only afford to allocate $7 million of its $120 million budget to fight the HIV/AIDS epidemic, which has infected almost 8% of the country’s population (Carrasco et al., 2007). It became clear that poor country labour under extraordinary debt burden. This informed the position of supporters of debt forgiveness that made a variety of normal arguments for necessity of debt relief. In
making the case for debt relief in Nigeria, strong moral, religious, economic, geo-
strategic and political arguments underpinned the quest for debt relief. There are
equally analytical works to strengthen the case for debt-relief: like the Debt
Sustainability Analysis (DSA) conducted by IMF indicates that Nigeria’s debt is
unsustainable. Also the World Bank has also indicated that even with strong economic
performance and high oil prices, Nigeria cannot simultaneously meet MDGs and
lower its indebtedness to manageable levels without debt relief. Other arguments
include International Debt Association (IDA) reclassification, oil volatility argument
and so on (IMF Debt Sustainability Analysis for Nigeria, 2005 and World Bank Staff
Report, 2005).

However, the United Nations Millennium Development Goals for Reducing
Poverty inspired the multilateral debt relief initiative to provide 100% multilateral
debt forgiveness to the heavily indebted poor countries (HIPC) which Nigeria was
excluded. To accelerate progress towards the MGDs; which aimed at halving poverty
by 2015, reducing child-mortality rate, fight disease epidemics such as AIDS and
developing a global partnership for development. The G-7 Finance Ministers met in
London; in preparation for the G-8 Summit in Gleneagles reached an agreement to
write off $40-55 billion of 18 HIPC countries. IMF, the World Bank and African
Development Bank each endorsed the Gleneagles plan and implemented the
multilateral debt relief. By providing each country that attains the HIPC completion
point 100% forgiveness of its multilateral debt.

In the Nigeria’s debt relief with the Paris Club, the representatives of Paris
Club agreed with the Federal Republic of Nigeria on a comprehensive treatment of its,
debt. This agreement take place after the approval by the Executive Board of the International Fund of the Policy Support Instrument (PSI) which includes a debt reduction under the Naples terms on eligible debt and a buy back at a market-related discount on the remaining eligible debts after reduction. The agreement is to be implemented in two phases, in line with the implementation of the dedicates of IMF Policy Support Instrument (PSI): The first stage requires Nigeria to pay arrears due on all categories of debts and Paris Club creditor grant that amount to $6.36 billion, after which 33 percent of the debt will be cancelled. In the second stage or phase which was planned to be implemented in March 2006, after which approval of the first review of the PSI by the Executive Board of the IMF, Nigeria is expected to pay at once $6.1 billion about 34% of the $30 billion it owed. This totaled the debt relief granted Nigeria to $18 billion, which represents an overall cancellation of about 60 percent of its $30 billion debt to the Paris Club. By the end of the implementation Nigeria would have paid about $12.4 billion, to exit completely. Nigeria also redeemed the London Club debt (Par bonds and promissory notes) and other associated oil warrants. With this, the external debt stock dropped to a sustainable level of $3.5 billion.

Paris Club debt relief deal with Nigeria depleted the rising external debt stock to sustainable level see Table 2.1. Even as the conditions attached to the relief was structured to favour the creditors, at the detriment of the poor debtor country – Nigeria, which has already paid $116 billion in debt service since 1985. The $12.4 billion Nigeria had to pay; even at the face of grinding poverty, ravages of HIV/AIDS pandemic, dearth of infrastructural and health facilities in the country negates entirely
the benefit of the relief to Nigerians. Thus, the reason why the relief was granted to
Nigeria at that time is captured vividly by Todd Moss, when he stated:

It is exactly the high oil prices that enable this deal at this
time. Nigeria will use a big chunk of its oil windfall to
clear its arrears and buy back its debt. So the creditors are
not giving anything away for free, nor is Nigeria avoiding
its past obligations. At the same time agreeing to a
discount is in the interest of the creditors who not only
want to collect this old debt, but also have other interests
in the region, especially encouraging economic reform and
helping stabilize a fragile democracy in a volatile country
which supplies a lot of western oil (Todd Moss, 2005:22).

The western nations have away of perpetrating dependency, using its capitalist
monsters like IMF and the World Bank. This is why in the Paris Club debt relief deal,
critics stressed the danger of the increased IMF control through the new ‘policy
support instrument’ mechanism; even when the Paris Club debt was not
a multilateral debt deal.

It is important to note that our hypothesis three which states that debt
management plan adopted by Nigerian government tend to worsen her foreign debt
were largely invalidated. This is because debt conversion, debts buy back, economic
reforms and debt inflow as debt management strategies introduced varying levels of
reductions in the total debt stock. However, limit on debt service payments, embargo
on new loans, refinance and rescheduling do not reduce the debt profile within the
period 1999-2007; but injected varying degrees of cash inflows into the country to
expand and strengthen its productive and export capacity.
5.1 SUMMARY

Nigeria’s debt stood at $35-95 billion by the end of 2005; and appeared generally unsustainable. The increased debt stock before or around 2005 was as a result of capitalization of unpaid interest, increased domestic debt accumulation; that was occasioned due to the high budgets deficits, high inflation rate and crash in the international price of oil. The Nigeria’s debt service payments stood at $26,419.601 between 1999 and 2007. The amount appeared huge enough to finance developments in the areas of health, education, security and other social services which would have improved the welfare of Nigerians. The Nigeria’s debt profile appeared unsustainable in relation to the GDP within the period 1999-2005. However, the final exit from the Paris Club debt obligations, showed that Nigeria external debt within 2006-2010 is sustainable at present and in medium term period as long as it maintained only concessional loans, with sustained economic reforms.

The total debt overhang of $35 billion in 2005 constituted a deterrent to private investment and generally to growth and developments in Nigeria. This is due to huge resources that are embarked to service the rising external debt. The majority of Nigerians is poor and was bearing the adverse effect of flippant and irresponsible borrowings of Nigeria in the past; coupled with the implementation of IMF and World Bank neo-liberal reform policies as a condition for debt relief. The Paris Club debt repayments caused a lot of distortions in the Nigerian economy, through deepening her cash crunch, which is needed for several pressing development needs. The growth
of domestic debt has affected development negatively and may lead to clouding out private sector; since borrowed fund were not properly utilized in Nigeria.

The limit on debt service payments as a debt management strategy is not effective in debt management as it did not decrease the debt service payments within the period under review; except for the decrease noticed in 2006 and 2007, which was occasioned by the Paris Club debt relief. Moreover no significant reduction was noticed in the debt stock, as a result of limit on debt service payments.

The implementation of IMF and World Bank inspired economic reform, resulted in the cancellation of 60 percent of debt owed to the Paris Club in 2005. This brought about a substantial reduction in the Nigeria’s debt stock. The debt conversion scheme injected some amount of reduction in the debt stock, through the sale of external debt instruments at a discounted rate for domestic equity participation in local enterprises. The external debt instruments include promissory notes, London Club debt and other commercial bank debt. However, it offers a viable platform for private sector investment development/generation in the country.

The debt buy back scheme offered a significant reduction in the debt stock. As it brought a reduction in the stock of the Par Bonds from $2,043.21 million to $1,441.79 million up to 2005. An amount of $7 billion was bought back at discounted rate in the Paris Club debt deal with Nigeria, which brought an appreciable reduction on the country’s debt profile. This debt management option is effective as it brought reduction in the debt stock.

Embargo on new loans as a debt management strategy, does not prevent contracting of new loan/debt. Even as Nigeria has fully exited from the Paris Club
debt, there are still new loan commitment that were mainly from multilateral concessionary sources.

Debt refinancing increased the accumulation of new debt, which is the debt repayment burden of future years; and not reduction in the total debt stock. Debt refinancing has been used as a tool for perpetration of dependency of the debtor nation by the creditor nations which are usually the capitalist centers. As refinancing is attached to purchases in the creditor country; and discounts from its normal values. Debt rescheduling on the other hand, has not yielded reduction in the debt profile; but has provided varying levels of cash flow relief which is temporary. However, it allow for a breathing gap for the debtor to improve and expand its economic capabilities, before paying off an existing debt.

Finally, the debt relief granted Nigeria by the Paris Club was tailored to favour the creditor nations, at the expense of Nigeria. This is in line with deepening and projecting their interest in the country.

5.2 CONCLUSION

In this study, we made attempt to locate the origin/major causes of Nigeria’s foreign debt; and the legal frameworks put in place, to monitor its accumulation as well as the sources of Nigeria’s foreign debts. It was discovered that the huge debt accumulation lead to debt servicing problems, which stashed away resources dearly needed for development in Nigeria owing to the high debt service payment obligation; that got worse because of default in the interest payments, and the capitalization of the accumulated interest into the initial debt stock. These increased the volume of the
external debt stock which made it appeared unsustainable. Whereas the debt relief payments returned the external debt to a sustainable level.

The creditor nations used debt as an imperialist and neo-colonial instrument, to maintain the dependent nature of the poor debtor nations. The debt relief granted Nigeria, was designed to make sure we remained in debt within a medium term range. As well, rescheduling arrangements often structured in way that the debt will still have to be paid back in future with the interest charges. This underlined the attitude of the creditors in Nigeria’s debt problem.

However, we examined some of the debt management options, as it relates to reduction in the Nigeria’s debt profile. We discovered that the debt conversion scheme injected reductions in the total debt stock, through London Club and Promissory note debts, which were converted into equity and acquire by investors in the economy. The scheme is associated with the unwillingness of promissory notes holders to sell based on interest rate or amortization and the persistent disparity on the exchange rate in the market, which prevent maximum benefit from the scheme.

Another debt management strategy that resulted in reduction in the debt stock is the debt buy-back scheme. It formed a formidable mechanism used in reducing the debt burden at a discounted rate. Finally, the Paris Club debt relief deal with Nigeria, which offered 60% debt cancellation introduced significant reduction in the total debt stock; and returned Nigeria debt position to the sustainable path. This may be sustained if Nigeria’s future borrowings come from multilateral concessional sources, with little or no interest rate and a long maturity period of up to 10 to 30 years.
5.3 RECOMMENDATIONS

The huge foreign debt burden that hung on the neck of Nigeria created a lot of problem for the country. The debt servicing payments that gulp about $26 billion from 1999-2007, has negative effects on the development of infrastructure, health, education et cetera. Nation borrow to meet the resource gap and to stimulate the direction, speed and size of economic activity. Thus, for Nigeria to maintain a sustainable debt profile; she must borrow only from concessionary sources. The Debt Management Office should conduct debt sustainability analysis on the country’s debt portfolio, from time to time; that is at least within 2 years period. To determine when the Nigeria foreign debt drop to unsustainable position. This would enable the debt office to foresee and raise early warning signs of liquidity problem. Thus, DMO should ensure that the recent loans are better structured into longer tenures and are mainly concessional, with little interest rate risk.

The debt relief granted Nigeria in 2005 improved the debt situation; but drained resources needed for developments in Nigeria. There is the need for debtor nations in Africa to form a collective union in order to have a collective bargaining power. When negotiating with the creditor nations in order to get a better deal from the creditor. The Debt Management Office should ensure the purpose, duration commitment, economic viability of projects, match between loan terms and project profiles and so on before contracting such loan, and to ensure proper utilization of the loan.

It is important that Nigeria, through its Debt Management Office, rearrange and prioritize debt management strategies effective in reducing the Nigeria’s foreign debt stock. In terms of rescheduling option, Nigeria should always look for multi-year rather than year by year rescheduling.
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