TITLE PAGE

AN EVALUATION OF DEBT MANAGEMENT STRATEGIES IN NIGERIA, WITH EMPHASIS ON DEBT CONVERSION PROGRAMME (1988 - 1997)

BY

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A THESIS SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY ZARIA, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

(M.B.A.)

DEPARTMENT OF BUSINESS ADMINISTITION

FACULTY OF ADMINISTRATION

AHMADU BELLO UNIVERSITY

ZARIA, NIGERIA

DECLARATION

I hereby declare that this thesis was written by me, and that it is a record of my own research work. To the best of my knowledge, this thesis has not been presented to any Post-Graduate School for the award of a higher degree.

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CERTIFICATION

This Project entitled, "AN EVALUATION OF DEBT MANAGEMENT STRATEGIES IN NIGERIA, WITH EMPHASIS ON DEBT CONVERSION PROGRAMME" (1988-1997) BY ILYASU, GAMBO MUHAMMAD meets the regulations governing the award of the degree of MASTER OF BUSINESS ADMINISTRATION (MBA) OF AHMADU BELLO UNIVERSITY, ZARIA, and is approved for its contribution to knowledge and literary presentation.

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ACKNOWLEDGEMENT

I wish to begin by thanking the **Almighty Allah** for the good health and opportunity to undertake this study. I am indeed grateful to the **Almighty** for all my steady success in life.

My special thanks go to my Supervisor Mallam Sanni A. Abdullahi for his understanding, patience, scholarly advice and guidance. Furthermore, special thanks also go to Mallam M.A.M. Mainoma who used his valuable time to read all the manuscripts and also offered constructive criticism.

I am also indebted to Shuayb Idris who is an expert on debt conversion for providing some of the seminar papers used in this project and also gave me the necessary guidance and advice needed for it. In addition, I must sincerely acknowledge the following for their support and contribution; Aliyu Abdul Kura, Ibrahim Yaro, Aliyu Ahmed El-Kyari, Liman Tijjani, Ahmed Baba Ibrahim, Squadron Leader S.N. Suleiman, Squadron Leader Hassan Zoaka, Wing Commander R.S. Gwani, Wing Commander Ibrahim Kure, Wing Commander I.A. Balogun, Misbahu Abdulrasheed, Idris Saeed, Sunday Onoja, Dr. Zakari Mohammed, Squadron Leader (Dr) M.M.U. Maisaka and Alhaji Maikudi Ahmed Tike. To all these people I say a big thank you.

Also worth mentioning are the patience, understanding and perseverance of my family, especially my wife, Rakiya, and children: Faizah, Muktar, and Mahmoud. Furthermore, special thanks go to my late father, Alhaji Ilyasu Muhammad who laid a solid foundation for my education and moral upbringing, May his Gentle Soul rest in perfect peace, Ameen.

My aged mother, Hajiya Kande also deserves special mention for her prayer, concern and moral guidance.

I am equally grateful to my immediate boss, Group Captain B.O.A. Sotubo, for his understanding and cooperation in seeing me through the course. Finally, I am also indebted to my employers, the Nigerian Air Force which the **Almighty Allah** has used as a medium for me to achieve what I have so far achieved in life. I remain most sincerely grateful and May the **Almighty Allah** bless us all Ameen.

ILYASU, GAMBO MUHAMMAD

DEDICATION

This piece of work is dedicated to the Glory of the

Almighty ALLAH

and to

My Family

ABSTRACT

This project is intended to critically evaluate the Debt Management Strategies in Nigeria right from inception in 1988 to 1997. The study identifies two key factors which caused the country's debt problems. There are internal factors — employment of isolationist and import substitution policies, resulting in over valuation, excessive reliance on single commodity — oil for foreign exchange earnings and above all, the cost of maintaining the political entity, Nigeria. Externally, factors such as increase in interest rates (dollar), currency adjustments (third currencies), decline in oil prices as well as world economic depression contributed significantly to the accumulation of foreign debt by Nigeria.

In its efforts to manage the country's external debt, the government embarked on a Structural Adjustment Programme and employed amongst others, a debt buy back scheme, rescheduling and refinancing negotiations which later turned out to be rather inadequate. Therefore, other measures such as debt relief and debt equity swap schemes were introduced. The study also brings out the inadequacies of the traditional schemes (perceived to be costly and futile) which necessitated the need for a revised or introduction of new techniques of managing the country's external debt within a development perspective, that is revitalization of Nigeria's economy through attraction of foreign investment, at the same time reducing debt burden.

The Nigerian debt management strategies are analysed critically, noting in particular, the costs and benefits of the strategies on the part of various participants, on the Nigerian economy. In addition, the performance of the programme against its stated objectives was measured. Moreover, the ability of the scheme to cope with its

perceived pitfalls is tested. Futile attempts have been made by the government to control problems such as inflation, round-tripping and foreignisation.

The Nigerian Debt Management Strategies such as restructuring, refinancing, debt buy back, debt forgiveness and debt equity swap being analysed in this study are by no means a panacea to Nigeria's debt problems. They may provide a temporary respite or contribute in lightening debt service difficulties, but cannot offer a permanent solution to the country's debt problem, neither will they be sufficient to restore Nigeria's creditworthiness and attract foreign capital.

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CHAPTER ONE

INTRODUCTION

1.1 An Overview

The Malaise of an economy becomes manifest where there is adverse movements in key economic indicators such as Gross Domestic Product, price level of industrial and agricultural production; unemployment, balance of payments, exchange rates and domestic and external debt position as well as many other social indicators such as health, life expectancy, poverty etc. These adverse movements translate into difficulties which are experienced and felt by virtually all sectors of the economy. For those in business, be they, trade and commerce or services, there is shortage of inputs or sluggish demand, dull business climate and uncertain future business outlook. Rising prices in the market put commodities progressively out of the reach of consumers, leading to a drastic fall in standards of living. Government experiences declining revenues and pile up of debt both domestic and external, while the level of public services such as health care, infrastructural facilities etc. deteriorate, leading to absence of investments. Unemployment therefore increases as a result of stagnation in economic development and growth.

The above manifestations of economic sickness have characterised the Nigerian economy particularly since 1981. Other factors that give rise to this development in addition are the glut in the oil market, wrong industrial policy and above all, isolationist policy which was aimed at protecting local capitalist against foreign investment and competition. This invariably resulted to decline in

inflow of foreign capital in form of equity and title to loans which were contracted at rather expensive rates and tenure mismatched with projects for which they are meant to finance. This scenario gave rise to the present predicament which Nigeria and most least developed countries have found themselves today that is debt crisis.

1.2 Statement of the Problem

Nigeria's debt problem is rooted partly in the collapse of international oil price in the early 1980s and partly in domestic policy lapses. The policies of the 1970s and the early 1980s led to structural changes which made the economy vulnerable to external shocks. The effects of rural-urban migration in the wake of oil boom on the agricultural sector as well as the inappropriate exchange rate policies and defective incentives pave way for an industrial sector that was heavily dependent on imported inputs with low value added. Consequently, the economy became progressively dependent on crude oil. Thus when the prices of oil collapsed, Nigeria found herself in serious external payment problems as the country's external reserves fell drastically. With the rapid accumulation of trade and payment arrears, lines of credit gradually dried up while the stock of external debt was on the increase.

As a way out of the debt crisis, and in an attempt to put the economy on the path of growth, various debt management strategies were adopted. However, it became obvious in 1987 that the traditional approach to debt relief through rescheduling was inadequate. Debt rescheduling only stretches out payment as it does not extinguish the debt. It therefore became inevitable to find new financial options especially with the emergence of the secondary market for loan claims on debtor countries. It is against this

background that a Debt Conversion Programme for the country was established in 1988. This is a multiple purpose debt management strategy that provides an avenue to appropriate for the national economy part of the market discount in the secondary market and incentives for investors.

It is in the light of the above mentioned facts that a research of this nature became imperative. Therefore the need to critically analyse the performance of the Debt Conversion Programmes in relation to its objectives especially on debt reduction and investment promotion in Nigeria has given rise to this study.

1.3 Purpose of the Study

The aim of the study is to examine the genesis of the Nigerian external debt problem and to explore various debt management strategies employed by government in managing the problem. Specifically, the study will analyse and critically evaluate the various Debt Conversion Programmes within the context of its stated objectives and measure its ability to cope with perceived pitfalls and its impact on the Nigerian economy. The study will also attempt to analyse foreign direct investment versus Debt Equity Swap and the underlying impact on the Nigerian economy.

1.4 Significance of the Study

The management of Nigeria's public debt outstanding since the 1980s has been a major macroeconomic problem. This is largely because public debt has pervasive effects on the economy. The size, growth, structure and servicing of the debt have serious consequences not only on the macroeconomy but also sectoral and microeconomic activities and decisions. For years, the Nigerian

public debt has been growing in spite of the efforts being made by the government to manage it and minimise its crushing effects on the nation's economic activities.

In a developing economy, the external debt causes more concern than domestic debt. This is not to say that the latter has no serious consequences on the economy. Rather, it is because the burden of external debt is far more crushing than domestic debt. The significance of this study is therefore hinged on the fact that the consequences of external debt crisis on a fragile economy such as the Nigeria's are devastating. Another significance of this study is that debt crisis has remained persistent. This is so because despite all the management efforts of controlling external debt, there seems to be no easy way out.

This study will go a long way to analyse the various debt management strategies and pin point the pitfalls and possible solution to debt crisis in Nigeria. Operators of the Nigerian economy such as policy makers, politicians and business community are expected to gain from this study in no small way. This is because all debt management strategies are likely to reduce debt stock, restructure the outstanding debt, minimise its burden and its adverse effects on the economy are the main focus of this study. To the scholars, the study will serve as a source of knowledge and confirmation of whether earlier research findings still hold in the face of the fragile nature of Nigerian economy. Furthermore, the study will identify new strategies that will consolidate or revolutionalise earlier research findings.

1.5 Delimitation of the Study

The research will focus on Debt Management Strategies with special emphasis on the Nigerian Debt Conversion Programme. The environments in which the research will be conducted are Abuja and Lagos. The study is mainly restricted to records kept at Central Bank of Nigeria in both Abuja and Lagos on Debt Conversion Programme. Furthermore, the study will also employ the presentations made at a Seminar on the 'Debt Problem and the Nigerian Economy – Resolution Options' organised by Debt Management Department, Central Bank of Nigeria.

The information used for the analysis covered a Nine-year period between 1988-1997. In order to attain the objectives of this research, the delimitations of the study was defined to embody all relevant aspects of Debt Management Strategies in Nigeria. Information was obtained on the concept and modalities of Debt Conversion Scheme in general and the Nigerian Programme in particular. Furthermore, information on the performance of the programme in relation to debt reduction, investment promotion as well as its effects on the balance of payments position of the country would be examined. In addition, the study also focused on the problems encountered so far and the future prospects of the Programme in Nigeria.

1.6 Limitations of the Study

Time and cost are the major constraints to this study. These two factors will not allow for a visit to some creditor nations and bodies who are mostly overseas for interviews and further research. The non-existent of literature from other successful third world country such as Brazil and Mexico on their debt conversion

programmes is again another serious limitation to this study. Again another limitation is lack of up-to- date statistical data and the authenticity and reliability of data already obtained.

Notwithstanding these constraints, the finding of the research still hold because the facts contained in the study will help policy makers, politicians, businessmen, scholars and the general public to have an insight into the debt crisis and attempts made at remedying the situation. Furthermore, the effects of debt management strategies on the Nigerian Economy are also discernible to all in the study.

1.7 Methodology

Data have been obtained largely from secondary sources such as Seminar and Conference papers, journals, periodicals, magazines and newspapers. In addition, publications of relevant authorities and/or government institutions have also been used alongside discussions with relevant parties such as participants in the programme (redemptors) and government officials responsible for administering the debt conversion programmes.

1.8 Definition of Terms

a. **Debt:** A debt is a state of owing money either by an individual or a country.

b. **Public Debt:** Public debt is an aggregate of a country's debt which includes both domestic and external debt.

c. **Domestic Debt:** Domestic debt is that aspect of a country's debt that is sourced and obtained internally -- that is debt owed to domestic residents.

d. **External Debt**: External debt is a debt that is obtained outside the country -- that is debt owed to outsiders.

e. **Multilateral Debt**: Multilateral debt is debt that is owed to multilateral institutions such as World Bank Group, International Monetary Fund (IMF), African Development Bank (ADB), European Economic Community (ECC), Organisation of Petroleum Exporting Countries (OPEC) etc.

f. **Bilateral Debt**: Bilateral Debts are debts obligations to Paris Club, London Club and Promissory Notes.

g. **Paris Club**: Paris Club is a club of creditor nations which has extended loans to LDCs i.e Government to Government debt. Some of the members include UK, France, Belgium, the Netherlands, etc.

h. **London Club**: London Club is a group of private creditor institutions, mostly banks which extended various loans to LDCs.

i. **Promissory Notes**: Promissory Notes are trade credits extended to various Nigerian importers during the import license era. The trade credits were securitised in form of IOU and have a maturity profile of 22 years with quarterly interest and capital repayment.

j. **Debt Securitisation**: Debt Securitisation is a process of issuing of bonds that can be passed among lenders instead of simply security bank credit that is expected to remain with one until maturity.

k. **Debt buy-back**: Debt buy-back is characterised by sale of claims for cash by creditors banks.

l. **Refinancing**: Refinancing is a process whereby new money is secured to finance an existing principal or interest payment of a loan.

m. **Rescheduling**: Rescheduling is the restructuring of an outstanding problem loan with the resultant stretching out of repayment period.

n. **Debt Equity Swap**: Debt Equity Swap is a process which allows debt/credit to be converted into equity.

o. **Debtor Countries**: Debtor Countries are those countries that owe either the Multilateral or Bilateral debts.

p. **Redemptor**: A redemptor is a person, artificial or natural, who is desirous of converting sovereign countries debt for investment in a local company or as a donor.

q. **Bretton Woods Institutions**: Bretton Woods Institutions are the World Bank (IBRD), IMF and other auxiliary organisations, such as the International Finance Corporation (IFC), Multilateral Investment Guaranty Agency (MIGA) based in Washington DC, etc.

r. **Brady Bonds**: The Brady Bonds are collaterialised bonds which initially were London Club debts, but subsequently securitized and backed by US Treasury Bills. The Bonds attract a semi-annual interest. These were named after the former US Treasury Secretary, Nicholas Brady.

s. **Debt Forgiveness Or Debt Write-off**: This refers to a situation where the debtor country is offered some debt relief in form of cancellation of the debt.

1.9 Outline Of The Study

The study consists of five chapters. Chapter One is introductory which states the statement of the problem, purpose of the study, significance of the study, delimitations of the study, limitations of the study, methodology as well as definitions of some key terms that are going to be used in the study. Chapter Two will mainly deal with literature review. Both the Nigerian economy and the External debt portfolio are expected to be reviewed in this chapter. Furthermore, the Debt Management Strategies are expected to be analysed under this chapter.

Chapter Three is expected to deal with Data collection. Under this chapter, objectives and performance of Debt Management Strategies are going to be analysed. In addition, some of the applications received under the management strategies and their distribution according to each industry will be analysed. Chapter Four will involve data analysis. Data analysis will involve critical analysis of the implication of Debt Management on GDP, effects of debt management strategies on employment and the impact of debt management on Income generation. Furthermore, the influence of debt management strategies on standard of living will be critically looked at. Lastly, a critical examination of Foreign Direct Investment (FDI) versus Debt Equity Swap (DES) will be on focus. Finally, Chapter Five is mainly conclusion and this is going to be summary, observation, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Review of the Nigerian Economy

2.1.1 Preview:-

This broad overview of recent development in the Nigerian economy focuses on the movements of selected major economic and financial indicators. The main purpose is to examine the trends of these indicators. As a background to the survey, the paper provides a tour d'horizon of the economy between 1970-1997, dividing the period into five episodes: the boom (1970-1980); the deepening crisis period (1982-1985) and the SAP period, (1989-1990). The recent events (1991-1996) and finally, a review of the 1997 fiscal year and beyond would be made.

2.1.2 Background, 1970-1980 – Period of Relative Boom:

The oil boom in the 1970s conferred Nigeria with an unprecedented wealth which encouraged the government to embark on ambitious large scale capital projects notably, in the steel and aluminium works, infrastructure, agriculture as well as in the rapid development of Abuja. However, the collapse of the oil export (quantity and price) in the early 1980s reversed the boom, plunging the economy into a protracted period of deep recession from which it has not fully recovered despite the various policy attempt aimed at restoring the economy to a sustainable growth path.

The sharp decline in oil exports (quantity and price) drastically reduced revenue available to the Government. However, the decline in revenue was not matched by commensurate reduction in public expenditure partly because of government's inability to resist competitive distributional demands and partly because of the perception that the recession in the

world oil market would be transitory. The change in expenditure was largely a shift from investment to consumption. To be sure, some large scale projects considered to be crucial to the country's economic development, notably, the steel works, aluminium smelter, Abuja and others were virtually unaffected.

2.1.3 Deepening Crisis: 1982-1985

Between 1981 and 1982, the country's twin deficits – the fiscal and current account widened substantially, resulting in severe internal and external inbalances. The grossly over-valued exchange rate of the Naira undermined the competitiveness of the non-oil exports, as well as encouraging capital flight. In spite of these adverse developments, the authorities initial reaction was characterised by fiscal laxity as well as absence of any coherent and creditable policy responses. To be sure, the sharp decline in oil exports and its severe impact on the economy forced the Government to take a number of austerity measures between 1982 and 1985 including quantitative import restrictions, monetary squeeze and a range of other control measures. As a result of the severe compression of imports, investment fell sharply resulting in the negative growth rates of GDP by an average of 5% in 1983 and 1984.

The inflation rate rose sharply to over 40% in 1984 reflecting the effect of large fiscal deficits in 1982 and 1983 and the concomitant monetary expansion as well as the effect of supply scarcities, especially food imports. The inflation rate fell to 5.5 % in 1985 largely as a result of good harvest and the improved fiscal position in 1984 which significantly reduced the expansion of money supply. However, the over-valuation of the Naira exchange rate had impaired the external sector competitiveness which coupled with other policy –induced distortions, contributed significantly to the virtual disappearance of most of the country's traditional exports such as cocoa, groundnut, palm oil and others. The external payments position

deteriorated sharply resulting in sustained increases in the external debt stock from $10.1 billion in 1982 to over $25 billion in 1986 while the debt service obligation also rose significantly.

2.1.4 Structural Adjustment Programme – 1986-1990

The dramatic collapse of the oil price from $38 per barrel in 1981 to less than $15 per barrel in 1986 caused revenue accruing to the government to fall sharply while the country's external reserves were virtually depleted. By mid 1986, the economy was in a veritable state of depression characterised by declining capacity utilisation and low investment as well as high level of unemployment. It was this situation that brought about the new orientation to the country's economic management. Accordingly, in 1986, a two year Structural Adjustment Programme (SAP) was adopted aimed at addressing the problems of macroeconomic and structural imbalances in the economy through a combination of demand management and growth-oriented policies. Under the programme, all prices were decontrolled and the stifling marketing board arrangement were abolished. The Naira was substantially devalued to address its over-valuation and to enhance the external sector competitiveness. The financial sector was also substantially deregulated resulting in the decontrol of interest rates in 1987 with Minimum Rediscount Rate (MRR) acting as the nominal anchor.

By 1987, government reverted to expansionary fiscal and monetary policy stance and, in 1988 a reflationary policy was adopted, largely in response to the sharp rise in food prices, especially imported foods in that year and to distributional pressures to relax the SAP which it was argued was imposing severe hardship on the people. As a result of the expansionary measures in 1987 and 1988, the inflation rate surged to an average of 53.3% in 1988 and 1989. However, realising the danger which high inflation portended for the economy, stringent monetary measures which included the use of stabilisation securities and the withdrawal of

public sector deposits with the Commercial Banks to the CBN were taken in 1989. As a result, the inflation rate fell sharply to 7.4% in 1990.

After a rather sluggish beginning, GDP grew at an average of 8.5% in 1986-1990, having reached a peak of almost 10% in 1988, compared with the negative rates of the pre-SAP years. Available data also indicated a rising trend in real per capita private consumption in contrast to the negative trend in 1981-1987. The agricultural and manufacturing sectors contributed significantly to the improved performance of the output growth. However, the inflation rate rose from 5.4% in 1986 to 10.2% in 1987 and sharply to an average of over 53.3% in 1988 and 1989, largely reflecting the impact of the budget deficit financed largely through the banking system and especially through the CBN with its concomitant monetary expansion and also from the sharp rise in imported food prices. Reflecting the effect of the devaluation of the Naira and the abolition of the Marketing Board arrangements, the ensuing improved ratio of producer prices to export prices enhanced the production of such products as cocoa, soya beans, textile and others while the liberalisation of export trade resulted in significant reduction in implicit taxation of farm incomes, all of which contributed to the improved export performance of these non-oil export products. Consequently, the overall balance of payments swung from a deficit of N0.8 billion in 1986 to a surplus of N8.7 billion in 1989 before returning to a deficit of N5.8 billion in 1990. The external debt situation deteriorated as the debt stock increased from $25.6 billion at the end of 1986 to $33.2 billion in 1990. The increase was largely a reflection of new borrowing, changes in exchange rates of the currencies in which the debts were denominated as well as the capitalisation of outstanding interest.

2.1.5 Recent Developments: 1991-1996

Notwithstanding the noticeable improvement in the economy sequel to the adoption of the SAP, the overall performance since 1991, has been

mixed but, in general, unimpressive and disappointing characterised by weak consumer demand, low capacity utilisation, weak growth rate, high unemployment and until 1996, by high inflation rates and an unhealthy external payments position. The momentum of 1986-1990 pointing towards a recovery was transitory and not sustained in subsequent years.

We shall now examine real sector developments:-

a. **Output**: In real sector of the economy, real GDP growth rates declined from an average of 8.5% in 1988-1990 to an average of 3.1% in 1991-1993 pummelling to 1.1% in 1994. The growth rate, however, picked up moderately, rising to 2.2% in 1995 and 3.3% in 1996 reflecting among other things, the effect of the improved fiscal stance. The growth rates were however well below their expected budgetary targets. Moreover, against the background of an annual population growth rate of over 3.0% capita, the overall impact of GDP growth rates on income during this period remained negligible. The growth is also low when compared with Nigeria's historical level attained in the 1960s and with the much higher rate achieved by countries that were in the same analytical group as Nigeria, in the 1970s and early 1980s, notably, Malaysia and Indonesia.

The overall weak performance of the growth rate of the economy during this period was largely a reflection of the poor performance of the manufacturing sector where capacity utilisation declined sharply from an average of 41.0% in 1987/88 to about 30% in 1994-1995 rising only marginally to 32.5% in 1996. The share of the manufacturing sector has stagnated to an average of less than 8% between 1992-1996 while its growth rates recorded an average negative rate of

4.7% in 1992-1995. The sector has been severely constrained by several factors, including high production cost especially imported inputs, inadequate and unreliable infrastructural facilities, low level of consumer purchasing power resulting in high accumulation of inventory and low level of investment. Similarly, the performance of the agricultural sector to an average growth rate of 3% in 1994-96 has been modest being largely influenced by the vagaries of the weather and severely hampered by macroeconomic instability and by inadequate auxiliary services including agricultural research and extension services and other factors.

b. **Prices:-** The inflation increased sharply from 7.4% in 1990 to 13.0% in 1991 then accelerated to 44.6% in 1992 and furthet escalated to an average of 57.1% in 1994 and again sharply to 72.8% in 1995, largely as a result of the huge budget deficit overhang. However, reflecting the effect of continued fiscal consolidation and high monetary stance adopted in the 1995 Budget and consolidated in 1996, the inflation rate dropped sharply to 29.3% in 1996.

c. **Fiscal Sector**:- The overall fiscal deficit which was 8.5% of GDP in 1990 increased to 12.4% in 1991 but declined significantly to 7.2% in 1991, due largely to the effect of the windfall in oil revenue resulting from the Gulf crisis. However, the deficit rose substantially to 15.4% of GDP in 1993 but fell sharply to 7.9% in 1994 reflecting the effect of the tight fiscal policy and monetary stance of that year. Reflecting the impact of continued prudent fiscal stance, especially with respect to expenditure as well as the aggressive revenue drive including the contribution from Value Added

Tax (VAT) and AFEM surpluses in the 1995 and 1996 budgets, the overall fiscal operations of the Federal Government resulted in a surplus of 1.6% of GDP in 1996.

d. **Monetary Aggregates**:- Developments in monetary sector tend to reflect the movement of fiscal operations of the Government which in turn, has been influenced by the development in the oil sector and its impact on government revenue. The growth of broad money increased sharply from 32.7% in 1991 to an annual average of 49.5% in 1992 and 1993 reflecting the expansionary impact of increased credit to the Federal Government. The rate however declined to 39.1% in 1994 reflecting the impact of the tight monetary and fiscal policy measures pursued in that year. It declined further to 10.2% in 1995 before rising to 25.7% in 1996. Unlike in the previous years, the sharp increase in monetary aggregates in 1996 largely reflected the expansionary effect of the substantial net inflow of foreign asset, the financial operations of the Petroleum (Special) Trust Fund (PTF) and the Federal Government as well as the release of stabilisation securities to Commercial and Merchant Banks during the year.

e. **Banking Credit**:- The growth of aggregate bank credit to the domestic economy which was 17.1% in 1990 accelerated to 45.3% in 1991, 69.1% in 1992 and 91.4% in 1993. The increases during this period were largely accounted for by the banking system claims on government. However, reflecting largely the effects of the tight financial policies adopted in 1994, the rate decelerated rapidly to 29.2% in 1994 and further to 5.0 in 1996.

Credit to the private sector increased from N61,020.3 million in 1992 to N92,501.6 Million in 1993 or 51.6%. The growth rate decelerated to 32 % in 1994, rose by 51.8% in 1995 then declined significantly to 21.9% in 1996. The slow down in the growth of bank credit to the private sector in 1996 was largely a reflection of the continued weakness in the economy due to weak demand for credit.

Credit to government rose dramatically from N80,715.6 million in 1992 to N178,843.3 million in 1993 by 121.6% and further to N228,349 million or by 27.7% in 1994. The rate of deceleration in the growth rate in 1994 was as a result of fiscal consolidation in that year. The banking system credit to the government sector fell substantially by 8.6% and 10.1% in 1995 and 1996 respectively. Credit by CBN which had increased but at a decreasing rate between 1992 and 1994 fell sharply by 27.6% to N137,216 million in 1996 from N189,505.3 million in 1995.

f. **External Sector**:- The external sector developments have been largely influenced by the events in the oil sector. External reserves stock rose from N3,883.6 million in 1990 to $448.67 million in 1991, fell significantly to $716.2 million in 1992, but improved substantially to $1,330.1 million in 1993. The variability in the reserves position between 1991-1993 was attributable to a number of factors, including the effect of the fluctuations in the world oil market which affected inflows, the use of the external reserves for external debt services and for shoring up the Naira exchange rate to prevent it from sliding. The improvement in the external payment position was sustained in 1996 with a substantial reduction in overall

balance of payments deficit from about $2,274.4 million in 1995 to US $761.0 million in 1996, while the stock of external reserves rose to 7.6 months of imports compared with 2.1 months of imports in 1995. The substantial buoyancy in the sector was a result of a combination of factors—exogenous and endogenous—the former reflecting the effect of the sharp increase in the average selling price of crude oil in the international market which rose from $17.3 per barrel in 1995 to $21.2 per barrel in 1996 as well as in the increase in the volume of export which was higher by over 10 million barrels, while the latter related to the effect of fiscal consolidation and continued tight monetary stance.

The dual exchange rate system which was introduced in 1995 was maintained in 1996, with the official rate remaining fixed at about N22 to US $1 while the autonomous foreign exchange market (AFEM) rate was largely market determined. The latter rate appreciated from N85:$1 to N80:$1 as at the end of December 1996.

2.1.6 Overview of Economic Performance in 1997 Fiscal Year and Beyond

The overall economic performance in the 1997 fiscal year as enunciated by Minister of Finance during the 1998 budget presentation is as indicated below:-

a. **Inflation Rate**:- The rate of inflation fell from 72.8% in December 1995 to 29% in December 1996 and as at 31 December 1997, the projected outgoing rate of inflation was 8.5%. It is expected that the rate of inflation will not be more than 9% in 1998.

b. **Exchange Rate**: At the highest point, the dollar sold for N85. However, with improved foreign reserve, the Naira gradually appreciated and as at 31 December 1997, the dollar sold for N75.

c. **Interest Rate**: The Nigerian economy is now characterised by positive real interest rate. During the year, the average lending rate of interest ranged from 18% to 20% while savings ranged from 4% to 12.5%.

d. **Excess Liquidity**:- During 1997, the excess liquidity in the banking system averaged N7.1 billion. This compares with an average of N11 billion excess liquidity that occurred in 1996.

e. **Gross Domestic Product (GDP)**:- In the 1997 budget, it was anticipated that the growth rate would not be less than 5.5%. The GDP in 1997 grew by 3.77% representing a marked improvement from 1.3% in 1994, 2.2% in 1995 and 3.25% in 1996.

f. **Fiscal Deficit**:- The overall fiscal deficit of the Federal Government in 1997 amounted to N5 billion and this is after a full provision has been made for the capital budget of N89 billion. The deficit is after adjusting for the excess receipts of sale of crude oil and receipts for royalties amounting to N66 billion. The operational deficit is also arrived at after taking into consideration extra budgetary expenditure of N16 billion and N2 billion in respect of capital and recurrent expenditure respectively as well as additional interest on Treasury Bills amounting to N20 billion. When this operational deficit of N5 billion is netted against the surplus of N38 billion brought forward from 1996, there is a surplus of N33 billion in 1997 as against a zero budget surplus to be carried forward to 1998.

g. **Reserves**:- A summary of the balances standing on the reserve accounts as at 31 December 1997 shows that there is an accretion of N3.295 billion in our foreign reserves. When this accretion is taken into consideration with other reserves brought forward, Nigeria's external reserve as at 31 December 1997, stood at $7.7 billion.

h. **External Debt**:- The collateralised external debt for the periods 1995, 1996 and 1997 has remained stable and fixed which was $2.04 billion. The non-collateralised external debt for 1995 was $30.6 billion. In 1996, it was $26 billion. As at December 1997, the external debt stood at $25 billion. The Finance Minister, during the usual press briefing on the 1998 budget said "As a nation, we now know how much we owe. Government has put in place a debt management strategy that is sustainable. A high debt overhang is inversely related to growth. It is therefore, our intention that our debt strategy will free resources for the development of vital sectors of the economy".

See Table 1 in Appendix 1 for details of the performance of the economy over a 3 year period.

2.1 Review of External Debt Portfolio

2.2.1 Background

The LDC debt crisis which began in August 1982 has generated a lot of interest particularly amongst government officials, politicians, academicians and journalist, so much that it is hardly surprising that an apparently never-ending stream of proposals has been put forward for dealing with this problem.

Similarly, Nigeria's external debt problem became pronounced in the early 1980s when numerous external loans were indiscriminately acquired and foreign exchange earnings plummeted consequent upon the collapse of prices in the international oil market. But the seeds of the debt problem were actually sowed in 1978 when the country borrowed from the Eurodollar International Capital Market on commercial terms. Suddenly, the debt profile showed a significant shift from the traditional concessional bilateral and multilateral sources to market sources characterised by high and variable interest rates, shorter repayments and grace periods. And since the early eighties the rapid growth of the debt stock and debt service payment has become a wedge on national development.

The aggregate debt stock increased from $906 million in 1976 to $3.4 billion in 1977 and to $17.8 and $25.6 billion in 1983 and 1986 respectively. As at December 1995, the debt stock stood at $32.6 billion. By 1996 and 1997, the debt stock dropped to $28 and $27 billion respectively (see Table 2). In explaining the rapid build-up of the debt stock it is important to recall the substantial role of import of goods and services and the rapid build-up of trade arrears from the early 1980s. Of course, there were other important factors in the build up. Amongst this was the fact that some project-tied loans were contracted without consideration of economic viability. Others were: utilisation of short-term loans sourced mainly from private markets to execute projects of long-gestation periods; harsh borrowing terms reflecting high and floating interest rates, short maturities of debt and short grace periods; harsh international financial system which makes the debt to grow uncontrollably; indiscriminate and uncontrolled borrowing abroad. Mismanagement of borrowed funds; and inadequate or lack of debt management policies. Indeed, a poor use of external debt loans has been a major cause of the debt burden. The major portion of the increase in the debt stock since the Structural Adjustment Programme in 1986, has been

due to such factors as new borrowings, rise in foreign interest rates, capitalisation of unpaid interest charges and changes in the exchange rates of the various foreign currencies in which the Nigeria's foreign debt is denominated.

2.2.2 Brady Bonds and London Club Debts:-

Private sector debt belonging to London Club of Creditors (LCC) was converted into Brady Bonds. These bonds attract semi-annual interest rate of about 6.25% and a balloon repayment of the principal at the terminal end of the facility. The debts are collateralised by zero coupon US Treasury whose maturity has been tailored with that of the bond. Nigeria has technically extinguished London Club debts owed to private and commercial bank creditors through the debt buy-back and collateralisation of the residual London Club debts in January 1992.

2.2.3 Paris Club Debts:-

While Nigeria has technically extinguished the London Club debts, the Paris Club debts owed to official creditors have remained the major problem of Nigeria's debt management. At present, the rescheduling terms of the Paris Club debts do not allow for debt reduction. To compound the debt problem, Nigeria's debt servicing capacity has declined over the years. The Paris Club debts account for the lion's share of Nigeria's total debt. The three Paris Club rescheduling agreements of 1986, 1989 and 1991 have so far not reduced the stock of debt; instead, arrears and amounts falling due within a consolidation period, usually 12 to 15 months were capitalised. Amounts capitalised during the rescheduling, the interest component of current payment arrears and penalty on late principal and interest have contributed to increase the level of indebtedness.

Payment arrears which started accumulating since 1992 rose to $6,826.97 million as at end-December, 1994. Arrears apart, the allocation of debt service in 1994 budget which was 30% of expected official foreign

earnings, represented about 50% of debt obligations for the year. Indeed, as the 1996 federal budget statement acknowledged, the debt servicing problems constitute a serious obstacle to the inflow of external resources into the economy. In spite of the fact that government has been servicing the debt with $2.00 billion annually in the past 5 years, the accumulation of debt service arrears which is being compounded with penalty interest had not permitted a reduction of the debt stock before 1996. And in 1996 debt service requirement was $4.271 billion. Adding the debt service arrears of $11.280 billion up to December 1995 would yield the total debt service requirements in 1996 of $15.551 billion. This is staggering and requires substantial relief from the creditors.

In 1997, the debt servicing requirements are still higher. A total sum of $16,103.96 million is required to service debts in 1997. This comprises $11,124.0 million as at 1996 and $4,979.96 requirement in 1997. The $16,103.96 million represents 112% on projected total foreign exchange inflow in 1997.

Obviously, the burden of amortization and interest payments has tended to drain the nation's resources and reduce the possible expenditure of resources on productive ventures. The setting aside of a disproportionately high percentage of export earnings to meet debt service obligations means increasing inability of the country to pay for other imports of goods and services vital for economic growth. This has been the case in Nigeria. And to the extent that the external debt service increases the government budget deficit financed mainly by the Central Bank, it poses a problem for the achievement of macroeconomic objective including price, exchange rate, and interest rate stability as well as balance of payment viability. The implication of this, therefore, is the need to reduce the debt service ratio substantially in order to release foreign exchange resources for

funding economic recovery programmes as well as make the continued contracting of burdensome new loans unnecessary.

Unfortunately, the build-up of debt stock and the consequent debt overhang have continued to pose serious debt management problems, more especially as the country's negotiations with the London Club, Paris Club of creditors (bilateral creditors) yield very little relief. This is partly because of the restrictive nature of the packages offered by the creditors and partly because the negotiations were not accompanied by a vigorous pursuit of a medium-term economic reform programme, as demanded by the international creditors, to address the underlying economic problems.

The reconciliation of Nigeria external debt figures with various groups of Creditors which began in 1996 was continued in 1997. To date, 11 of the 14 Creditors countries have been visited representing 94% of Nigeria's debt to the group of creditors as at June 30, 1997. The reconciliation also revealed that Nigeria had fully paid off her indebtedness to Ireland, Sweden and Norway. Nigeria's total indebtedness to the Paris Club members, updated to December 31, 1997 stood at the equivalent of US $18,980.39 million as against US $19,091.73 million in 1996.

2.2.4 Promissory Notes:-

Promissory notes arose mainly from trade credits. The history of US Dollar/CBN promissory notes can be traced to the era of the import licence days. During this period, import of consumables was mostly done through bills for collection/open account, letters of credit which are largely covered by import licence first prior to approaching banks for the imports. Importers who secured the licence approach their bankers together with their Naira cover and the import effected. The banks keep the Naira cover pending receipts of foreign Exchange Cover from the CBN to enable them remit the money to the foreign exporters. However, as time went on,

although the imports continued, Foreign Exchange Cover was not granted leading to accumulation of trade debts. Efforts by the government to clean up the accumulated trade arrears arising from these transactions proved abortive because of the quantum of the arrears hence the debts were restructured from immediate payment to a twenty-two year **IOU**. Essentially, the debts were securitised and made to be interest bearing with interest payment made quarterly together with a proportion of principal. Hence the principal payment is spread over a long period and the burden substantially reduced.

The Federal Government Team verified the transactions carried out by the Chase Manhattan Bank of New York with regards to the Promissory Notes issued between 1984 and 1988 by the Central Bank of Nigeria to cover account accumulated short-term trade arrears. The face value of the Promissory Notes consolidated in 1988, was US $4,891,295,660.00. The total amount, together with the integrated interest was to be amortized in 88 quarterly installments. Each of the first 8 installments was fixed at 1.25% of the Promissory Notes face value while each of the remaining 80 installments was fixed at 2% of the Promissory Notes face value. Nigeria's outstanding principal commitment on the Promissory Notes as at November 14, 1997 stood at US $1,612.54 million. The final payment will be made on January 5, 2010.

2.2.5 Multilateral Debts:-

The World Bank classification places 34 countries in Sub-Saharan Africa (SSA) in the low-income category, 9 in the lower middle-income and 7 in the upper middle income category. The total debt stock of this region has been rising despite the series of rescheduling and debt reduction initiatives, and had reached unsustainable level in the absence of additional debt relief. The debt problems were experienced at the country level and remained widespread in Sub-Saharan Africa, although there were differences

among the countries regarding the level of their external debts. Problems manifested themselves as current cash-flow burdens, as charges on future resources, and as burdens on economic management. At the end of 1994, the total debt of Sub-Saharan Africa, excluding South Africa and Namibia, peaked at US $189,216 million while the gross total export of goods and services for the period was US $442,241 million. The Gross National Products (GNP) during the period stood at US $114,387 million. The debt stock was equivalent to 448% of export earnings and 165% of aggregate GNP during the period. The debt service payments therefore absorbed substantial portion of export earnings in the region. The bulk of the debt is, however, owed to the multilateral institutions and the Paris Club group of Creditors. The aggregate external debt of Sub-Saharan countries, including arrears, grew substantially in the period 1980 through 1995, with the multilateral debt accounting for the major share.

Multilateral debts comprise three main distinct components namely:-

a) debts owed to the International Monetary Fund (IMF)

b) Debts owed to the World Bank group made up of IBRD Loans which are non-concessional and International Development Assistance (IDA) which are concessional loans; and

c) debts owed to regional multilateral institutions such as the African Development Bank (ADB), the European Investment Bank (EIB), the Organisation of Petroleum Exporting Countries (OPEC) and its Arab equivalent (Arab-OPEC) and the European Economic Community (ECC), among others.

During the year 1997 a team of Federal Government Officials held joint discussions with the relevant staff of International Monetary Fund and the World Bank on Nigeria's debt figures. The Bank and the Fund did not

present debt stock figures to the FGN team, rather they jointly analysed the figures presented by the Nigerian side on our stock of pre-cut off date (i.e the rescheduling debts and the non-previously rescheduled portion) as at 30th June 1997, was slightly higher than those obtained by the staff of the Bank and the Fund from the secretariat of the Paris Club. The difference in the figures of arrears on post cut off dates supplied by our team and those by the Fund/Bank's team was largely accounted for by payment in pipeline in Nigeria and exchange rates fluctuations.

Details of outstanding public debts are contained in Table 2 (Appendix 1)

2.3 Causes of Debt Problems

The causes of debt problems largely differ from one country or debtor to another. The factors may well be 'external' that is those that are not within the control of a debtor for instance oil prices, US Dollars interest rates and the 1981-82 world recession; or Internal such as unsustainable underlying disequilibrium in exchange rates (Currency over valuation), budget deficits, and excessive recourse to the world capital markets. (Dornbusch 1986 p.96).

In the case of Nigeria however, Sanusi (1988 p4) noted that part of the causes of Nigeria's external debt problem are excessive reliance on external debt (as opposed to equity investment), inappropriate fiscal and monetary policies as well as wrong structuring of the loans (which now calls for rescheduling and refinancing which we shall examine later). In addition, government pursued an expansionary monetary and fiscal policies while at the same time putting excessive controls such as pricing of goods and services as well as fixed exchange rate mechanism resulting in excessive over valuation of the local currency and distortions in terms of trade or weaken

export. There was a very weak control over borrowing as state governments were also allowed to borrow in foreign exchange.

Another factor which contributed to the sudden increase in Nigeria's external indebtedness is the devaluation carried out by the government. Walker (1992) pointed out that in 1980, Nigeria's foreign debt was only $9 billion or 9% of GDP. Between 1985 and 1987, the stock of the country's debt jumped from $20 billion to $31 billion. Yet during these periods, only about $1 billion was recorded as capital inflow to Nigeria. What accounted for the difference of $10 billion is a combination of factors amongst which are devaluation, capitalisation of unpaid interest as well as 'third' currency adjustments. "Although external debt continued a build up, net resources transfers have been consistently negative, averaging 4.5% of GDP per year from 1986-1991 and totalling to US$11 billion". Afribank Review on Nigeria (1993 p.45).

However, suffice to mention that debt acquisition need not give rise to debt problems, particularly when the debts are contracted under reasonable terms and conditions (avoiding tenure mismatch) and utilising the loans judiciously. Debt acquisition increases the resources at the disposal of the borrower. These resources could be utilised to finance income generating projects, social or infrastructural facilities or better still to finance consumption in anticipation of future receipts of income.

Where the loans are used to finance a project, then the relationship between marginal productivity of the loan and the rate of interest payable on such loans should be such that former is higher/greater than the latter i.e ($r > i$), where:-

r = Marginal productivity of borrowed funds

i = Interest payable on borrowed funds

But if the loans are taken to finance infrastructural facilities, i.e welfare enhancing projects, for a loan to be accepted or taken, the social

discount factor r, must be greater than the interest payable on loan i, (r >i) or at best the two must be equal i.e r=i.

Furthermore, where loans are taken in order to bridge a saving gap be it domestic or external, then there would have to be in the future an excess of saving over and above the required amount to service the investment. Bird (1989 p.2) puts it thus: "Borrowing may be viewed as a way of closing a domestic savings gap, i.e the gap between the savings required to finance the investment which is itself needed to achieve a targeted growth rate, and the actual amount of domestic savings. If borrowing is necessitated by a deficiency of domestic savings, it follows that to service and repay debt, there will have to be an excess of domestic saving over and above that needed for financing domestic investment".

2.4 Debt Management Strategies

2.4.1 Background:-

The goal of a debt management strategy is to reduce the debt stock, restructure the outstanding debt, minimize its burden and its adverse effects on the economy. Any Debt Management Strategy which therefore, cannot contribute to the attainment of any or most of these goals is unlikely to be an effective strategy. This is because debt management strategy as an action plan for achieving some chosen objectives, must be able within given resources and market environment achieve the specified objectives of the debt management authority and the economy.

Since the debt crisis which has engulfed the global economy in the 1980s and especially the developing countries, various threads of thoughts have emerged to deal with the situation. Some of these are country-specific while others are global in nature. The latter category of strategies have also been reinforced by the growing globalisation of markets, information technology and communication. Many of these global strategies are

however within the framework of international financial policies of the creditor countries. As a result, the debtor countries' strategies are made to fit into those policies. This is especially so because the creditor countries use the strategies to reduce their exposure and reduce their outstanding claims on the debtor countries. These are also influenced by the international financial organisation's capital flow management. We shall examine some of these global debt management strategies with particular focus on Nigeria.

2.4.2 Rescheduling and Refinancing:-

Rescheduling basically involves the restructuring of an outstanding problem loan with resultant stretching out of repayment period. More often than not, rescheduling negotiations are highly tedious, time consuming and above all, expensive. Unpaid interest are capitalized and the loan agreement re-written. Bird (1989 p.10) stated that "the main idea with rescheduling is to allow debtor countries more time to service and repay their debt by spreading out their existing obligations. With a relatively high discount rate in debtor countries, rescheduling serves to reduce the present value of a given stock of debt obligations". Again, Iversen, I. (1989) stated that "the debate on the prospects for LDCs and the debt problem is now increasingly focused on the issue of whether the 'muddling through' approach with rescheduling of principal and injection of new money is viable, or if some form of debt relief is needed". It should be noted that rescheduling can only be effective if the debt problem is of a temporary albeit liquidity type. However, if the problem is of solvency, the benefits derivable from rescheduling is very limited and largely depends on the period of extension allowed, that is if the period is long enough to enable major adjustment policies to be implemented.

Nigeria has had quite a lot of its credits rescheduled. The major categories of credits rescheduled are the trade arrears which were securitized

into a 22-year tenured promissory notes with a portion of principal repaid alongside quarterly interest payments. This class of debts totaled about $5 billion (Udo 1992). Other categories of debts rescheduled are some of the London and Paris Clubs debts for which some forms of agreements were reached on some maturities. Discussions are still going on further rescheduling and restructuring of the country's debt. Walker (1992 p.3) retorted, "the international community represented by the London and Paris Clubs have rescheduled much of the debt service due. This provides Nigeria with a temporary respite, but it does not solve the problem". In 1986, debt rescheduling forestalled a default on the country's debt service obligations owed mainly to the Paris Club of Creditors which were due in 1987. In the same year, the country negotiated for rescheduling of US $1.7 billion debts owed to London Club of Commercial Bank Creditors. In March 1989, another rescheduling agreement was reached with 17 Creditors countries totaling US $6.4 billion. The agreement with the London Club involves rescheduling of MLT Loans over a 20 year period with 3 years of grace. The LCs were rescheduled over a 15 year period. Trade arrears were securitized and insured with promissory notes with a maturity of 22 years in 1988 and amortized principal over the same period.

Refinancing involves taking on fresh loans in order to repay existing ones. The logic here is where an existing loan was obtained from private sources or at market interest rates, if a concessional or cheaper loan can be arranged, then this loan will be taken to refinance existing loans. The advantage of this is that new money may be attracted at a cheaper rate than existing loans. Not much has been done in this regard except that some commercial bank debts were refinanced under the 'Brady Plan' which resulted in the creation of about $3 billion worth of Brady Bonds for Nigeria. In 1992, an agreement was reached to restructure and refinance a portion of the London Club debt and allow for a debt buy back. Eligible

debts were converted into registered par bonds with a 30 year maturity period.

2.4.3 Debt Buy Back:-

Debt buy back is characterised by sale of claims for cash by creditor banks. The operation of a secondary market for LDC debts provided a single most important opportunity of valuing the debts within the context of demand and supply. While creditors are happy with this development in that it gave them the opportunity to swap one country's debt with another, debtor countries are also able to buy back, albeit secretly in some cases, their debts at huge discounts. The option of a debt buy back is a tricky, complex and difficult one as certain provisions of some loan agreements specifically prohibit this act (pari-passu clause) while other provide a framework within which this can be conducted. Furthermore, a nation wishing to buy back its debt will ordinarily conduct a simple analysis of the present value of the debt to maturity with the market value of the debt at the time of taking the decision to pursue a buy back strategy.

Nigeria employed this strategy as part of a package which involved refinancing/restructuring of commercial bank debts with an option to buy back part of this class of debts. According to CBN annual report of 1991, about $3.3 billion face value of this class of debt was bought at 40% of its value thus the country enjoyed a 60% discount. The buy-back arrangement will lower Nigeria's commercial bank debts (which are amongst the most expensive debts) from US $5.3 billion to US $2.0 billion at a cost to the nation estimated at US $1.8 billion. No further buy backs are officially reported, however, discussions with one of the traders of Nigeria's debts revealed that the country bought over additional $2 billion face value of promissory notes (albeit secretly). However, the CBN did not confirm this nor does it reflect it in any way in its reports.

2.4.4 Debt Relief and Debt Forgiveness:-

Debt relief is intrinsically provided to the debtor economy in a form that could permit growth which otherwise would have been stranded were repayment to be made conventionally. Thus, debt conversion initiatives as debt management strategies have some mutual beneficial effects to both the debtor and creditor. Hence, as pointed out by Van Wijnbergen (1991:455), "without a net nominal increase in foreign debt or an equivalent cut in scheduled debt service, ... servicing the face value of the current (Mexican) debt without substantial amounts of new money would have been incompatible with renewed growth in output".

Nigeria sought for consideration under the Toronto declaration by the Group of 7 industrialized nations for a debt relief. The Toronto Summit had provided for three categories of concessional treatment of debtor countries. Option 'A' provided for partial write-offs (about one third) and rescheduling of the balance with a long period of grace. Option 'B' gives a longer maturity period (25 years) but not write-offs and debts are to attract market interest rates although with longer grace period. While under Option 'C', debtors were to be granted with concessional interest rates (3.5% below or one-half of market rates whichever that is lower) over a medium term period with a short period of grace. Unfortunately, while a number of countries (notably Britain and Canada) supported Nigeria's bid for a debt relief under the Toronto Scheme, no debt relief was allowed for Nigeria under any of these options as several conditions attached to consideration for relief are yet to be met by the country, hence the adoption of other means of managing the debt problems such as the Debt Equity Swap (DES) through the Debt Conversion Programme.

2.4.5 Debt Equity Swap – Debt Conversion

The limitations and/or in adequacy of rescheduling and refinancing as well as 'buy-back' gave rise to the introduction of Debt Conversion or

Debt Equity Swap – as it is popularly called. By 1987, it became obvious that even the traditional approach to debt relief through rescheduling was inadequate. Since debt rescheduling only stretches out payment as it does not extinguish the debt. Debt conversion primarily involves the exchange of a portion of a country's foreign debts by the holder (or assignee) usually at a discount into equity or local debts in the debtor country.

The idea behind the introduction of the Debt Equity Swap scheme is basically to attract the much needed foreign investment while at the same time the country's external indebtedness is being reduced simultaneously. Cohen (1989) noted: "It is widely acknowledged by scholars and practitioners alike that the LDC debt dilema will not be truly resolved until the severe cash flow strains on debtors can be durably eased in a context of renewed economic development". Again, Iversen (1989) stated inter-alia; "there is therefore a general acceptance that new approaches are needed to deal with the debt and financing needs of LDCs. However, there is no agreement over whether these changes should be aimed at improving the current mechanism or whether a more fundamental change is needed".

Nigeria followed the footsteps of other LDCs, such as Brazil, Mexico, Argentina, Peru to mention but a few, to initiate a Debt Equity Swap Programme. The Programme in Nigeria started in 1988 and since then foreign debts with estimated face value of about $1.2 billion have been extinguished under the scheme. We shall review in details the process of Debt Conversion Programme with particular emphasis on Debt Equity Swap and also critically analyze the performance of the Nigerian Programme. However, an assessment of the success or failure of other strategies as well as a comparison of these strategies employed by Nigeria in its attempt to manage the external debt burden is beyond the scope of this research work. The combined effect of these policies have reduced Nigeria's external debt to about US$26,952.7 million as at June 1992.

However the country's debt service burden estimated at US $5.3 billion annually is likely to remain between 1992 and 1997. Generally, not more than 30% of official foreign exchange earnings has been devoted to debt servicing.

2.5 Summary

The Nigerian economy could be broadly looked at in four stages namely, the boom period (1970-1980), the SAP period (1989-1990), the recent events (1991-1996) and finally 1997 fiscal year and beyond. The boom period conferred on Nigeria an unprecedented wealth the result of which ambitious large scale capital projects including the relocation of Federal Capital from Lagos to Abuja were embarked upon. During this period, there was too much dependence on oil exports (quantity and price) the fallout of which other sectors of the economy were neglected. The sharp decline in oil export drastically reduced revenue available to the Government which gave rise to the deepening period (1982-1985). This sharp decline in oil exports and its severe impact on the economy forced the Government to take a number of austerity measures between 1982 and 1985. The debt stock substantially increased during this period to over $25 billion in 1986, this resulted in significant rise in debt service obligation. As part of the measure to address the deepening crisis, the Structural Adjustment Programme was introduced by 1986. The Structural Adjustment Programme was aimed at addressing the problems of macroeconomic and structural imbalances in the economy.

The external debt situation deteriorated during this period as the debt stock rose from $25.6 billion in 1986 to $33.2 billion in 1990. Recent developments spanning the period 1991-1996 were characterized by weak consumer demand, low capacity utilization; weak growth rate, high unemployment and until 1996, by high inflation rates and an unhealthy

external payment position. However, sectoral developments indicate that some growths/improvements were achieved especially in output (capacity utilization), price (inflation), fiscal deficit, monetary aggregates, Banking Credit and External Sector. The performance of the economy during the 1997 fiscal year and beyond as enunciated by the Minister of Finance in 1998 budget ptesentation shows some improvements in the various sectors of the economy. Inflation rate as at 31 December 1997 stood at 8.5% while it is expected to be not more than 9% in 1998. The Dollar was selling at N75.00 as at 31 December 1997. Interest rate ranged from 4% to 12.5% for savings while it ranged between 18% to 20% for lending. Excess liquidity averaged N7.1 billion while the Gross Domestic Product (GDP) improved to 3.25% in 1996. In terms of fiscal deficit, there is a surplus of N33 billion in 1997 and it is expected that a zero budget surplus will be carried forward to 1998. External reserve as at 31 December 1997 stood at $7.7 billion and the external debt position as at December 1997 stood at $25 billion.

The external debt crisis became more noticeable in the 1980s when numerous external loans were indiscriminately acquired. Factors that contributed to the external debt burden are new borrowing, rise in foreign interest rates; capitalization of unpaid interest charges and changes in the exchange rates of various foreign currencies in Nigeria's foreign debt is denominated. The London Club debts which were converted into Brady Bonds have been technically extinguished. It will be recalled that these debts were owed to private and commercial bank creditors. The Paris Club debts which perhaps are very problematic are owed to official creditors. The Paris Club debts account for the lion's share of Nigeria external debts. Various rescheduling agreements namely 1986, 1989 and 1991 entered into by Nigeria did not produce any positive results. Nigeria indebtedness to the Paris Club members as at December 31, 1997 stood at US $18,980.39 million. Promissory notes arose mainly from trade credits during the import

licence area. By 1985, the promissory notes consolidated stood at US $4,891,295,660.00. The total amount together with interest was to be amortized in 88 quarterly installments. Nigeria's outstanding principal commitment on the promissory notes as at November 14, 1997 stood at US $1,612.54 Million. The final payment will be made on January 5, 2010. Multilateral debts are those debts owed to multilateral body namely International Monetary Fund, World Bank Group and regional multilateral institutions such as African Development Bank, European Investment Bank etc.

The causes of debt problem differ from one country to another. The factor can be external or internal. External factors are oil prices, US Dollars interest rate and 1981-82 world recession. Internal factors are currency over valuation, budget deficit and excessive recourse to the World Capital Market. In Nigeria, the causes of debt problems range from excessive reliance on external debt as opposed to equity investment to inappropriate fiscal and monetary policies. Other causes are wrong structuring of the loans (which now calls for rescheduling and refinancing). Further causes are pursuance of expansionary monetary and fiscal policies while at the same time putting excessive controls over prices of goods and services resulting in over valuation of the Naira and distortions in terms of trade or weaken export.

Nigeria employed various strategies to manage her external debt. The various debt management strategies include Rescheduling which involves restructuring of outstanding problem loan with resultant stretching out of repayment period and refinancing which means taking on fresh loans in order to repay existing loans.

Another debt management strategy is debt buy back which is characterized by sale of claims for cash by creditor banks. In this type of arrangement, creditors are able to swap one country's debt with another and

debtors countries are also able to buy back, albeit secretly in some cases, their debts at huge discounts. Other strategies include debt relief and debt forgiveness. Under the debt relief arrangement, there are three options. Option A, provides for partial write-offs (about one-third) and rescheduling of the balance with long period of grace. Option B, gives a longer maturity period (25 years) but not write-offs and debts are to attract market interest rates although with longer grace period. Option C, debtors were to be granted with concessional interest rates (3.5% below or one-half of market rates whichever that is lower) over a medium term period with a short period of grace. For Nigeria, no debt relief was allowed under any of these options as several other conditions were attached for consideration. In view of problems associated with other debt management strategies enumerated above, Nigeria in 1988 established a Debt Conversion Programme known as Debt Equity Swap. Debt Equity Swap primarily involves the exchange of a portion of a country's foreign debts by the holder (or assignee) usually at a discount into equity or local debts in the debtor country. The Debt Equity Swap model, the application of the Debt Conversion Programme in Nigeria will be thoroughly discussed in the subsequent chapter of this research.

CHAPTER THREE

DATA COLLECTION
THE NIGERIAN DEBT CONVERSION PROGRAMME

3.1 Preview on Debt Conversion Programme:-

As a way out of the debt crisis, and in an attempt to put the economy on the path of growth, various debt management strategies were however adopted. However, it became obvious in 1987 that the traditional approach to debt relief through debt rescheduling was inadequate. Debt scheduling only stretches out payment as it does not extinguish the debt. It therefore became inevitable to find new financial options especially with the emergence of the secondary market for loan claims on debtor countries. It is against this background that a debt conversion programme for the country was established in 1988. This is a multiple purpose debt management strategy that provides an avenue to appropriate for the national economy part of the market discount in the secondary market and incentives for investors. This chapter of the project is aimed at analysing the performance of the Debt Conversion Programme in relation to its objectives, problems encountered in implementing the programme and prospect for substantial debt reduction.

Debt Conversion as earlier defined involves the exchange of a portion of a country's foreign debts by the holder (or assignee) usually at a discount into equity or local debts in the debtor country. The redemptor, if it is not the original creditor, uses foreign exchange to purchase a country's debt papers in the secondary market. It then negotiates with the agency charged with the responsibility of managing the Debt Conversion Programme in the debtor country (say the Ministry of Finance or the

Central Bank) on how to exchange the acquired debts which is usually at a discount for equity or local debts.

The main participants in the debt conversion transaction are:-

a. the debtor nation redeeming its debts;
b. the redemptor (usually foreign companies/individuals, international non-profit organisations, multinational corporations and nationals of the debtor countries);
c. the creditor countries, individuals, and brokers who trade in the secondary market;
d. the beneficiary institutions which could be a private/public company or a non-profit making organisation which receives the proceeds of conversion in the debtor country.

Eligible transactions under Debt Conversion Scheme vary from country to country depending on the set objectives of the programme. These include debt for equity, debt for debt, debt for cash, debt for export, debt for nature, debt for privatization etc. In most cases, the dividing line between these Conversion types is often blurred. The Nigerian Debt Conversion Programme was established in 1988 to complement the other debt management strategies. The Programme involves the exchange of the country's foreign debt into Naira at a discount by the holders or assignees for investment in Nigeria that is debt to equity. The Programme is also a vehicle through which part of the secondary market discounts on Nigerian debts are appropriated to the national economy and an avenue to boost foreign investment in the country.

3.2 Objectives, Eligibility and Scope:-

The objectives of the Nigerian Debt Conversion Programme are to:-

a. reduce the country's external debt stock and lighten the debt burden;

b. encourage capital inflows including repatriation of flight capital with the attendant beneficial effects on the level of economic activities and employment in the country;

c. promote the creation and development of export-oriented industries thereby diversifying the export base of the Nigerian economy, and

d. increase Nigeria's access to appropriate technology, external market and other benefits associated with foreign investment.

To implement the objectives of the programme, the Federal Government constituted a Debt Conversion Committee (DCC) comprising of the Governor of Central Bank of Nigeria (Chairman), Secretary of the Government, Attorney-General and Minister of Justice, Minister of Industries, Minister of Finance and Chairman, National Planning Commission. The Secretariat is located at the Central Bank of Nigeria. In 1988 DCC approved and issued Guidelines on the operation of the Programme. A revised copy currently in use was equally issued in April, 1989.

The scope of the eligible debts for conversion under the Programme has been expanded over the years in line with the rescheduling agreement reached with creditor groups. As at now, all categories of Nigerian debts with the exception of debts owed to Multilateral institutions are eligible for conversion. These are the promissory notes issued by the Central Bank of Nigeria and the Ministry of Finance, the Nigerian par bonds resulting from

1992 agreement reached with commercial banks in the London Club and some agreed proportions of the Paris Club debts arising from 1991 Agreement III with official bilateral creditors in the Paris Club. All eligible debts must have a maturity of over one year.

3.3 Performance of Debt Conversion Programme:-

The performance of the programme would be evaluated in relation to its set objectives which are to reduce the debt stock, lighten the debt service burden, appropriate part of the secondary market discount for the benefit of the national economy, attract investment into the country and contribute to industrial development in the country.

3.3.1 Debt Reduction:-

During the period 1989 through March, 1997 the programme had been able to reduce the country's debt stock by $1.15 billion on the aggregate. In essence, the stock of outstanding debt recorded as $28.06 billion as at November, 1996 would have been $29.21 billion without the reduction through the Debt Conversion Programme. The effect of the reduction is more significant on the categories of debt affected. The details of these and the underlying impact of the debt conversion programme on debt reduction and debt service obligation will be discussed in greater details in the next chapter.

3.3.2 Inflow of Foreign Investment:-

Total inflow of foreign money for investment purposes through the programme stood at $507.93 million or N16.63 billion as at the end of June, 1997. Out of this amount, investments by Nigerians accounted for 35.54% or $187.83 million (N6.36 billion) while foreign investors accounted for the balance of $320.10 million (N10.26 billion).

3.3.3 Contribution Towards Industrial Development:-

The N16.63 billion imported into the country by investors through the programme were invested in the equity, debenture and loan stock of 170 companies. 42 or 24.71% of the total number of companies financed under the programme were completely new projects while the 128 companies were existing companies which either expanded or recapitalized. Injection of fresh capital into the already existing beneficiary companies led to improved production capacities as proceeds of conversion augment their working capital requirements.

3.4 Sectoral Breakdown of Applications Received (1988- June 1997):-

Table 3 (Appendix 1) gives the details of sectoral breakdown of applications received from the time of the inception to June 1997. The hightest number of application received from 1988 to June 1997 was 226 from the manufacturing sector, followed by the agricultural sector with 89 applications. The least number of application received was 6 from the financial sector. A grand total of 463 applications were received during the period under review, with a total value of $6,870.6 million. It is important to note that although only 10 applications were received in the Mining and Exploration sector but had a value of $1,239.87, placing second to the Manufacturing sector. Considering the yearly receipt of application, it would be seen that the highest number of application of 108 was received in 1995 with a value of $921.30 million, while 1994 recorded the least number of application of 4 with a value of $195.78 million. It is desirable to mention here that in terms of value, the year 1988 with only 84 had the highest value of application which stood at $1,628.25 million. Furthermore, the year 1991 with 18 applications received, recorded the least monetary value which is $142.53 million.

3.5 Sectoral Breakdown of Successful Applications 1988-June 1997:-

Table 4 (Appendix 1) contain details of successful application on sectoral basis. All in all, between 1988 to June 1997, a total of 317 applications with a value of $2,851.50 million were successful. Again the Manufacturing sector with 166 applications and value of $902.37 million tops the other sectors. Manufacturing sector is followed by the Agricultural sector with 67 applications and a value of $455.92 million. The least is the financial sector with 13 applications and value of $46.46 million. When you consider the yearly receipt, it is again obvious that the year 1988 recorded the highest number of applications of 59 with a value of $561.43 Million. The least was recorded in the year 1997 with only 23 applications with a value of $105.15 million.

3.6 Application Rejected and Closed From 1988-June 1997:-

Table 5 (Appendix 1) gives details of rejected applications. It would be seen that 98 applications with a value of $3,099.47 million were rejected or unsuccessful. During the year 1994, no application was rejected while in 1997, 30 applications with a value $1,249.80 million were rejected, this being the highest, followed by the year 1988 with a total of 14 applications valued at $1,034.42 million.

3.7 Category Of Debts Cancelled As At June 1997:-

Table 6 (Appendix 1) shows the different category of debts cancelled as at June 1997. The highest percentage of cancelled debt of 71.41% is within the category of Promissory Notes. The Promissory Note is followed by Restructured Debt which took 14.43% of the cancelled debts. Par Bonds took only 0.67% while the Paris Club debts 4.21% of the total debts cancelled as at June 1997.

CHAPTER FOUR

DATA ANALYSIS
EFFECTS OF DEBT CONVERSION PROGRAMME ON THE NIGERIAN ECONOMY, PROBLEMS AND PROSPECTS

4.1 Background:-

A very significant aspect of the debt management that could have checked the growth of debt and increase foreign exchange earnings was the 'New External Borrowing Policy' released in 1988. This was a pragmatic and all-embracing plan which outlines strategies for increasing foreign exchange earnings so as to reduce the need for external borrowing; set out detailed criteria sectors; and states the roles and responsibilities of the various tiers of government and the private sector in the management of external debts. This chapter will analyse in greater details the impact of Debt Conversion Programme on the various aspects of the Nigerian economy and subsequently discuss the problems and prospects of the programme in Nigeria.

4.2 Impact On Debt Reduction:-

The success of a Debt Conversion Programme depends on the level of patronage it enjoys from investors. Being profit oriented, investors must opt for the most profitable avenue of importing capital into the country. Thus, to be able to appraise how far the programme has been able to reduce the debt stock, it may be necessary to analyse investors response. When the programme was announced in 1988, investors responded positively and embraced it. The tempo was maintained until in 1991 when the programme slumped into four year lull due primarily to the wide disparity in the official

exchange rate of which debts are converted and the parallel market rate of which investors funds could be imported directly into the country. Thus, a number of application which stood at 84 in 1988 with a value of $1.628.25 million fell drastically to 4 in 1994 with only a value of $195.78 million. However, the level of activity on the programme picked up again in 1995 as debts are converted at Central Bank intervention rate. In response to this development, 108 applications with a value of $921.30 million were received in 1995 while 56 applications value $626.52 million were received in 1996. Between January and June, 1997, only 18 applications amounting to $198.75 million have been received indicating the setting in of another lull in the Programme. Out of the total 463 applications with a value of $6,870.60 million so far received only 317 value of $2,851.50 million were granted approval in principle while 98 applications with a value of $3,099.47 million were rejected and closed for non-compliance with the provisions of the Guidelines.

In total, as at October 1997, 77 auction sessions for the conversion of promissory notes and another 2 sessions for Paris Club debts had so far been held. For all the auctions, the discounted naira equivalent of N34.33 billion worth of debts was offered for redemption. Of this amount, debts worth $901.54 million or N26.70 billion were redeemed. The shortfall of N7.63 billion in total debts cancelled vis a vis the amount put on offer was due to investor's behaviour during the period of 4 lull. As the disparity in the foreign exchange market widens during this period, prospective investors importing capital into the country through the programme more often than not abandoned their winnings at the auctions for a better rate of exchange at the parallel market. In addition to conversions at the auction; another $257.33 million or N6.61 billion worth of debts were converted outside the auction system, bringing the total debts cancelled through the programme to $1.15 billion or N33.31 billion as at the end of June 1997.

On the classification of debts cancelled, (see table 6 Appendix 1) total value of the promissory notes issued by the Central Bank of Nigeria were cancelled. The London Club debts (in their past and present forms) cancelled were $237.25 million or 20.65% while Paris Club debts worth $48.23 million cancelled represents 4.19% of total debts cancelled. Another $42.17 million worth of debts classified under other (non-bilateral loans) have equally been redeemed. In essence, of all the 4 categories have been presented for conversion while the modalities for the conversion of promissory notes issued by the Federal Ministry of Finance remains unconcluded.

Thus, in the period 1989 through March, 1997 the programme had been able to reduce the country's debt stock by $1.15 billion on the aggregate. In essence, the stock of outstanding debt recorded as $25.06 billion as at November 1996 would have been $29.21 billion without the reduction through the Debt Convetsion Programme. The effect of the reduction is more significant on the categories of debt affected. For instance, the promissory notes (issued by the CBN) which was $4.58 billion as at end of December, 1989 has been reduced to $2.14 billion as at November, 1996 while conversion accounted for $822.73 million or about 38.5% of the reduction, the rest was due to principal repayment. With regards to the London Club debt, total debts reduction on this category of debt was $237.25 million. The debt buy back contributed significantly to almost 50% reduction in this category of debts.

4.3 Effect On Debt Service Obligation:-

Once a debt is extinguished through the debt conversion, the interest element on such debts is automatically eliminated. On the converted promissory notes converted as at the end of June, 1997, total savings on interest obligation was $732.91 million. Nigeria would have had to meet this

obligation over time in foreign currencies if the debts were not cancelled. Similar exercise is yet to be concluded on the savings derived from London Club debts cancelled.

4.4 Gain On Secondary Market Discount-

Among other benefits, the Debt Conversion Programme was established as a avenue to appropriate part of the secondary market discounts to the national economy. In fulfillment of this objective, debts are converted at a discount. The value or percentage of discounts appropriated depend largely on the prevailing secondary market discounts of the debts at the time of conversion. Thus, of the total of $1.15 billion worth of debts cancelled as at June, 1997, a total discounts of $499.09 million was received. This implies that debts are redeemed on the average at a discount of 43.40% while the redemptors receive value for only 56.60% of the debt cancelled in Naira.

4.5 Inflow Of Foreign Investment-

Unlike the traditional approaches to debt management which may not invariably involve the inflow of new money into the domestic economy, the Debt Conversion Programme generally involves the inflow of new money for investment in the domestic economy.

Under the Nigerian Programme, there were two distinct groups of redemptors/investors; these comprise of Nigerians repatriating foreign capital back into the country for investment purposes and foreign investors importing capital into the country. Total inflow of foreign money for investment purpose through the Programme stood at $507.93 million or N16.63 billion as at the end of June, 1997. Out of this amount, investment by Nigerians accounted for 38.54% or $187.83 million (N6.36 billion) while foreign investors accounted for the balance of $320.10 million (N10.26

billion). In both cases what is invested in the country is the discounted redeemed amount of debts.

4.6 Contributions Towards Industrial Development:-

The N16.63 billion imported into the country by investors through the Programme were invested in the equity, debenture and loan stock of 170 companies. 42 or 24.71% of the total number of companies financed under the Programme were completely new projects while the remaining 128 companies were existing companies which were either expanded or recapitalized. Injection of fresh capital into the already existing beneficiary companies led to improved production capacities as proceeds of conversion augment their working capital requirement. For new projects, a sizeable number of employment had been created while the export revenue of export-oriented projects had been widened. Some measures of technology transfer has also taken place. In the area of privatization at the state levels, some foreign investors had taken up various percentage of equities in four partially privatized companies.

The total projects financed were located in 23 states of the Federation and the Federal Capital Territory. Lagos State has the lion share of 48.19% or 93 projects. On sectoral basis, investments were geared more into the manufacturing sector which accounted for 52.85% of the total projects financed through the Programme. The Agricultural Sector had 34 projects or 17.62% while Building and Construction had 14 or 7.25%. There were 50 projects under Hotel and Tourism while Services had 8 projects and 'Others' sector had one project.

4.7 Inflow of Foreign Grants:-

As indicated earlier, non-profit organisations are eligible to import capital into the country to finance their philanthropic activities in Nigeria

under the Programme. So far 20 non-profit organisations as at the end of June, 1997 have taken advantage of the Programme to import $104.0 million or N4,128.02 million into the country. These funds have met the current and capital expenditures of the local affiliates of the donors and were geared towards eradication of leprosy, river blindness diseases, literacy and health care programmes, among others in the country.

4.8 Effects of Conversion on The Balance of Payment Accounts:-

Debt Conversion transactions would generally affect the country's balance of payment position. Specifically, grants received through the programme, discounts received from redeemed debts, inflow of new money through transactions commission received and new capital inflow affect the current and capital accounts of the balance of payments.

4.9 Effects on The Current Account:-

Transaction Commission received on the redeemed debts amounting to $16.18 million in respect of payments made in foreign exchange as at the end of June 1997, have accrued yearly to the services and income accounts. Inflow of foreign grants and discounts offered by redemptors accrued to the unrequired transfer account. By the end of June, 1997 total surplus that accrued to this account through the Programme amounted to $603.99 million or N15.98 billion.

4.10 Effects on The Capital Accounts:-

Capital imported into the country for investment purpose through the programme is recorded as non-oil sector inflow of direct investment under the capital accounts. Proceeds of debt conversion for investment purpose contributed largely to the surpluses recorded under this account.

On the other hand, the value of promissory notes redeemed has accounted for the decline in the portfolio account.

4.11 Weaknesses, Problems And Prospects:-

a. **Weaknesses**:- The Debt Conversion Programme (DCP) which was established in 1988 had as one of its objectives the improvement of Nigeria's external debt position by reducing the stock of outstanding external debt in order to alleviate the debt service burden. After seven years in operation, the impact of the DCP on the stock has been minimal. From inception in 1988 to 1994 only $730.2 million of debt was redeemed. The total discount received was $381.4 million while the transaction commission stood at $9.97 million. The sectoral disbursement of redeemed debt show that 41.7% went to agriculture and manufacturing. Besides, the inflationary implication of the conversion can be quite destabilizing. Indeed, the programme had to be suspended temporarily in 1990 and 1991 because of the inflationary implications. More importantly, the DCP has the weakness that in the long-run the fundamental external payments and foreign exchange problem will remain or even be exacerbated because what was saved in terms of debt service would then be paid in the form of repatriation of profit, dividends, capital and personal emolument.

b. **Problems**:- The volume of conversion done since the inception of the Programme in 1988 has been limited by various factors. In fact, with the exception of 1989, the volume of conversions done each year were below the volume of conversion allowed within the monetary and credit policies.

In other words, more conversions could have been done but for the following constraints:-

i) There are difficulties associated with sourcing of eligible debts. Of the four categories of debts that are eligible for conversion, only two are readily available in the secondary market. These are the CBN promissory notes and the par bonds. The later category is more expensive and the procedure for acquiring it is cumbersome, thus investors shy away from purchasing them. Procurement of Paris Club debts is on bilateral basis and could equally be cumbersome. Thus, participants on the Programme are left mainly with only the CBN issued promissory notes, thus the availability of the notes and movement in their prices have influenced the volume of conversion over the years. For instance, the volume of conversion done in the first half of this year had been greatly affected by the movement in promissory notes prices which reached its peak of 59 cents in February, 1997.

ii) The remittance restrictions placed on repatriation of capital and dividends under the Programme have proved to be too restrictive, thus discouraging investors from using the Programme to import capital into the country. Moreso, as direct importer of capital now enjoys free entry and exit of capital with the repeal of the Exchange Control Act of 1962, investors are further deterred from using the programme with all the encumbrances it entailed.

iii) Apart from the operational constraints, there are other administrative problems. The Debt Conversion Committee has not been able to meet in the last five years unlike the position at the inception of the Programme when the Committee met regularly and its sittings gave credibility to the Programme.

iv) The most important constraint however is the changing fortunes of the Naira and the disparity between the official rates at which debts are converted and the parallel rates.

c. **Incidence of Non-compliance**:-

Like any Government Programme, the Debt Conversion Programme has recorded some cases of non-compliance with the operational guidelines. Out of the 193 projects that have come under the Programme, only 28 cases of partial non-compliance were recorded as at end of December, 1996. In each of these cases, funds disbursed were either wrongly utilized for unapproved expenses or were completely outside the approved projects. One or a combination of the two underlisted penalties have been taken against the defaulters:-

i) Cancellation of the relevant Certificate of Capital importation and/or;

ii) Withholding of balances due to the affected companies;

iii) Blacklisting from future participation in the Programme.

d. **Prospects**:-

The prospect for Nigeria to reduce its debt stock substantially while at the same time getting some kind of relief by way of discounts through the Debt Conversion Programme

> is very bright. Many debtor countries have benefited immensely from the Debt Conversion Programme. Chile was able to reduce its debts by over $8 billion through the Debt Conversion Scheme while 60% of direct foreign investment between 1986 and 1987 in Mexico resulted from the implementation of Debt Conversion Programme. The Nigerian Programme has potentials for better performance considering the number and value of application received as well as the unutilized approvals.

To increase the volume of conversion the operational constraints highlighted above would need to be eliminated. Efforts are being geared towards this. The built-in remittance restrictions are also being reviewed with the aim of making appropriate amendments to the Guidelines especially in the light of government policies on free entry and exit of foreign capital. Another way to boost the level of conversion is through the encouragement of debt for debt conversion. This does not have an inflationary impact on the economy and as such could accommodate a substantial level of conversion. In this regard, the Central Bank of Nigeria is already looking at ways of making the local debt instruments sufficiently attractive to foreign investors to hold. With all these initiatives being put together and the prevalence of a conducive investment environment, the Programme could, reduce the country's debt significantly.

However, it is apt to point out that the extent to which a Debt Conversion Programme could significantly reduce a country's debt depends on the rules governing the determination of the applicable exchange rate of conversion and the restrictiveness of the Programme. These two factors are crucial to an investor using the Debt Conversion Programme as an investment option. In the Nigerian context, the exchange rate policy is a major determinant of the applicable rate of conversion. If the exchange rate

policy is right, the applicable rate of conversion would be attractive to investors and more debts would be cancelled. On the restrictions on repatriation of capital and dividends resulting from investment made through the Programme, the more restrictive the rules are, the more unattractive it will be for investors to come in through the Programme, and the smaller the conversion, if any.

4.12 A Critique of Projects Financed by External Loans:-

The CBN Governor while delivering a key-note address at a seminar on Debt problems and the Nigerian Economy said "When borrowed resources are well utilized and the marginal productivity of capital is higher than the future servicing cost of loans, a debt problem does not arise. However, when the resources that should have been deployed for executing development projects are increasingly employed in the financing of past consumption in the form of loans repayment, a debt crisis would emerge. Perceived wisdom suggests that debts should not be acquired beyond the point where marginal productivity of capital is equal to the return on the marginal capital employed. Thus, the profitability and feasibility criteria applicable to ordinary business concern are also crucial in effective debt management."

The 1996 Federal Government budget statement confirmed the very unsatisfactory nature of past debt management strategies to the effect that many of the projects financed by external loans are either uncompleted, or partially completed, and where they have been completed, they are not functioning. This is so because most of the loans which were procured from private sources at unfavourable terms, were either diverted or utilized for projects which were unable to generate funds for servicing the underlying debt. Some of the projects are Ajaokuta Steel Mill, Katsina Steel Mill, Jos Steel Mill, Delta Steel Mill, Iwopin Paper Mill, National Identity

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Card Project, etc. These projects have invariably not contributed to the repayment of principal and interest on loans. Neither has any of the expected benefits materialized. The economy thus loses on all sides. Obviously most of the elements of effective debt management were lacking in Nigeria past efforts.

More insights with staggering revelations, were provided into the above problem in the 1997 budget. An appraisal by the Federal Ministry of Finance of 145 projects in 30 States of the federation and Abuja, financed with International Capital Market (ICM) loans all amounting to the equivalent of $13,150.92 million, with varying amounts sourced from Export Credit Agencies (Paris Club), London Club, and non-Paris Club bilateral creditors, revealed the following disturbing findings:-

a. 18 projects, described as failed projects, financed with credits and loans amounting to $836.17 million were never executed. Yet the loans have been drawn down and never being serviced by government.
b. 44 Projects, categorized as distressed, financed with loans amounting to $4,811.38 million were implemented in most cases up to the stage of commissioning, but were either not commissioned or where they were commissioned, they had to close down soon after. Most of the projects have been run down and the loans are still being serviced. Further injection of funds would be required to activate them;
c. 83 projects, financed with loans amounting to $7,503.37 million, were surviving and operating at some capacity level during the appraisal.

The implications of these findings are very clear. Over 40% of the sampled projects are not yielding any economic and social benefits at all. Even those projects that are surviving are barely functioning to be able to

yield meaningful economic and social benefits. Thus, the projects have not contributed in any way to the servicing of the loans. The reappraisal alone so far is a step in the right direction. It is reassuring that the reappraisal of on-going projects financed with external loans continued in 1997 with a view to continuing and/or rehabilitating some of them and cancelling others. Also commendable is the assurance that all those involved in the failed projects will be punished via the Failed Contract Tribunal. Finally, there is the important need to learn from past mistakes by ensuring that in the context of a new policy, emphasis is placed on the use of loans for export increasing or import decreasing activities.

The Government has, over the years, adopted a number of strategies and measures to deal with the debt problem. They include the following:-

a. embargo on new loans; the latest directive on this was contained in a circular issued in September 1996 by the Secretary to the Government of the Federation. The circular directed that no Ministry, Extra-Ministerial Department, Agency or Parastatal should henceforth enter into negotiation or accept foreign loans without the expressed permission of the Head of State;
b. directives to state governments to restrict their external borrowing to the barest minimum;
c. limit on debt service payments- pegging of the debt service ratio at 30%;
d. debt restructuring entailing refinancing of trade arrears, rescheduling, debt buy-back, collateralisation and new money options;
e. Debt Conversion Programme;
f. adoption of a new external borrowing policy.

The embargo on new loans and directives to state governments to restrict their borrowings to the barest minimum have not been particularly

effective as indiscriminate quests for external loans have not abated. Although, the rescheduling have conferred short-term relieves from debt service obligations, the debt overhang has however, hardly abated as the debt stock has continued to increase significantly. The relief conferred by rescheduling has not only been temporary but inadequate apart from its various costs, such as continued payment of interests on the amount of debt outstanding, hindering of development in the long-run, building up of obligations for the future and creating problems for posterity and future governments, higher commitment charges, etc. The rescheduling involve the compounding of principal and interest in the consolidation period. Besides, there is no provision for interest cancellations and so any time there is a default on interest payment, such payments are quickly capitalized. Overall, the terms of the rescheduling, particularly of the Paris Club debt, have even worsened the debt situation.

Table 7 gives details of sectoral allocation of Disbursement on Long-term debts both in monetary value ($) and percentage basis.

4.13 Foreign Direct Investment (FDI) vs Debt Equity Swap (DES):-

The argument for the implementation of a DES Scheme as part of a Debt Management Strategy is predicated on the desire for economic growth and development of LDCs such that while debts are simultaneously being reduced, foreign investment would aid in the development of industries which will in turn lead to economic growth. It is therefore desirable to mention that while the debt burden is converted through the Debt Equity Swap or Debt Conversion Programme towards economic development, the Foreign Direct Investment is complimentary towards the same purpose. There are 2 categories of Foreign Direct Investment (Odozi 1995; 8): foreign investment for the establishment of new enterprises and foreign investment inflow, through the existing enterprises. Foreign investment for

the establishment of new enterprises plays the initial role of expansion of productive capacity. The inflow is made up of mainly machinery and equipment, and probably foreign currency imported at the initial stage of the establishment of the local enterprise. On the other hand, foreign inflow through the existing enterprises could be for expansion of the enterprise or working capital support.

a. **Incentives To Foreign Private Investment In Nigeria**:-

Over the years, the Nigerian Government has put in place a number of incentives and measures to protect foreign investment in the country and attract new inflows. They include the following:-

i) Tax incentives and concessions, among which are:-

- Pioneer Status
- Tax holiday in respect of dividends received
- Capital allowances
- Investment allowances of 10% granted on plant, Machinery and equipment
- Incentives for companies engaged in the exploration and exploitation of crude oil whereby certain bonuses are treated as tax offsets
- Withholding tax on dividends reduced to 5%
- Tax relief for Research and Development

ii) Effective Protection and Erection of tariff walls to promote the growth of infant and key industries

iii) Joint Ventures

iv) Export Incentives

v) Investment Guarantee Approvals.

b. Other Strategies and Measures to Promote Foreign Investment:-

In recent years, especially since the SAP a number of notable strategies and measures have been adopted by the government to attract and boost foreign investment in the country. Among these are the following:-

i) Debt Conversion Programme

ii) Privatization and Commercialization

iii) Establishment of Industrial Development and Co-ordinating Committee

iv) Repeal of Exchange Control Act, 1967

v) Repeal of Nigerian Enterprises Promotion Decrees

vi) Enactment of the Nigerian Investment Promotion Commission (NIPC) Decree No.16 of 1995 to encourage, promote and co-ordinate investment in the Nigerian Economy.

vii) Promulgation of the Foreign Exchange (Monitoring and Miscellaneous) Provisions Decree No.17 of 1995 in order to liberalize international financial transactions in Nigeria and eliminate impediments to dealings on the foreign exchange market.

c. Elements of Nigeria's Investment Climate:-

The foreign private investment flow shows that although Nigeria has a large market richly endowed with natural resources, and has numerous investment opportunities, available statistics show that the country has not benefited much from foreign investment flows. In relation to some other LDCs, the share of investment flows attracted to the country has maintained a consistent decline. This is in spite of numerous incentives and measures put in place to attract foreign

investment. These measures might not have been effectively implemented at all. Besides, an enabling environment or an appropriate investment climate has apparently been lacking, indeed, the country's investment climate until very recently, has been very unattractive. The investment has been characterized by the following:- (see Obadan 1997)

i) Unsatisfactory Macroeconomic Environment
ii) Unsatisfactory Institutional and Regulatory Framework.
iii) Infrastructural Deficiencies—Physical and Financial Infrastructure
iv) Political Instability
v) Crisis in the Educational System
vi) Issues of Conception and Insecurity of Life and Property
vii) Problems caused by Negative Image Abroad
viii) Effects of heavy external debt burden

d. <u>Towards Improving The Investment Climate</u>:-

What has become so clear so far is that for Nigeria to attract a fair share of international investment capital flows, it is necessary to improve the investment climate and investment image. A good investment climate that is alluring to foreign investors should have the following elements:-

i) Macroeconomic stability and consistent policies
ii) Transparent rules and regulations
iii) Political stability
iv) Provision of adequate infrastructure
v) Security of life and property
vi) Improved education
vii) Privatization of Public enterprises

viii) Development of investors orientation

ix) Implementation of the NIPC Decree, and

x) Others

- Accountability and transparency in public affairs
- Reform and internationalization of the capital market
- A vigorous war on anti-social behaviour
- Make the Calabar Export Processing Zone to start functioning
- Have sound economic policies to promote economic growth

4.14 Summary

The impact of the Debt Conversion Programme on Nigerian economy could be analysed in line with its set up objectives. Available statistics have shown in the period 1989 through March 1997, the Programme had been able to reduce the country's debt stock by $1.15 billion on the aggregate. In other words, the stock of outstanding debt recorded as $28.06 billion as at November 1996, would have been $29.21 billion. The effect was more on the categories of the debt cancelled for instance promissory notes which was $4.58 billion as at the end of December 1989 has been reduced to $2.14 billion as at November, 1996, while conversion accounted for $822.73 million or about 38.5% of the reduction, the rest was due to principal repayment. On debt service obligation, it could be seen that on the converted promissory notes converted as at end of June 1997, total savings on interest obligation was $732.91 million. In accordance with the Programme objectives, debts are to be converted at a discount. Thus of the total of $1.15 billion worth of debts cancelled as at June 1997, a total discount of $499.09 million was received. Total inflow of foreign money for investment purpose through the

programme stood at $507.93 million or N16.63 billion as at the end of June 1997. Out of this amount, investments by Nigerians accounted 38.54% or $187.83 million (N6.36 billion). While foreign investors accounted for the balance of $320.10 million (N10.26 billion). In both cases, what is invested in the country is the discounted redeemed amount of debts.

On industrial development, it could be seen that 170 Companies had investment in terms of debenture and loan stock through the Programme. 42 or 24.71% of the total number of companies financed under the Programme were completely new projects while the remaining 128 were existing companies which were either expanded or recapitalized. Injection of fresh capital into the already existing beneficiary companies led to improved production capacities as proceeds of conversion augment their working capital requirement. For new projects, a sizeable number of employment had been created while export revenue or export-oriented activities had been widened. Some form of technology transfer had also taken place through the Programme. On foreign grants, so far, 20 non-profit organisation as at the end of June, 1997 have taken advantage of the Programme to import $104.0 million or N4128.02 million into the country. Effects of the Programme on the Balance of Payment could be seen in grants received, discounts received from redeemed debts, inflow of new money through transactions commission received and new capital inflows. By the end of June 1997, total surplus that accrued to the nation's current account through the programme amounted to $603.99 million or N15.98 billion. On the capital account it could be argued that proceeds of debt conversion for investment purpose contributed largely to the surpluses recorded under the account.

Having summarized the effects of DCP on various sectors of the Nigerian economy, we shall now focus on weaknesses, problems and prospects of the Programme. The weakness of the Programme is noticeable

in the long run when what was saved in terms of debt service would then be paid in the form of repatriation of profit, dividends, capital and personal emoluments. Problems associated with the Programme include difficulties in sourcing eligible debts and remittance restrictions place on repatriation of capital and dividends, this has proved discouraging to investors to import capital into the country. Other problems are administrative with the DCP Committee and the fluctuation in the value of the Naira and the disparity between the official rates of which debts are converted and the parallel rates. Another problem associated with the Programme is the incidence of non-compliance. Out of the 193 projects that have come under the Programme, only 28 cases of partial non-compliance were recorded as at the end of December, 1996. In each of these cases, funds disbursed were either wrongly utilized for unapproved expenses or were completely outside the approved projects. Various penalties were applied against defaulter, such as cancellation of relevant certificate of capital importation, withholding of balances due to the affected companies and blacklisting from future participation in the Programme.

The prospect of the Programme in Nigeria is viewed as been very bright sighting the examples of other country like Chile which reduced its debts by over $8 billion through the Debt Conversion Scheme while 60% of FDI between 1986 and 1987 in Mexico resulted from the implementation of Debt Conversion Programme. The Nigerian Programme has potentials for better performance considering the number and value of application received as well as the unutilized approvals.

A critique of the projects financed by external loans has revealed unsatisfactory nature of past Debt Management Strategies to the effect that many of the projects financed by external loan are either uncompleted or partially completed and where they have been completed, they are not functioning. This is so because loans procured at unfavourable terms were

either diverted or utilized for projects which were unable to generate funds for servicing the underlying debt. Example of these projects are Ajaokuta Steel Mill, Katsina Steel Mill, Jos Steel Mill, Delta Steel Mill, Iwopin Paper Mill etc. These projects have become a national curse rather than being a blessing. Further analysis has revealed that various projects financed from external loans are classified as either failed projects, distressed projects or just virtually surviving projects. Owing to this, the government is planning to deal with offenders through the Failed Contract Tribunal. In addition, certain measures have been put in place to deal with debt problem. Such measures include embargo on new loans, directives to state government to restrict their external borrowing to the barest minimum, limit on debt service payments – pegging of the debt service ratio at 30% and debt restructuring. Others are Debt Conversion Programme and adoption of new external borrowing policy.

Foreign Direct Investment is usually viewed as complimentary to Debt Equity Swap for the purpose of economic growth. FDI could be viewed in two folds that is foreign investment for new enterprises and foreign investment for existing enterprises. Incentives for foreign private investment in Nigeria include Tax incentives and concessions, effective protection, joint venture, export incentives and Investment Guarantee approvals. Other measures to promote foreign investment are Debt Conversion Programme, privatization and commercialization. Others are establishment of industrial development and co-ordinating committee, repeal of Exchange Control etc.

Some factors militating against a healthy investment climate in Nigeria are unsatisfactory macroeconomic environment, unsatisfactory institutional and regulatory framework, infrastructural deficiencies, political instability; crisis in the educational system, issues of corruption and insecurity of life and property, problems caused by negative image abroad

and effect of heavy debt burden. It is desirable to note that only the reversal of these militating factors can guarantee a healthy climate for investment in Nigeria. In addition, accountability and transparency in public affairs is essential to healthy business climate.

CHAPTER FIVE

SUMMARY, OBSERVATIONS, CONCLUSION & RECOMMENDATIONS

5.1 Summary

Chapter One dealt mainly with introduction which has several sections. The chapter began with an overview of the general problem, then the statement of the problem and the purpose of this research study. Furthermore, the significant of the study was spelt out. In addition, the delimitation and the limitations of the study were defined. The methodology used in data collection was also mentioned. Certain key terms used in the project were also defined in this chapter and lastly the outline of the study was enumerated in this chapter.

In Chapter Two, some related literatures were reviewed on the research study. The chapter began with the review of the Nigerian economy, thereafter, the whole external debt portfolio of the country was reviewed. Some of the causes of debt problem were discussed in this chapter. Again the different management strategies were considered under the chapter, thereafter, a brief summary of chapter was also highlighted.

Chapter Three dealt with Data Collection with emphasis on the Nigerian Debt Conversion Programme from inception to June 1997. The chapter began with a preview of the Nigerian Programme highlighting the modalities and validity of transactions under the Programme. Thereafter, the objectives, eligibility and scope of the Programme were highlighted. The performance of the Programme in line with its set up objectives were discussed. The sectoral breakdown of applications received, successful as

well as rejected applications were also highlighted. Furthermore, the categories of debts cancelled were discussed.

The Fourth Chapter which is Data Analysis concentrated on the effects of Debt Conversion Programme on the different aspects of the Nigerian economy. Particularly, the impact of the Programme on debt reduction, debt service obligation, industrial development and inflow of foreign grants were the main focus of this chapter. Furthermore, the effects of the programme on Balance of Payment, Current and Capital accounts were analysed. The weaknesses, problems and prospects of the programme were exhaustively discussed. Thereafter, a critique of projects financed by external loans was conducted in this chapter. Lastly, Foreign Direct Investment vis-à-vis Debt Equity Swap was briefly discussed while the FDI was discussed in greater details giving the various incentives by the government to attract the foreign investors into the country. Strategies and measures to promote foreign investment were also highlighted. The various characteristics of investment climate in Nigeria was also mentioned and measures to improve the conditions. Finally, a summary of this chapter was also made.

5.2 Observations:-

On the basis of data collected and analysed in chapter three and four, the following observations are hereby made:-

a. That the inadequacy of Debt Management Strategies such as debt relief and debt rescheduling gave rise to Debt Equity Swap through the Debt Conversion Programme.
b. That the Debt Conversion Programme in Nigeria was established in 1988 to compliment the other debt management strategies.
c. Between 1988 and June 1997, a total number of 462 applications with a value of $6,870.60 million were received.

d. A total number of 317 applications valued at $2,851.50 million were given approval in principles.

e. While 98 applications with a value of $3,099.47 million were rejected and closed for non-compliance with the provisions of the Guidelines.

f. As at June 1997, 77 auction sessions for the conversion of promissory notes and another 2 sessions for Paris Club debts had so far been held, and for all the auctions, the discounted naira equivalent of N34.33 billion worth of debts was offered for redemption.

g. Out of the amount of debts offered for redemption, N26.7 billion or $901.54 million were redeemed.

h. Total debts cancelled through the Programme stood at $1.16 billion or N33.31 billion as at the end of June 1997.

i. On the category of debts cancelled, London Club debts stood at $237.25 Million or 20.65% and Paris Club debt worth $48.23 million or 4.19% were cancelled. Another $42.17 million worth of debt classified under others (non-bilateral loans) have equally been cancelled.

j. The DCP had been able to reduce the country's debt stock by $1.15 billion on the aggregate as at March, 1997. In essence the stock of outstanding debts recorded as $28.06 billion as at November 1996 would have been $29.21 billion without the reduction through the DCP.

k. That on the converted promissory notes converted as at the end of June, 1997, total savings on interest obligation was $732.91 million.

l. Of the total debt of $1.15 billion worth of debts cancelled as at June, 1997 a total discount of $499.09 million was received.

m. Total inflow of foreign money for investment purpose through the Programme stood at $507.93 million or N16.63 billion as at the end of June, 1997. Out of this investment by Nigerians accounted for 38.54% or $187.83 million (N6.36 billion) while foreign investors accounted for the balance of $320.10 million (N10.26 billion).

n. Through the DCP, N16.36 billion was imported into the country and were invested in equity, debenture and loan stock of 170 companies. 42 of the companies were new projects while 128 are existing companies which either expanded or recapitalized.

o. Some 20 non-profit organisation have through the Programme imported $104.0 million or N4,128.02 million into the country.

p. By the end of June 1997, total surplus that accrued to the nation's current account amounted to $603.99 million or N15.98 billion.

5.3 Conclusion:-

The success of the DCP should not be seen only in the context of its impact on the economy but from its unique achievement vis-à-vis other debt management tools. It should be noted that the Programme is the only Debt Management Strategy adopted that has reduced the debt stock without the use of the country's scarce foreign exchange. Also, it is the only debt management initiative that has so far led to unconditional inflow of new capital especially in a situation where new money inflow has virtually dried up; this is in addition to its immediate and demonstrable salutary impact on the economy.

Finally, it should be noted that Debt Conversion Programme alone cannot solve the nation's external debt problem. It can only compliment other debt management strategies such as debt rescheduling and debt forgiveness. Moreso, the DCP can only thrive in a stable and conducive

environment for foreign investment. While the repeal of the Exchange Control Act of 1962 and the abolition of the Nigerian Enterprises Promotion Decree are welcome developments towards encouraging foreign capital inflows, economic policies, especially with regards to the exchange and interest rates would need to continue to be right, seen and perceived by foreign investors as realistic, consistent and sustainable over time, to make planning meaningful. We need in addition to a conducive political environment to develop and maintain a legal and financial environment which is supportive of, and conducive to investment.

5.4 Recommendations:-

The Nigerian Programme has potentials for better performance considering the number and value of applications received as well as the unutilized approvals. To increase the volume of conversion, the operational constraints would need to be eliminated. Efforts should be geared towards this. The built-in remittance restrictions are also to be reviewed with the aim of making appropriate amendments to the Guidelines especially in the light of government policies on free entry and exit of foreign capital.

Another way to boost the level of conversion is through the encouragement of debt for debt conversion. This does not have an immediate inflationary impact on the economy and as such, could accommodate a substantial level of conversion. In this regard, the CBN should look at ways of making the local debt instruments sufficiently attractive to foreign investors to hold.

With all these initiatives being put together and the prevalence of a conducive investment environment, the programme could reduce the country's debts significantly.

ABBREVIATIONS

1.	**SAP** -	Structural Adjustment Programme
2.	**MRR** -	Minimum Rediscount Rate
3.	**GDP** -	Gross Domestic Products
4.	**PTF** -	Petroleum (Special) Trust Fund
5.	**CBN** -	Central Bank Of Nigeria
6.	**AFEM**-	Autonomous Foreign Exchange Market
7.	**LDCs**-	Least Developed Countries
8.	**PN** -	Promissory Notes
9.	**SSA** -	Sub-Sahara Africa
10.	**GNP** -	Gross National Products
11.	**IMF** -	International Monetary Fund
12.	**IDA** -	International Development Assistance
13.	**IBRD**-	International Bank for Reconstruction and Development
14.	**ADB** -	African Development Bank
15.	**EIB** -	European Investment Bank
16.	**OPEC**-	Organization of Petroleum Exporting Countries
17.	**EEC** -	European Economic Community
18.	**FGN** -	Federal Government of Nigeia
19.	**DES** -	Debt Equity Swap
20	**DCP** -	Debt Conversion Programme
21.	**FMF** -	Federal Ministry of Finance
22.	**DCC** -	Debt Conversion Committee
23.	**ICM** -	International Capital Market
24.	**FDI** -	Foreign Direct Investment
25.	**NIPC**-	Nigerian Investment Promotion Decree

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APPENDIX 1

Table 1

RESULT AT A GLANCE

S/NO	ITEM	1995	1996	1997
(a)	(b)	(c)	(d)	(e)
1.	Inflation	72.8%	29%	8.5%
2.	Gross Domestic Products	2.2%	3.25%	3.77%
3.	Surplus/(Deficit)	N1 billion	N37 billion	(N5 billion)
4.	External Reserve	$1.441 billion	$4.086	$7.7 billion
5.	Oil Revenue	$7.899	$10.891 billion	$12 billion
6.	Non-oil Revenue	$81 billion	N108 billion	N123 billion
7.	Interest Rate	21%	16%-21%	18%-21%
8.	Recurrent Expenditure	N66 billion	N79 billion	N101 billion
9.	Capital Expenditure	N44 billion	N51 billion	N105 billion
10.	External Debt (Collateralised)	$2.04 billion	$2.04 billion	$2.04 billion
11.	Non-Collateralised	$30.6 billion	$26 billion	$25 billion
12.	Exchange rate	Stable	Stable	Stable

Source: Ministeral Press briefing on 1998 budget.

APPENDIX I

Table 2

EXTERNAL PUBLIC DEBT OUTSTANDING (US $MILLION)

S/NO	ITEM	1992	1993	1994	1995	1996	1997
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1.	MULTILATERAL	4,578.0 (16.4)	3,694.7 (12.9)	4,402.3 (6.68)	4,411.0 (7.39)	3,171.00	
2.	PARIS CLUB	16,433.9 (60.0)	18,160.5 (158.1)	18,334.3 (62.30)	21,669.6 (66.5)	15,871.00	
3.	LONDON CLUB	2,120.0 (7.7)	2,055.8 (13.97)	2,057.8 (14.30)	2,045.0 (15.93)	5,680.00	
4.	PROMISORY NOTES	3,246.0 (11.8)	3,159.9 (9.09)	3,178.2 (9.26)	3,148.0 (10.35)	4,553.0	
5.	OTHERS	12,326.2 (45.0)	1,647.3 (17.43)	1,456.3 (20.21)	1,311.2 (24.85)	2,311.0	
TOTAL		27,564.8	28,718.2	29,428.9	32,584.8	31,586.00	27,040.0

Notes: Figures in parenthesis are percentage shares while those above them are in million US dollars.

Source: CBN Annual Reports (Various Issues)

APENDIX 1

Table 3

SECTORAL BREAKDOWN OF APPLICATIONS RECEIVED 1988-JUNE 1997

SECTOR	1988 (1)	1989 (2)	1990 (3)	1991 (4)	1992 (5)	1993 (6)	1994 (7)	1995 (8)	1996	1997 (9)	TOTAL
NUMBER											
Agriculture	32	14	9	-	9	1	-	19	4	1	89
Manufacturing	34	28	42	14	15	5	-	45	33	10	226
Mining & Exploration	2	1	1	-	-	1	-	3	2	-	10
Building & Construction	-	4	4	1	3	1	-	13	4	2	32
Hotel and Tourism	4	1	1	1	-	-	-	3	2	-	12
Gift & Grant	8	3	8	1	2	3	4	6	3	1	39
Financial	-	-	3	-	2	-	-	1	-	-	6
Services	-	2	2	1	3	-	-	14	7	4	33
Debt for Debt	-	1	4	-	-	1	-	4	-	-	10
Others	4	1	1	-	-	-	-	-	-	-	6
Total	**84**	**55**	**75**	**18**	**34**	**12**	**4**	**108**	**55**	**18**	**463**
VALUE (US$ MILLION)											
Agriculture	443.11	52.40	65.05	-	62.99	10.00	0.30*	134.35	42.00	10	820.20
Manufacturing	854.01	157.42	269.77	82.26	142.90	22.51	-	403.41	211.64	78.25	2222.17
Mining & Exploration	10.62	8.00	60.00	20.00	-	1,000.00	-	30.00	111.25	-	1239.87
Building & Construction	-	11.47	91.37	10.00	133.35	1.02	-	88.23	54.00	28	417.44
Hotel & Tourism	181.74	50.00	92.89	5.00	-	-	-	93.00	50.00	-	472.63
Gift & Grants	34.96	17.12	168.27	25.00	82.26	27.12	186.48	9.76	78.33	5.0	634.30
Financial	-	-	115.00	-	36.46	-	-	5.00	-	-	156.46
Services	-	44.84	1.40	0.27	7.20	-	9.00*	111.55	79.30	77.5	333.56
Debt for Debt	-	93.70	180.00	-	-	50.00	-	46.00	-	-	369.70
Others	103.80	0.46	100.00	-	-	-	-	-	-	-	204.27
Total	**1,628.25**	**435.41**	**1,143.75**	**142.53**	**465.16**	**1,110.65**	**195.78**	**921.30**	**626.52**	**198.75**	**6870.60**

Source: D. C. C. Secretariat, Abuja.

- Supplementary application.

APPENDIX 1

Table 4

SECTORAL BREAKDOWN OF APPLICATIONS GIVEN APPROVAL IN PRINCIPLE 1988-JUNE 1997

SECTOR	1988 (1)	1989 (2)	1990 (3)	1991 (4)	1992 (5)	1993 (6)	1994 (7)	1995 (8)	1996	1997 (9)	TOTAL
NUMBER											
Agriculture	25	11	5	3	7	1	-	6	8	1	67
Manufacturing	25	23	35	23	12	3	-	23	13	9	166
Mining & Exploration	1	1	-	1	-	-	-	-	-	2	5
Building & Construction	-	3	3	2	2	1	-	4	1	4	20
Hotel and Tourism	4	-	1	1	-	-	-	-	-	5	7
Gift & Grants	4	1	6	2	2	3	4	5	-	3	30
Financial	-	-	1	-	2	-	-	-	-	-	3
Services	-	1	1	2	-	-	-	5	1	3	13
Debt for Debt	-	1	1	-	-	-	-	3	-	-	5
Others	-	-	-	-	-	1	-	-	-	-	1
Total	**59**	**41**	**53**	**34**	**25**	**9**	**4**	**46**	**23**	**23**	**317**
VALUE (US$ MILLION)											
Agriculture	234.72	28.27	39.60	25.80	41.74	10.00	0.30*	33.8	36.69	5.0	455.92
Manufacturing	116.00	131.92	216.90	130.21	126.90	20.27	-	91.67	42.12	27.02	902.37
Mining & Exploration	2.63	8.00	-	30.00	-	-	-	-	-	17.0	57.63
Building & Construction	-	8.81	41.80	62.23	133.00	1.37	-	8.93	17.63	25	293.77
Hotel & Tourism	181.73	-	92.89	5.00	-	-	-	-	-	10	289.62
Gift & Grants	26.35	12.77	46.28	27.00	82.26	27.11	186.48	5.66	20.20	8.13	442.24
Financial	-	-	10.00	-	36.46	-	-	-	-	-	46.46
Services	-	42.18	50.00	0.56	0.70	2.50*	-	36.35	12.50	13	157.79
Debt for Debt	-	93.70	40.00	-	-	-	-	17.00	-	-	150.7
Others	-	-	-	-	-	50.00	-	-	-	-	50.00
Total	**561.43**	**325.65**	**537.47**	**280.80**	**421.06**	**111.25**	**186.78**	**193.41**	**129.14**	**105.15**	**2851.50**

Source: D. C. C. Secretariat, Abuja.

- Supplementary application.

APPENDIX 1

Table 5

APPLICATIONS REJECTED AND CLOSED FROM 1988 – JUNE 1997

	1988	1989	1990	1991	1992	1993	1994	1995	1996	JAN – JUNE 1997	TOTAL
NO OF APPL REJECTED/CLOSED	14	9	15	1	6	3	-	5	15	30	98
VALUE $MILLION	1,034.42	42.19	564.50	3.50	33.25	11.39	-	30.00	130.42	1249.80	3099.47

Source: D. C. C. Secretariat, Abuja.

APPENDIX 1

Table 6

CATEGORY OF DEBTS CANCELLED AS AT JUNE 1997

Creditor's Group	1988	1989	1990	1991	1992	1993	1994	1995	1996	JAN–JUNE 1997	TOTAL	%
Promissory Notes	40	205.05	54.40	61.23	132.95	29.62	13.35	95.65	134.76	51.54	818.55	71.41
Restructured Debts	-	9.78	106.94	48.64	-	-	-	-	-	-	165.36	14.43
Refinanced Debts	-	9.78	106.94	48.64	-	-	-	-	-	-	64.14	5.60
Others	-	42.17	-	-	-	-	-	-	-	-	42.17	3.68
Par Bonds	-	-	-	-	-	5.00	-	2.75	-	-	7.75	0.67
Paris Club	-	-	-	-	-	-	-	-	48.23	-	48.23	4.21
Total	**40**	**257**	**217.10**	**118.25**	**132.95**	**34.62**	**13.35**	**98.40**	**182.99**	**51.54**	**1146.20**	**100.00**

Source: D. C. C. Secretariat, C. B. N. Abuja.

APPENDIX 1

Table 7

Nigeria: Sectoral Allocation of Disbursements on Long-term Debt ($Million)

Sectoral	1970	1980	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture	0	52	128	107	87	85	98	86	147	157
	(0)	(4.4)	(4.8)	(6.2)	(5.5)	(6.6)	(7.6)	(8.9)	(10.2)	(21.6)
Balance of Payment Support	0	0	450	0	0	250	200	101	443	293
	(0)	(0)	((16.8)	(0)	(0)	(19.3)	(15.6)	(10.4)	(10.7)	(40.3)
Communication	16	1	37	8	41	23	17	36	45	30
	(28.6)	(0.1)	(1.4)	(0.5)	(2.6)	(1.8)	(1.3)	(3.7)	(3.1)	(4.1)
Education	1	9	36	2	10	12	21	1	3	1
	(1.79)	(0.8)	(1.3)	(0.1)	(0.6)	(0.9)	(1.6)	(0.1)	(0.2)	(0.1)
Energy	11	111	560	646	707	399	549	256	453	92
	(19.79)	(9.4)	(21.0)	(26.0)	(45.1)	(30.8)	(42.7)	(26.4)	(31.3)	(12.7)
Industry & Trade	0	23	89	113	8	0	28	6	30	12
	(0)	(1.9)	(3.3)	(6.6)	(0.5)	(0)	(2.2)	(0.6)	(2.1)	(1.7)
Manufacturing	4	685	604	511	212	207	77	64	197	7
	(7.1)	(57.7)	(22.6)	(29.7)	(13.5)	(16.0)	(6.0)	(6.5)	(13.6)	(1.0)
Social Services	2	138	295	169	191	137	70	109	125	82
	(3.6)	(11.6)	(11.0)	(9.8)	(12.2)	(10.6)	(5.5)	(11.3)	(8.7)	(11.3)
Transport	18	145	205	92	274	50	6	11	3	38
	(32.1)	(12.2)	(7.7)	(5.3)	(17.5)	(3.9)	(0.5)	(1.1)	(0.2)	(5.2)
Other	4	24	269	257	40	134	219	299	0	16
	(7.1)	(2.0)	(10.1)	(14.9)	(2.5)	(10.3)	(17.1)	(30.9)	(0)	(2.2)
Total Long-Term debt	56	1187	2673	1723	1569	1297	1283	968	1445	727
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

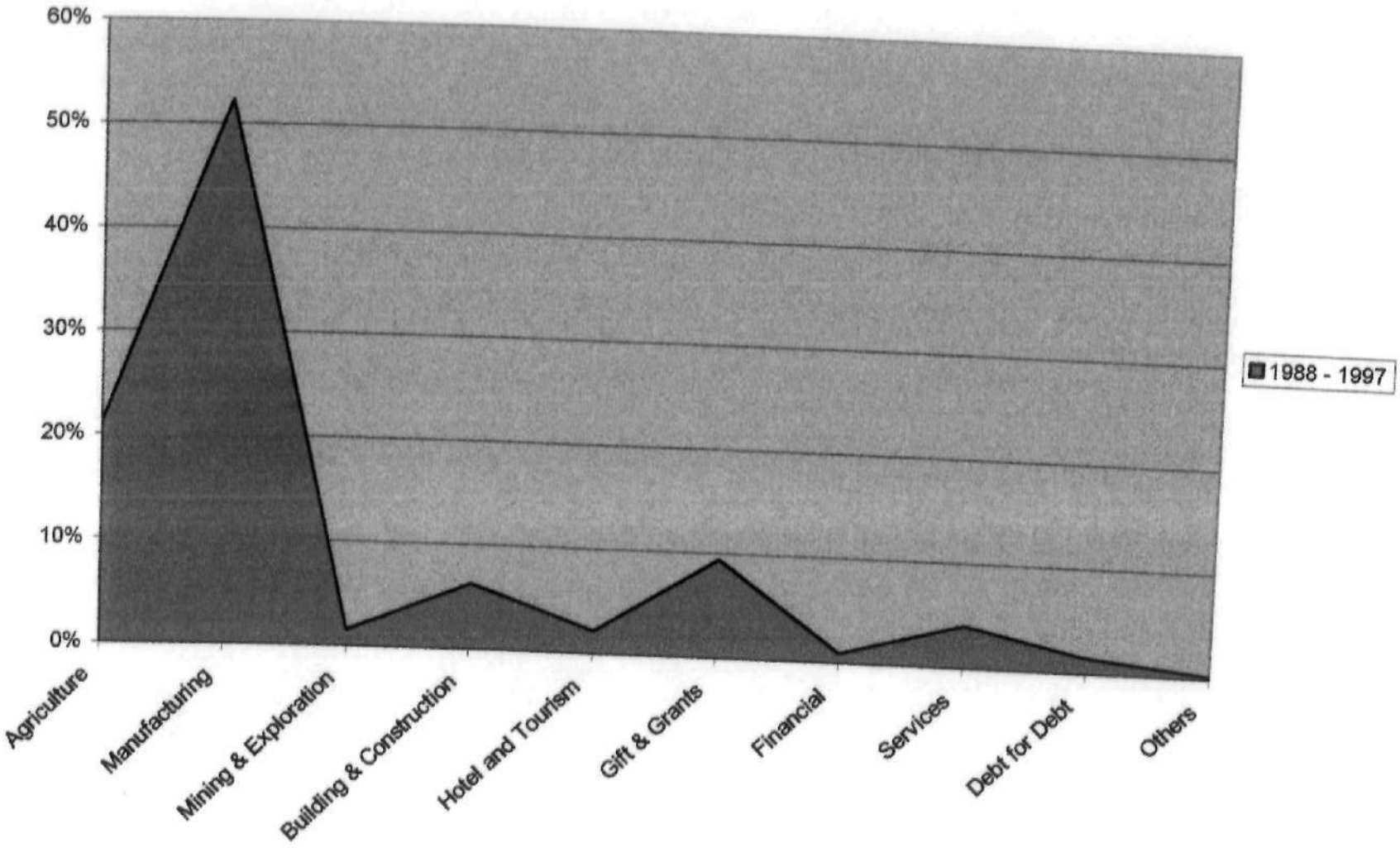
Notes: Figures in parenthesis are percentage shares while those above them are millions of U. S. dollars

Source: World Bank. World Debt Tables, 1991-92

APPENDIX II

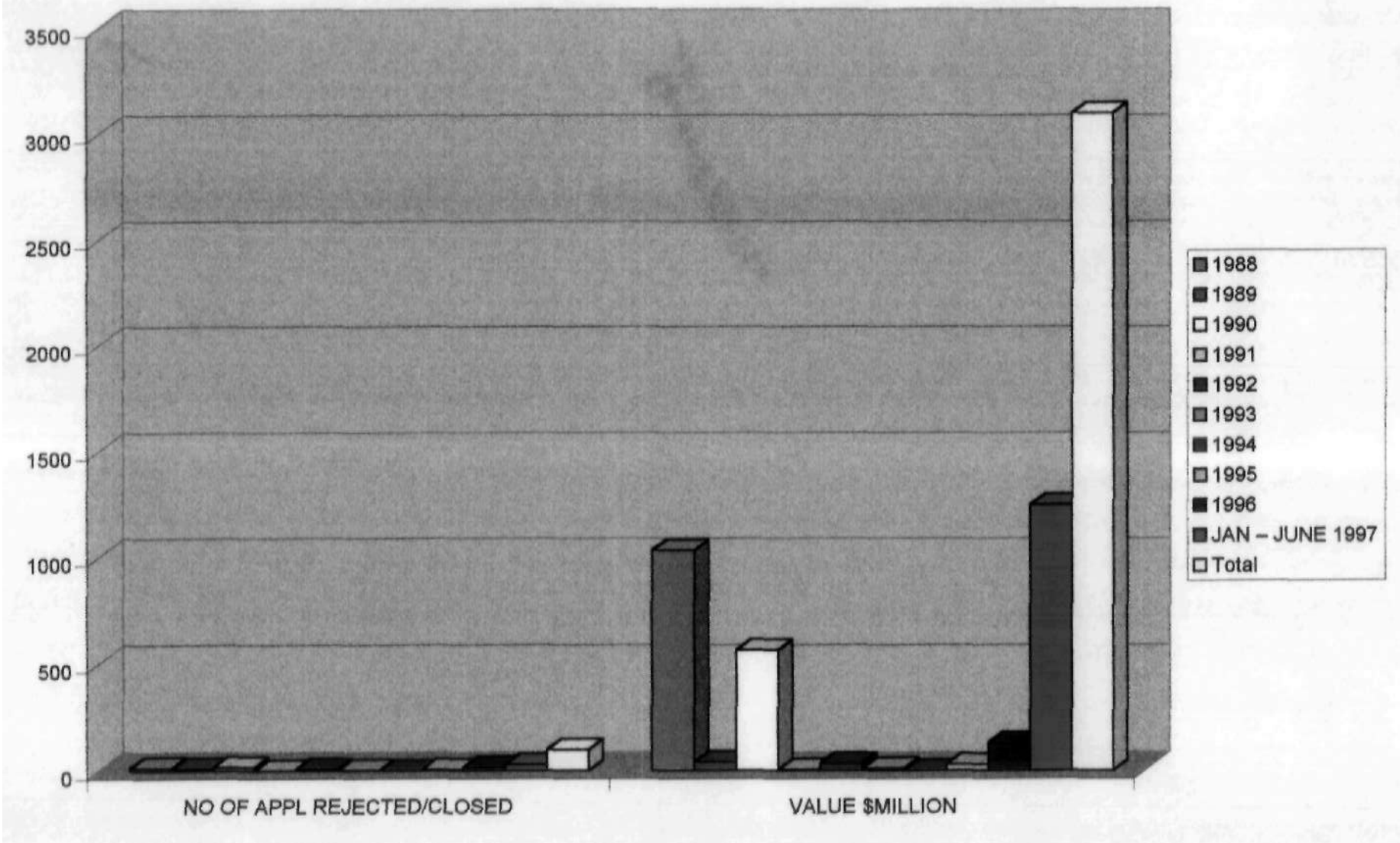
CHART 1

SECTORAL BREAKDOWN OF APPLICATIONS GIVEN APPROVAL IN PRINCIPLE 1988 - 1997 PERIOD



APPENDIX "H"
CHART 2

APPLICATIONS REJECTED AND CLOSED FROM 1988 - JUNE 1997



APPENDIX II

CATEGORY OF DEBTS CANCELLED 1988-1997 PERIOD

