NIGERIA'S EXTERNAL DEBT MANAGEMENT (1982-1990)? AN APPRAISAL

BY

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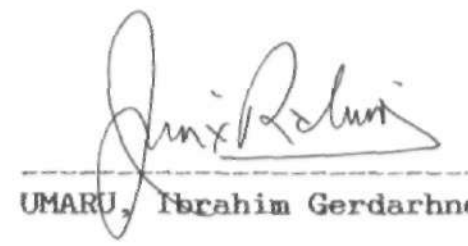
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DECLARATION

I hereby declare that this thesis is an original work by me and that no part thereof has been submitted by anybody elsewhere for the award of any degree.

All materials consulted and references made are duly acknowledged by way of bibliography or footnoting at the end of each chapter or the thesis.



UMARU, Ibrahim Gerdarhneeh

DEDICATION

This thesis is dedicated to my quintessential late father, Deacon David Bayi Umaru Gadani; our forever dear late wife, Mrs Martha Larai Umaru; and all their progeny.

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It would be an understatement to state that the process of writing a thesis of this nature is not plagued with numerous problems, both academic and otherwise. In fact the problems encountered in the process of writing this thesis were so exerting that without the help of some good-natured people its completion would have been impossible. I therefore have to register my sincere appreciation to a good number of people, for modesty requires that to whom much is given much should be expected.

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CERTIFICATION

This thesis entitled NIGERIA'S EXTERNAL DEBT MANAGEMENT (1982-1990): AN APPRAISAL by Ibrahim Gerdarhneeh UMARU meets the regulations governing the award of the degree of Masters of Science in Economics of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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ABSTRACT

Nigeria'a external debt problem forioa tho subject matter of thia study. Because of the sensitivity and delicate nature of this economic problem to the survival of Nigeria as an economic sovereign state, the study sterta by identifying the various perspectives ilrcj which explanation of the world external debt crisis can be sought, and of course the implication of approaching the problem from this vintage position. A critical examination of the causes of the debt crisis is provided and the conclusion arrived at indicates that there are both domestic and foreign factors responsible for this. But of moot oxer ting is the recurrent crisis of the world capitalist system.

The study then examines the various proposals put forwa^. by numerous authors and agencies and subsequently attempts to locate the various debt management policies adopted in Nigeria within the global debt strategies. Our analysis leads us to conclude that the various debt policy measures were premised upon wrong assumption: that the basic cause of the crisis was faulty domestic policies compounded by leakages and capital flight.

This however, seems to have provided the justification for the articulation of structural adjustment programme which invariably insists on scouting external advice and super-vision to ensure the adoption and implementation of "appropriate" domestic policies. Unfortunately however,

policy measures euch as overtight austerity programme which necessarily entails controls on the level of the government expenditures, controls on the use of domestic credit, the elimination of subsidies, increases in producer prices for 'agricultural produce, the adoption of the flexible exchange market, privatisation and commercialisation of public corporation seem to be pushing the economy further into the abyss of debt slavery.

The analysis further demonstrates that finance capital sees the debt crisis Nigeria is facing as an opportunity to further penetrate and tighten up the country to the capitalist exploitative stranglehold by first doing away with all government and trade restrictions and constraints put in place through the various measures implemented by the country frits drive for industrialisation especially in the 1960s and 1970s.

Finally, in order to overcome the country's debt problem, the study recommends an indigenous debt strategy as well as a reform programme that should be complemented by the formation of regional/global debtor club and comprehensive planning.

SOME CONCEPTS AND TERMINOLOGIES USED IN THIS STUDY*

1. Debt Amortisation: This concent refers to the process of ending a debt by setting aside money regularly for future payments.

2. Debt Capitalisation: When debt is converted into or used as capital, the process is referred to as debt capitalisation. Capitalisation could be convertion of debt into wealth or property for the purpose of producing more wealth or starting a new business.

3. Debt-for-cash Conversion: This refers to the conversion of debt by the holder at its face value and at the prevailing exchange rate for the currency of the debtor country.

4. Debt-Debt Conversion: This concept refers to that process by which the holder of a country's debt exchanges it for the debt of another country.

5. Debt-Equity Conversion: This refers to the process by which the holder of a country's debt converts it into the debtor country's currency at face value and at the prevailing exchange rate for the purpose of financing a new company, expanding an existing one or financing portfolio investment in that country.

6. Debt-for-Export Conversion: This entails the exchange of a debtor country's export goods for its debt obligations.

7. Debt Maturity: This concept describes the time span over which a debt becomes due for payment.

8. Debt Moratorium: This refers to an agreement between a debtor country and its creditors permitting the former to delay or defer its debt payment to the latter.

9. Debt-Peso Swap: This is a form of debt conversion in which the citizens/residents of a debtor country who have funds abroad buy the debt of their country on the secondary market with a view to converting it into local currency for investment in the local economy.

10. Debt Repudiation: This refers to the situation in which a debtor country disowns its debt or refuses to have anything to do with the debt.

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*Adopted from The African Debt Crisis, edited by G.O. Olusanya and A.O. Olukoshi (1989).

11. Debt Rescheduling: This concept refers to re-ordering by mutual agreement between a creditor and a debtor of the conditions and terms for the repayment of debt owed by the latter to the former. In practice, such re-ordering involves the lengthening of the repayment period and the lowering or raising of interest chargeable on the principal loan.

12. Debt Servicing: This concept describes the amount of money a country sets aside to pay for a loan and the interest due on it.

13. Debt Service Ratio: This concept captures the relationship between the amount of money set aside by a debtor country to service its debt and the amount which it earns from exports. The debt service ratio of a country is calculated as follows:

$$\frac{\text{Principal + Interest}}{\text{Export Earnings}} \times \frac{100}{1}$$

14. Debt Write-off/forgiveness: When a creditor nation or institution decides to cancel a debt owed it by a debtor, it is said to have carried out a debt write-off.

15. London Club: This is an ad hoc, largely informal group which brings together commercial bank creditors, largely from the West. Under the auspices of the Club commercial banks which are owed money by Third World countries are able to take a joint approach to deal with the debtor countries, their primary objective being to avoid default.

16. Paris Club: Like the London Club, this Club is an ad hoc, informal group bringing together insured creditors. The only difference between the two is that unlike the London Club which is a grouping of commercial creditors, the Paris Club brings together governments and government agencies that have advanced loans to the Third World countries. In other words, the Paris Club deals with official as opposed to private debt.

17. Primissory Note: This is a note, usually issued by the Central Bank of a debtor country, conveying a promise to pay a stated sum of money to a specified person or the bearer on a specified date or on demand.

CHAPTER ONE

INTRODUCTION

"Africa's external debt has deteriorated from crisis to disaster and is now a continental catastrophe... Debt has compounded the composite African crisis which started in the 1970s agrarian and refugee crisis... In the 1980s, approximately six African economies have actually collapsed, 15 are currently on the verge of disintegration and almost all the rest are grinding to a halt."
- B. ONIMODE (The IMF, The World Bank and The African Debt: The Economic Impact, 1989).

1.1 INTRODUCTION

As a matter of fact, the basic trait of all forms of "inflow of foreign capital, putting grants and aids aside, is that they must be serviced and eventually paid. Debt service demands that domestic resources be at one time or the other diverted towards payment of interests and commitment fees which are supposed to be made in hard-earned foreign currency. And, for a country to be able to service its debts, its balance of payments (BOPs) with its international reserve position must be favourable. Or else, it would have to incur further short-term loans to service previous debts.

Experience has shown that most Third World debtor countries face not only severe BOPs crisis, but are often saddled with the problem of annual debt servicing and repayments that usually exceed their receipts from abroad. The result is the worsening of BOPs position accompanied by self-perpetuating debt crisis which, most often than not,

invites "agreements" between the creditor clubs and individual Third World debtor country. These "agreements" are usually not unconnected with loan rescheduling and refinancing of short-term loans which by a priori expectation are supposed to help in revitalising the economy of the debtor country.

Added to these "agreements" the Third World countries (TWCs) are forced to adopt severe economic measures that are supposed to correct the BOPs anomaly thereby generating enough reserve to be used in settling debt obligations. This has been the fortune of Nigeria ever since it experienced its first serious BOPs crisis in 1982.

In actual fact, Nigeria, in its first two decades of nominal independence, did not experience any serious debt problem. Within the 1960-1970 periods its external debt was highly insignificant. The debt stood at ₦488.8 million in 1970.[1] It grew to about ₦500 million in 1977 with a debt service ratio of 2.4% of export earnings. Nigeria's external debt outstanding was insignificant in this period not because the country was able to generate enormous foreign reserves occasioned by the "oil boom" or due to the "discipline" and control with which contraction of new loans were administered, but owing to some other exogenous factors emanating from the working of the international trade and financial system.

It is of course true that legislative Acts like the Promissory Notes Ordinance of 1960, External Loans Act of 1962 and its 1965 amendments helped in limiting the power of the Federal Government (FG) to raise loans except for important projects.[2] However, the need to mobilise more resources via raising of fund for reconstruction programmes after the civil war and the desire to achieve accelerated growth and development led to an amendment of the legislation by raising the ceiling on the maximum loan to be contracted at any time to ₦1.00 billion while the 1978 amendment brought it up to ₦5.00 billion.[3] It should be noted that before the 1978 amendment, the decree restricted external borrowing. The ceiling set for maximum amount borrowable, the source and use of the loans as stipulated in the legislation were religiously adhered to. All this resulted to Nigeria's external loan commitment being below the ₦500 million mark by 1977.[4]

Nigeria's borrowing experience outside conventional official project-tied loans seems to have commenced after 1977 when there was a brief recession in the international oil market and Nigeria was made to seek for credit from international private lending institutions in a desperate bid to correct its short-term BOPs problem. This, singularly, appeared to have opened the floodgate of external borrowing to Nigeria, especially to the federal and state civilian administrations.[5]

Hence, the 1978 amendments enabled the Obasanjo administration to contract a jumbo loan of US $1.00 billion (approximately ₦1.30 billion) in that year from the international capital market (ICM) in an attempt to meet shortfall in revenue.[6] This loan was a private loan attracting a high rate of interest and with a short-term to maturity as against grants and/or aids which are government sponsored loan with low rates of interest. This development made Nigeria's external debt to grow from ₦1.27 billion in 1978 to ₦1.87 billion in 1980 and to ₦8.82 billion and ₦17.29 billion in 1982 and 1985 respectively.[7] Meanwhile, the country was faced with dwindling revenue from the exportation of oil. This can be seen from the foreign exchange earnings got from oil exports between 1978 and 1985. The country earned .4 billion in 1978, then rose to ₦13.7 billion in 1980, but fell to a record level of ₦8.9 billion in 1982. However, the country experienced a slight improvement between 1983 and 1985: the figure rising from ₦7.26 billion to ₦10.4 billion respectively.[8]

The period between 1986 and 1989 saw Nigeria's external debt assuming an astronomical proportion. From ₦17.29 billion in 1985 it rose to ₦41.46 billion in 1986. 1987, 1988 and 1989 saw it rising to ₦100·79 billion, ₦133.96 billion and ₦212.75 billion respectively.[9] The sudden increase between 1986 through 1987 to 1989 is partly explained by the devaluation of the naira occasioned by the second-tier foreign exchange market (SFEM) and partly by further external borrowing within the period.

The rapid growth in Nigeria's external debt outstanding is not so much a source of great concern as the debt burden - loosely defined as the average ability of setting aside a portion of scarce domestic resource for the purpose of settling the debt obligation. Though there is no standard measurement of whether a particular level of external debt is too high or is acceptable,[10] certain indices are employed to determine the extent of debt burden of a country. Nine indices often used in this regard include: the ratio of total debt service to export; the ratio of interest payments to export; the ratio of debt outstanding and disbursed to exports; the ratio of debt outstanding and disbursed to gross national product (GNP); the ratio of total debt service to GNP; the ratio of interest payments to GNP; the ratio of reserves to debt outstanding and disbursed; the ratio of total debt to GNP and the ratio of total debts to exports.

All indicators used on the Nigerian economy seem to show clearly that the country's external debt problem deteriorated rapidly in the 1980s which, in the least, can currently be described as serious and disturbing.[11] For example, the debt/GDP ratio rose from under 2% a year between 1971 and 1977 to 14.9% in 1983, 21.9% in 1983 and 97.8% in 1988.[12] Another ratio used is the debt/export ratio. It moved from an average of 7.6% in 1971-1977 period to 101.1% in 1982 and 404.2% in 1987.[13] Yet another ratio used is the popular debt service ratio.[14] This ratio moved from an average of only 0.7% in 1971-1977 period to 8.8% in 1983, 31.7% in 1985 and

24.2% in 1988.[15] Similar trend can be delineated from other ratios.

The picture, however, will not be complete without a comment or two on the profile of the Nigeria's external debt portfolio since the late 1970s. The profile of the Nigeria's external debt since 1977 has changed quite significantly. A synoptic review shows that over 90% of total external debt outstanding between 1971-1977 was, on the average, made up of official debt from bilateral and multilateral agencies. But from 1978, the magnitude of official debt has substantially declined whereas borrowing from private sources has increased tremendously. For instance, the share of total debt outstanding from official sources moved from an average of 91.4% between 1971 and 1977 to 33.3% in 1978-1980 and 13.8% in 1981-1987 periods; that of private agencies moved from an insignificant proportion in 1971-1977 period to 57.6% in 1978-1980 period and 82.0% in 1981-1987 period.[16] As for the debt owed to private sources, the structure changed since 1982 with the emergence of trade arrears.

Before 1982, private borrowing came mainly from the ICM and trade arrears (refinanced and unrefinanced). But ever since, it constituted an important proportion of debt to private agencies. The bulk of Nigeria's external debt outstanding in 1988, amounting to 85.7% was owed to private sources while 10% was accounted for by official sources.[17]

All this has serious implications for the economy. The implication of this lopsided structure is that the country's debt burden has increased over time since borrowing from private sources is usually on striffer terms as regards the maturity and interest rates.[18] This increasing external debt and burden coupled with unstable foreign exchange earnings has serious repercussions for the recovery of the Nigerian economy. It is precisely in an attempt to check these serious consequences of the BOPs crisis and debt burden that ever since 1982 various economic policies and management techniques like those contained in the austerity measures of 1982-1983 period, economic emergency measures of 1984-1985 period and the SAP of 1986 were put in place.

1.2 RATIONALE AND STATEMENT OF THE PROBLEM

Viewed from within whichever school of thought, the problem of external debt - which is supposedly the manifestation of the perpetuated BOPs crisis and attendant inability to settle debt obligation, at least in the TWCs - is regarded as a threat to the social wellbeing and progress of any people. For if a country finds itself saddled with the problem of committing a large chunk of its resources to servicing and settling external debt, then it had better regard its efforts to achieve sustained growth and development at best as a pipe dream. Hence, to argue that the debt problem has little to do with economic growth and

development is to belittle the search for genuine solutions to the TWCs' "underdevelopment".

This, with the realisation of the undesirable social consequences the debt problem brings in its wake explain why when sign of the crisis begins to rear its ugly head, efforts of both "practical men" as well as theorists are harnessed in understanding its manifestation, mechanics and solutions to the problem sought. Nigeria seems to be in this fold ever since the BOPs and external debt problem came to a head in 1982.

1.3 AIMS AND OBJECTIVE

This study shall:

1. examine the essential relationships between the BOPs crisis, the debt problem and the economic policies put in place since 1982;

2. evaluate the appropriateness or otherwise of the debt management policies that have been put in place in Nigeria since 1982; and

3. profer alternative measures to the problem if our analysis of the debt management policies leads us to.

1.4 METHODOLOGY AND METHOD

It is our belief that there are basically two broad methodology—premises from within which explanation of the debt problem and solution to it can be sought, namely: the conventional premise (synthetically symbolised by traditional economics) and the radical political economy premise cystallized by two schools: the Marxist as well as neo-Marxist (centre-peripherist) schools.[19]

This study shall attempt to examine the Nigerian debt issue, first from within former methodological premise. We hope that this will allow us to compare this premise with the contending alternative methodological premise. For as Deane (1983) has rightly pointed:

> "If economics is a science - and it is not clear as it used to be what that is - it is evidently a science whose powers of prediction and control are limited, largely because the phenomena it seeks to explain are subject to persistent change and often for reasons that may be outside the traditional boudaries of the discipline. In this circumstances successful explanation or prediction must depend on the... need... (for)... not a new orthodoxy on scope and method but a readiness to listen seriously to our colleagues who take opposing view on fundamental principles..." (p 5)

Furthermore, three methods would be employed in this study, viz: Genetic, Functions and Theory.[20] The use of these methods is intended to make the approach of this study satisfy three basic methodological requirements, namely: postulate of logical consistency - which requires the system of typical constructs

designed by the scientist to be fully compatible with the principles of formal logic which warrants their objective validity; - postulate of subjective interpretation - which ensures that the scientist has constructed a "model of an individual mind" endowed with such typical contents as can explain the observed facts; - and postulate of adequacy - warranting the consistency of the constructs of the social scientist with the constructs of common sense experience of social reality.

1.5 SOURCES OF DATA

The data to be used in this study will mainly come from the secondary sources: from various publications of the FG and the various federal agencies assigned with the collection, collation and compilation of statistical information on Nigeria; IMF and World Bank Group publications; non-governmental bodies; multi-national corporations (MNCs) and banks.

1.6 LIMITATIONS OF THE STUDY

Most empirical studies have certain limitations. This study is not an exception. The major areas where this will be encountered are the quality and authencity of the data to be used in the study, as the statistical information supplied by some bodies do not always tally with those provided by others.

Also worthy of note is the fact that the quality of the study could have been improved if questionnaires and interview were to be administered to the ministry and governments charged with the responsibility of managing Nigeria's external debt since 1982, but due to time and resource constraints, the study cannot employ this method of collecting valuable information.

1.7 THE OUTLINE OF THE STUDY

This research work is made up of five chapters. In the first chapter, we provide an introduction to Nigeria's external debt crisis. The chapter also contains the statement of the problem, aims and objective of the study, methodology and methods employed, sources of data and the limitation of the study.

Chapter Two will review the relevant literature on the subject under study.

In Chapter Three, we shall examine the previous management policies, especially as they relate to Nigeria's debt management between 1982 and 1990.

The fourth chapter provides a critical appraisal of the debt management policies put in place under the period of study.

Finally, the last chapter contains the summary, recommendations and the conclusion of the study.

1.8 END NOTES

1. S.O. Okpechi, "Debt Equity Swap, an Old Custom Finds New Name", The Nigerian Accountant, vol xxi No 3 (1988).

2. A.S. Ayodele, "Debt Equity Conversion as a Debt Management Strategy in Nigeria", NESA, ABU Chapter sponsored Seminar on The Debt Conversion Programme and Nigeria's Economic Recovery, Zaria (1989).

3. F.E. Oshilim and F.A. Adidu, "An Appraisal of the Debt-Equity Swap as a Strategy for Economic Recovery in Nigeria", Department of Economics, ABU, Zaria (1990).

4. O. Ojowu, "Long-term Management of Nigeria's Foreign Exchange", The Nigerian Economy Under (S)FEM, Gaskiya Corporation, Zaria (1987), p 4.

5. O. Ojowu, op cit, p 23.

6. F.E. Oshilim and F.A. Adidu, op cit, p 4.

7. Table 9 and also The Nigerian Economist, vol 2 No 17, May 1989.

8. See Y.B. Usman, Nigeria Against the IMF: The Home Market Strategy, Vanguard Printers and Publishers, Kaduna (1986), p 181.

9. The Nigerian Economist, op cit, p 36.

10. Though the World Bank and IMF consider 10% of export earning devoted to debt servicing as critical, there is however no standard justification to regard it as applicable to all debtor countries, especially to the heavily indebted countries of Latin America.

11. M.O. Ojo, "Nigeria's External Debt Problems: A Review of Management Efforts and the Prospects", CBN: Economic and Financial Review, vol 27 No 2, June 1989, p 48.

12. Debt/GDP ratio measures that portion of national output that is potentially due to foreign economic agents.

13. This ratio measures how much of our export earnings can be used to liquidate the total debt outstanding.

14. This one is used to determine the proportion of export earnings that is used to service the external debt in terms of principal repayment and interest.

15. M.O. Ojo, op cit, p 48.

16. Ibid.

17. Ibid.

18. Ibid.

19. We submit to the definition provided by Felix Kaufmann (1944) (n) and Fritz Machlup (1978) which sees methodology as a study of principles that aids students of any field of knowledge and especially of any branch of higher learning (science) in deciding whether to accept or reject certain propositions as a part of the body of ordered knowledge in general or of their own discipline (science). It is neither a study of "good methods" nor a study of "methods" used, but rather a study of the reasons behind the principles on the basis of which various types of propositions are accepted or rejected as part of the body of ordered knowledge in general or of any special discipline. In other words, even though methodology is about methods, it is not a method nor a set of methods, nor a description of methods. It provides instead arguments, rationalizations, which buttress various preferences entertained by the scientific community for some rules of intellectual procedure, those for coining concepts, building models, hypothesis, and testing theories. Thus investigators employing the same methodology that is taking the same steps in their research may nevertheless hold different methodological positions; and vice versa. It follows then that while we may use a method, we never "use" methodology; and while we may describe a method, we cannot "describe" methodology.

20. There are numerous methods employed in social explanation. The most commonly used in social sciences include: Genetic - explanation of this type gives a description or an outline of a temporal sequence of events; - Intentions - explanation that emanates from knowing a person's intention in performing an action; - Dispositions - explaining social events by making reference to the tendencies or dispositions that the participants have; - Reasons - learning what the reasons for someone doing something would provide us with an explanation for his action if we were puzzled by it in the first instance; - Functions - seeking to explain a social phenomenon by studying the functions it performs in helping to maintain a system; - Empirical Generalizations; and Theories. For a detailed treatment of these methods, see Robert Brown (1963): Explanation in Social Sciences, Aldine Publishing Company, Chicago.

CHAPTER TWO

LITERATURE REVIEW

> "The expedient of an uncritical review of the existing literature on whichever topic the researcher is working, is the hopeless refinment of existing conceptual errors, or at best, anything unshort of a blank shot into the intellectual darkness" - I.G. UMARU ("The Social Responsibility of An Economic Scientist in Nigeria", 1991).

2.1 INTRODUCTION

It becomes relevant to take stock of the existing literature on the subject of this study especially as the latter is intended to focus on finding amenable solutions to the problem of Nigeria's external debt. However, the need to start with an investigation of the broad theoretical framework from within which the matter has been approached over the decades becomes undeniably overwhelming here. This is so owing to the fact that the understanding of the problem from various perspectives will provide us the broadest picture of the issue under discussion.

So we shall start right away with the conventional framework. Thereafter we shall take a look at radical political economy after which we shall attempt a detailed survey of the debt literature. Finally, we shall conclude the chapter with the specification of the model we hope to use in appraising the debt problem of Nigeria.

2.2 A REVIEW OF THE EXISTING THEORETICAL PREMISES

2.2.1 The Conventional Framework[1]

The conventional approach to issues relating to international finance and development is premised upon the Keynesian-neoclassical growth models and "underdevelopment" theories, the latter being the legitimate progeny of the former.

What is striking about the growth models of these schools is, in spite of the apparent conceptual disagreement regarding the degree of efficacy of the market forces and technical flexibility of the ratios used in the analyses, they all seem to accept the tenet that capital accumulation is at the necleus of any economy's growth and development process, and that since capital accumulation eventually translates into economic growth via the saving-investment mechanism, saving should be regarded as the most crucial variable.[2] This explains why savings mobilisation assumes a central place in subsequent theories that attempt to explain and profer solutions to the growth and development of the DCs and by way of extention, the "underdevelopment" of the TWCs.

In this connection, Rostow (1960, 1974, 1975) presents an interpretation of the stages through which every society has evolved to the modern state. These are the tradtional society; the pre-conditions for take-off; the take-off; the drive to maturity; and the age of high mass consumption.

Another attempt to emphasise the centrality of savings mobilisation in explaining the "underdevelopment" of TWCs is made by the economic dualistic theories.[3] The most important recurrent theme in the various models of economic dualism is the apparent division of the economy into two arbitrary independent sectors. In some cases, the categorisation is between "capitalist" and "non-capitalist" sectors (Lewis, 1954); "enclave" and "hinterland" sectors; and between "modern" and "traditional" sectors of the economy (Rostow, 1960). In some other cases, it is more generally between "industry" and "agriculture" (Jargenson, 1961, 1967). The basic features of economic dualism are: no flows of capital or savings are permitted precisely because production in the agricultural sector is done without the use of capital; entrepreneurs are not allowed to engage in activities in both sectors as motivations and behaviour in the two sectors differ; and the economy is essentially closed and growth occurs through a transfer of labour from the second to first sector in response to demand generated by capitalist businessmen reinvesting their profits - this process continues until all the disguised unemployment is eliminated and labour becomes scarce, thereby forcing the traditional sector to modernize (Nurske, 1957; Rosenstein-Rodon, 1943; and Jorgenson, 1967).

In spite of the apparent sway the take-off stage thesis and economic dualism held in the 1960s, contradictory results of subsequent studies on the TWCs stirred the hornet of

scepticism in some academic quarters. Cameron (1967) argues that recent historical research using the same countries which provided Rostow's basic data has refuted his (Rostow's) investment criterion for take-off, thereby leading to the breakdown of his "magic" 10% requirement. Cameron (1967) further contends that improvement in technical organisation skills, even unaccompanied by increases in net investment, may be more crucial. Frank (1969) stresses that Rostow's theory attributes a history to the DCs but denies all history to the TWCs.[4] Griffin (1969a) argues that the analytical categories and logic employed in Rostow's works, although severely criticised, have permeated western thinking on development problems, the reason being more of sociology than economics. What is more, as to how a nation gets from one stage to another, we are still in the dark, since all that Rostow presents in effect is a series of snapshots which freezes the development process in five different moments of time. What seems clear however is that the present "traditional" stage is the initial stage and that development occurs essentially as a result of internal efforts which largely is unaffected by the workings of the wider international economy. All this shows that, albeit Rostow neglects the actual past of the TWCs, he confidentiy attempts a prophetic prediction of a future for them similar to the DCs.

The economic dualism is no less exempted from bashings. Griffin (1969b) outlines the implications of its application

to broad development policy.[5] He goes further to argue that the assumptions in dualistic models are highly unrealistic: one, there is very little evidence of widespread unemployment throughout the year; the assumption that rural income or wages exceed(s) the marginal product of labour is wrong as there exist commercial farming classes and activities and employment throughout the year in the agricultural economy; the presumption that members of the second sector are not maximizers is also erroeneous as there is enough evidence to prove the contrary;[6] and finally the presumption that savers are found mostly among the urban commercial classes while peasants are not likely to save voluntarily - since they live so close to the subsistence level - implying that only capitalists account for the meagre savings, is viewed with scepticism. Furthermore, Lewis (1954) and Nurske (1957) specific prediction that TWCs will follow the development path of economic dualism has been questioned by Griffin (1969a).[7]

The criticisms on the take-off and economic dualism theses notwithstanding, they seem to have provided the fertile soil for the germination and eventual spurting up of the Gap thesis. The Gap thesis centres around the mobilisation of domestic as well as foreign resources. Quite a number of original work has been done in respect of identifying and modelling the various gaps, namely: the savings-investment and foreign exchange or trade gaps (two-gap model) and the absorptive capacity gap (which when

combined with the previous two-gap model yields the three-gap model).

Within this scenerio, Nurkse (1960) and Rosenstein-Rodan (1943) argue that the low per capita incomes which prevail in the TWCs are a consequence of the low levels of productivity and that substantial increases in productivity requires increased capital formation. This implies that the domestic savings needed to meet potential investment is in short supplies indicating the presence of the saving-investment gap of TWCs.

Attempts at identifying and providing a conceptual ground for estimating the size of this gap have been carried out by UN/ECAFE (1960), Lewis (1960) and Hawks (1968). But of greatest interest is Lewis (1960) which goes to the extent of providing specific estimates for the measure of capital/ savings requirements for TWCs. It posits that personal consumption in TWCs which should only be 75% of the GNP is nearer 85%, leaving for the public services and capital formation - crucial for industrial take-off - a paltry 15% instead of the 25% they need. Hence the attainment of domestic savings level of 5-10% takes longer than a century, moreso if the private capitalist method is adopted. Interestingly, Rostow reached similar conclusion.

Attention is also focused on what is thought to be a more important limitation to the development of the TWCs; a possible shortage of foreign exchange, as a result of which

countries may be unable to acquire from abroad the goods and services necessary for promoting domestic development. Hence, the acceptance that (net) foreign capital inflows plays a strategic role in promoting progress towards self-sustained growth in developing countries. This provides the justification for the TWCs' domestic needs for foreign capital (McKinnon, 1964; Fei and Paauw, 1965; and Betz, 1985).

By their very nature as "underdeveloped" countries, TWCs may face the afore-mentioned gaps and yet another gap that goes by the name absorptive capacity gap (Hawk, 1968).[8] Absorptive capacity gap covers all the ways in which the ability to plan and execute development projects, to change the structure of the economy, and to reallocate resources is circumscribed by the apparent deficiency in crucial factors, by institutional problems, or by unsuitable organisation. It follows therefore that not only the structure of the economy but also the utilisation of its existing capacity will have an important bearing on a country's absorptive capacity (Rosenstein-Rodan, 1961). Adler (1965) who has done an original work on the subject comes to the conclusion that if absorptive capacity is increasing over the years, it can be regarded as a measure of the improved economic performance of the country concerned and of its ability to make better use of the net capital inflow which is meant to fill other gaps.

In sum, the most useful conceptual traits that can easily be deduced from this theoretical framework of looking at international trade and finance problems are:

One, savings/capital accumulation is accorded a central role in growth and development process. It should be borne in mind that the supposedly efficient utilisation of capital can only be meaningful via the free operation of market forces and free enterprise. All this however has come under fire. Cameron (1967) questions the central role of capital accumulation. Even at the theoretic-postulate level, clouds of doubt sorround the use of the exotic term "capital" (Robinson, 1973; and Da Costa, 1985).

Two, tying up the above trait with what we may refer to as the independence thesis we get the trait which presupposes that the contemporary "underdevelopment" of any TWC can best be conceptualised as a product or solely the reflection of its own economic, political, social and cultural characteristics or structure, and that TWCs and DCs are supercially linked together by as-a-matter-of-fact trade and financial relations that are based on mutual proportional reciprocity. This implies TWCs and DCs are seen as worthwhile economic partners engaged in international finance and trade arrangement and that the former's development can only be generated or stimulated by diffusing capital, institutions, values, etc from the latter. However, historical perspective based on the TWCs past experience

suggests that on the contrary, economic development in the TWCs could occur only independently of most of these relations of diffusion (Frank, 1969). What is more, there is a consensus among scholars in the field that the possible reason for this "erroneous" conception is to be found in the conventional school's use of a-historical approach to economic theorising. Amin (1974); Baran and Sweezy (1966); Hunt and Schwatz (1973); Nore and Greene (1979); Streeten (1970) and Hutchison (1977) demonstrate how the conventional school abandoned this universal outlook, thereby breaking down the bridges that had laid between the various branches of social science.[9] Herein lies the rationale behind our kindled desire to investigate into the schools that utilise the historical method in looking at international finance and development.

2.2.2 The Radical Political Economy Framework

From within a broad methodological framework which appears more wholistic in the sense that it attempts to incorporate numerous fields of study, Marx and Engels (1977, 1989) and Marx (1975, 1986) carried out a comprehensive study of world lhistory especially that of capitalism using dialectical and historical materialist methods. Tse Tung (1971), Buzuev and Gordodnov (1987), Kharin (1981) and Motylev and Ilyin (1986) further popularised the use of this method in empirical studies.

However, Marx (1986) and Lenin (1983) laid the foundation for the theoretical understanding of the essence (essential mechanics and dynamics) of the capitalist mode of production by showing the quantitative as well as qualitative progression of the world capitalist system. Lenin (1983) shows that one of the most important features of imperialism is: it is parasitic and decaying capitalistm, a feature resulting from the domination of the economy by a handful of monopolieis and financial oligarchies. He further argues that the export of capital - the entire process of production and reproduction of surplus value - is parasitism squared because after a certain period capital itself becomes appropriate surplus value, the result of the wage-worker's unpaid labour. Exported abroad, it yields more profits for its owners, not only serving as an instrument for the plunder of other countries but also to some extent slowing down the development of the productive forces in the capital-exporting countries manifesting itself in imperialist wars, unemployment, underutilisation of capacity, political instability, etc.

Nabundere (1978), Nukhovich (1980), Klochkovsky (1984) and Berbeshkina, Yakovleva and Zerkin (1987) extended Lenin's classic with supplanted evidence, on neocolonialism under multilateral imperialism with an especial focus on the role of IMF and the World Bank Group in international capitalist exploitation.

However, the contradictions produced by the imperialist wars saw history unleashing two developments that were to contribute to the emergence of a "renegade" school of thought - the neo-Marxist school. The developments were desire for genuine independence from the imperialist powers and the hopeless results emanating from the application of economic measures prescribed by the conventional school. This school argues that we cannot hope to formulate adequate development theory and policy for the majority of the world's population who suffer from "underdevelopment" without first and foremost learning how their past economic and social history gave rise to their present "underdevelopment". Afterall, most historians and economists study only the DCs and pay scant attention to the colonial and "underdeveloped" lands which for obvious reasons leads to our theoretical categories and guides to development policy being distilled exclusively from the historical experience of the European and North American advanced nations.

In many of the studies (e.g. Frank 1969; Amin, 1981; Emmanuel, 1972; Baran and Sweezy, 1966) carried out by this school a certain amount of awareness is shown of the inter-relationship between the so-called two poles (centre and periphery) but emphasis is given to narrow analysis of the separate areas which tended to discredit Marx's capital and Leninist thesis on monopoly capitalism and imperialism.

In this vein, Baran and Sweezy (1966) on the strength of Marx's study of Capital attempt to establish a theoretical model of a monopoly capitalist system based on the study of the United States of America (US). However, for them to have used the US exclusively for their analysis especially in our age where social statistics are everywhere available, or for the simple reason that Marx did his on Britain, is theoretically unacceptable.[10] No wonder they were not, inter alia able to situate the military-industrial complex and the whole labour process within neocolonialism and multilateral imperialism. It seems this emanated from the ecclectic manner in which the authors mix-up Marxian with conventional schools' categories without due regards to the apparent irreconciliable differences of the two theoretical worlds.

In an attempt to demonstrate the "inequality" in the exchange of commodities between the "centre" and the "periphery", Emmanuel (1972) regards colonialism as an "accident of history" for whatever the motivating forces behind this adventure, the DCs did not receive any supplementary benefit from the direct administration of the colonial territories (*sic*!). In fact, the category, neo-colonialism is to him "unsatisfactory" since it was devised for argument's sake, in the face of an unexpected situation. Hence to him, Lenin's classic was a marginal work which never had any scientific pretention. Geoffrey Pillage in Economy and Society and Nabudere (1977) have correctly pointed out how Emmanuel's data misrepresented Lenin.

Amin (1974) accepts Emmanuel's thesis and raised similar arguments to those advanced by the latter. He tries to create doubts about the scientificity of Leninist explanation of imperialism by refering to Lenin's classic as a study of the "centre" which did not study the transformation in the "periphery" in connection with those of the former. Hence it was Baran and Sweezy who brought it up to date.

But we have previously seen that Lenin's work cannot be regarded as solely concerned with monopolies in the centre, nor that the new specialisation was conceived as being solely based on export of capital to the colonies. Indeed what emerges out of his work is an eccletic-cum-economistic analysis of the "centre" and the "periphery" with no clear concept of imperialism except a baroque refinement of the Ricardian theory of international trade and finance.

Frank (1967) also adopted a similar position. However, there is no serious attempt in his (Amin's) work to recognise the various qualitative stages world capitalism passed through, as categories like imperialism, monopoly capitalism, primitive accumulation etc, are not fully situated in their right conceptual perspectives. No wonder he went to the extent of arguing that the "underdevelopment" of Chile and Brazil is as a result of four centures of "capitalist development" and of the internal contradiction of capital itself.

In sum, the basic issues relating to the conceptualisation of capitalist development in its neo-colonial stage under Finance Capital or multilateral imperialism by this school include: One, adaption of under-consumptionist thesis throughout its analysis which is more or less Keynesian - the tendency to attempt locating the problem of "underdevelopment" not from within the world capitalist production sphere - but than from either the consumption or exchange/distribution sphere.[11] This has long come under serious criticism as it is only in the production sphere that surplus value is appropriated. Capitalist exploitation had to be explained and a way out had to be found on the basis of a correct understanding of how surplus value was created. Such exploitation was possible on the basis of competition and exchange of equivalents. Marx (1986) distinguishes between labour and labour-power precisely because it enabled him to show scientificically how inequality and non-equivalent took place within equivalent exchange. Two, neo-Marxist analysis presupposes the existence of "national capital" in the periphery (which produces on its own account). This misconception arises because they have no concept of finance capital (sic). But we know from Lenin's classic on imperialism that the real power of finance capital in the neo-colony which turns any "national capital" there into finance capital for the purpose of production required by monopolies is the basic of capitalist accumulation in the neo-colony.[12] (Evidence on

this has been accumulating which, ironically, even that school recognises it and is often referred to in the literature as "capital flight"). It is in this manner that the monopolist bourgeoisie can take part in the exploitation of the total working class by the totality of capital for the average of profit depends on the intensity of exploitation of the sum of total of labour by the sum of capital (Nabudere, 1977). And Lenin's concept of finance capital which has been backed up with facts and figures by some scholars enables us to comprehend this "sum of capital" on a world scale (Nabudere, 19788; Nukhovich, 1980; Kolchkovsky, 1984; and Baskin, 1985). When viewed from this vintage angle, the phenomenon of the "centre" and "periphery" as thing-in-themselves struggling in the market place for exchange of non-equivalents vanishes.

Finally, the lesson to be derived from this perspective runs as follows: the essential nature of relations between "centre" and "periphery" cannot be sought in the trade relations in which "unequal exchange" is presumed to be the main contradiction, but in the relations between the bourgeiosie and the working class across national boundaries as well as in the subjugation of the peasantry in all areas dominated by capital and subjected to capitalist exploitation.

All this implies that the conceptualisation and prescription of solutions to any policy issue relating to the

"underdevelopment" of the TWCs must of necessity first take account of its "universality" character - which shows that the dynamics of TWCs are tailored and shaped by exogenous forces via the implementation of the type of policies that suits the latter, - and second, its "particularity" character - the specific forms and nature it takes in the TWC concerned. Extending this logic to the external debt crisis, one is disposed to make the proposition that Nigeria's debt problem and the management measures to tackle it can not be properly grasped until we situate it within the global debt crisis which emanated from the operation of the world capitalist system of exploitation and contradictions.

2.2.3 A Survey of the External Debt Literature

The previous review of the various existing perspectives on development/international trade and finance becomes presently relevant as it enables us to conceptualise the various explanations given regarding the causes of and proposals to the external debt crisis. In other words, it provides us with a much broader scenario of looking at the problem at hand.

It seems there is a general consensus as to when the world external debt crisis became so pronounced, especially when Mexico temporarily suspended payments in August 1982 (Cline, 1985; Weisner, 1985; Russel, 1981). The debt crisis

of the 1980s - now likely to drag on into the 1990s - has launched a constellation of competing aims and conflicting possibilities. In 1982, the highly indebted middle-income countries lost about 1% of GDP through external debt. In 1988, they paid out about 4.7% of GDP. During 1986-1988 the net transfer of resources from the highly indebted countries to the DCs was more than $110 billion. These massive transfers were still too small however to cover the interest due and the total debt of the highly indebted countries increased. By the end of 1989 their debt is projected to be about $508 billion, roughly 30% higher than in 1982. And in 1989 net transfers abroad will take 24% of their export earnings (Borensztein, 1989; Hussain, 1989; and Hossain and Diwan, 1989).

The debtors have been hurt severely by the short down of commercial lending since 1982. In several TWCs investment ratio has declined, growth has stagnated, per capita flight has added to the decapitalisation and inflation is on the increase (Hossain and Diwan, 1989).

Although since then the debt crisis has threatened the international financial system and crippled growth in TWCs, the causes and genesis of the crisis are believed to be traceable to the preceding two decades which are at times summarised under the international liquidity and/or solvency crises and internal structural rigidities of the TWCs (Payer, 1974; Dernbusch, 1986; Aliber, 1980; and Ajayi (1989).[13]

Indeed, it is advanced that the rise in oil prices of the 1970s contributed to the crisis. From 1973 to 1982, external debt of non-oil developing countries rose by $500 billion. Of the amount appropriately $260 billion may be attributed to the excetional rise in oil prices (Cline, 1985; Weisner, 1988, Krueger, 1987; Aizenman and Borensztein, 1988; and Husain and Divan, 1989).

Global recession in 1981-198 2 which supposedly added another $100 billion through declines in the terms of trade and reduced export volume is also regarded as another contending factor (Zehender, 1990; Husain and Divan, 198 9; Kharas and Shishido, 1989; Heller, 1987; Hemmer, 1986; and Raffer, 1986).

Yet another factor held responsible for the crisis is the excess of real interest rates in the period before the 1980s over the historic average which is believed to have cost the TWCs another $40 billion. External debt tended to grow as the interest rate (international rate, including a typical spread above LIBOR) averaged 10% between 1973 and 1980, while nominal export growth from non-oil TWCs averaged 21%. But in 1981-1982 the interest rate rose to 16% while export growth averaged 1%. Hence the debt may usefully be viewed as the consequence of the shift from low or negative real interest rates in the inflationary 1970s to the high real interest rates of the early 1980s made worse by declining real exports during the global recession (Griffin-

Jones, 1985; Kohm, 1984; Mistry, 1988; Kohler, 1987; and Hussain and Diwan, 1989).

Some authors not only hold the above exogenous factors responsible for the crisis but also domestic forces, the most important ones usually being mentioned in the literature are overvalued exchange rates, inadequate domestic interest rates (which encouraged capital flight), government actions and corruption (or to put it succintly, fiscal irresponsibilities or misallocation of resources) (Cline, 1985; Weisner, 1985; Commonwealth, 1984; Kincaid, 19881; Khan, 1985; Watson and Dooley, 1989; and Hussain and Divan, 1989).

Against this backdrop several attempts were carried out to provide theoretical basis upon which policy-solutions could be formulated and implemented. For example in an attempt to locate the role of external finance in filling the domestic savings foreign exchange and human skills gaps Avramovic, 1964; King, 1968; Solomon, 1977; and Nowzad, 1981 used the Harrod-Domar growth model to cast light on debt-servicing capacity. The specification and estimation of their models result in countries going through various stages, i.e. from the position of young debtors to finally becoming mature creditors. In another development, attention has been given to the analytical derivation of optimality criteria (in the context of intertemporal optimizing model) for pointing out the sources of substainability problems especially in tackling the issue of how much a country should

borrow. Bardham (1967), Hamada (1969), Kharas and Shishido (1985), Zee (1988), Hanson (1974), Feeder and Regev (1975) and Kharas (1981) are examples. The first four works start their modelling by first of all maximizing in the framework of one or two sectors neoclassical growth model, an inter-termporal utility function. Then the optimal path for the economy is derived for a specified supply function of external finance. In a steady state along the optimal path, the marginal cost of foreign borrowing is then equated to the marginal cost of capital. This condition, given the supply function of external finance, fixes the optimal quantity of debt at each point in time. The remaining three works seem to be mere variants of the above-mentioned models. These models look at how borrower's strategy affects borrowing cost through creditworthiness effects. Borensztein and Aizenman (1988) provide an econometric model that attempts to identify conditions under which renewed lending may benefit both the developed and developing countries. Further, it evaluates how endogenous terms of trade, terms of trade between debtor and credit nations that are significantly affected by the financial flows between them affect the conditions for the existence of beneficial lending.

In an attempt to shed light on the debt issue, World Bank and IMF staff (1983) and Gajdeczka and Stone (1980) provide a conceptual exposition of what debt rescheduling means (and entails) and how the operation and expansion of the secondary market for developing country loans would help

to reduce debt and facilitate commercial bank debt restructuring. Along this line Corden (1988) provides a model that shows the existence of opposing incentive effects of debt relief and that the argument which posits that debt relief would increase the incentive of a debtor country to make an adjustment effect to invest thereby given the creditors the benefit of granting relief, could be valid in particular circumstances.

Similarly, Dooley (1988) provides a model that examines the possibility that market discounts on the external debt of many developing countries offer opportunities for debt countries to retire debt on favourable terms. It came out with the conclusion that buy-backs of external debt that are financed by sales of the debtor's assets generally do not generate increases in market prices of the debtor's remaining debt.

Up to this point, our attention has been focused on the demand side of external finance in the literature, especially on borrowers' characteristics and how they relate to the debt capacity. But in making judgements about the sustainability of policies regarding debt management, it would not be enough that a borrower's plans are consistent with his inter-temporal budget constraint. Supply conditions in the financial markets must also be considered, especially lenders' perceptions of the sustainability of borrowers' plans. What is more, the terms on which external finance is

supplied are likely to be influenced by borrower's behaviour and the debt capacity of a borrower will depend not just on interest costs but also on such factors as refinancing terms and the existence of quantity rationing. It is in this line that studies like Eaton and Gersovitz (1980, 1981a and 1981b), Sachs and Cohen (1982) and Sachs (1982) attempt to provide a perspective for understanding the institutional framework of international finance and how the financial vehicles chosen affect debt capacity and growth.

Another part of the literature is concerned with proposals to the debt crisis. Griffith-Jones (1985) has done quite a good job by evaluating different individual proposals put forward over the past two decades. Indeed given the large number of schemes that have been suggested the article pays much attention to those proposals which are seen as likely to attain the twin objectives of sustaining growth in developing countries and improving the resilience of the international banking system which seemed more feasible at the time of writing. The various proposals put forward can be summarized thus: TWCs should restructure their economy along the line of the reform programme suggested by the IMF and its sister institution, the World Bank; TWCs should seek for more net capital inflow via aids, grants and loans requisite for sustainable growth from the ICM and other sources.

The first measure which is supposed to make the "distorted" structures of TWCs economies more responsive to economic incentives includes various policy tools such as abolition of regulations or liberalization of foreign trade, devaluation of the exchange rate; domestic anti-inflationary programmes including control of the government deficit; curbs on spending, increases in taxes and prices charged by public enterprises, abolition of consumer subsidies; control of bank credit; higher interest rates and perhaps higher reserve requirements; control of wage rises, so far as within the government's power; dismantling of price controls; and greater hospitality to foreign investment.

The implementation of the second measure is supposed to enable debt-distressed TWC improve its creditworthiness thereby gaining the confidence of its creditors. Hence the TWC would be given more breeding space to turn its economy round via debt rescheduling, refinancing, privatisation and debt conversion programmes. This appears to be consistent with the conventional conceptualisation of the causes of as well as solution to the debt crisis.

However, this type of conceptualisation of the debt crisis has come under serious fire, especially from the radical political economy school. In fact this school is inclined to regard the factors considered by the conventional school as responsible for the crisis as being those that exacerbated rather than caused it. Payer (1974), Klochkovsky

(1984), Baskin (1985) and Korner (1986) liken the system via which the debt crisis operate to further tighten the grip of finance capital on the TWCs point by point to the peonage at an individual level.[14] The school also appears to be sceptical of the effectiveness of the conventional proposals to solving the debt problem. Of course the school admits that TWCs need structural adjustment but the way it perceives the structures of the TWCs and the means of achieving adjustment of those structures is radically different from that of the conventional school. Whereas the latter school talks of structures in the plural sense (its technical, demorgraphic, intra-enterprise, institutional forms) or empirical facts without really any interconnections, the former school sees the structures of an economy as being made up of the essential relationships between the basic elements that constitute it particularly those relationships that determine its character and direction of movement (i.e. its dynamics).

If anything, the above review of the literature create the impression that at least in theory TWCs have a menu of debt policy options from which individual country could choose the most viable ones in reducing its debt stock as well as avoid what is often referred to in the literature as debt overhang. But a second thought makes one to ask several questions regarding the entire debt strategies: Can TWCs have indigenous debt strategy or would the debt management policies to be put in place be imposed and monitored from

abroad? What are the likely policy implications of all this in the long-run growth and development of the TWCs? Examining and providing possible answers form the central focus of this study. However, we cannot hope to complete this task without understanding the nature of the debt reduction initiatives and strategies proposed by the various unilateral as well as multilateral bodies and agencies.

The world community over the past few years has witnessed a plethora of initiatives and strategies aimed at finding a lasting solution to the problem of indebtedness of the TWCs. Both national governments and the international multilateral institutions (IMF and the World Bank) have shown some concern. For analytical ease, these initiatives and strategies can be grouped broadly under two approaches, namely: formation of a debtors club akin to the credit Paris and London Clubs, and the menu approach (Olaloku, 1990).

The first approach has been advocated by some observers some of whoch include Taylor (1987), Griffin (19888), Okigbo (1989) and Oshilim (1991). The logic behind this approach is that unity of all debtor countries acting together as against the present case-by-case approach of negotiation with creditors would be more effective. But Olaloku (1990), Ojo (1989) and Ajayi (1989) argue that there is no strength in being a debtor club as the resulting unilateral repudiation of debts that would follow will not be without damage to and negative consequences on international trade and finance that

would certainly not augur well for the long-term interests of the TWCs. This perhaps rexplains why the approach has never received serious consideration in practice.

The other approach consists of a number of alternatives which are either aimed at "increasing" or "reducing" debts. Debts-increasing initiatives view the problem of TWCs debt as that of the inadequate financial resources for economic development and restructuring. Hence the call for rescheduling of existing debts and increased lending to the debtor countries. However, these proposals which were advocated for and applied to the latter during the early stage of the crisis proved ineffective. They were soon replaced by debt reduction initiatives and strategies which hinge upon the solvency problem of the TWCs.

From 1988 many proposals were put forward ranging from the creation of an international agency to buy over all the existing commercial debts at a discount to other market-based proposals made up of such schemes like debt-equity swaps, buybacks, exist bonds and securitization. Others include Baker Plan and its slight modification (Brady Plan), Lawson Plan, Nordic Plan (aimed at creating a trust fund for debt relief to be benefitted by poor countries) and World Bank's Special Programme for the distressed poor countries (Ojo, 1989; Hussain and Divan, 1989; Okigbo, 1989; and Olaloku, 1990).

Of more interest are the Miyazawa (Japanese) Plan which proposed officially-supported debt reduction before 1988 IMF-World Bank annual meeting in Berlin and the Mitterand Proposals which merely echoed the Japanese Plan at the Toronto Summit of 1988. However, this latter plan suggested an extraordinary use of special drawing rights (SDRs) through the IMF to support debt reduction for middle-income countries. In order to show that France was really interested in reducing TWCs' debt burden, President Mitterand forgave the country's public debt to some 35 low-income African countries.

However, the implementation of these plans has done little to improve the situation of the debt distressed TWCs especially the African countries (Taylork 1987; Hussain and Divan, 1989; Okigbo, 1989; and Olaloku, 1990). This seemed to have informed the OAU (1987) call for a cooperative approach to the African debt problem. It maintained that the creditor nations with the multilateral institutions should take account of the peculiar characteristics of Africa's debt situation. Though it acknowledges some of the positive impacts of SAP (such as the reduction of current account deficits) it still believes that the continuous hostile economic environment which the reform has rather entrenched limited the continent's efforts thereby causing a worsening of the debt-service burden in the region (?!).

However in order to take care of this, the OAU heads of state and governments proposed the following which incidentally are extensions and additions to the Venice Summit but with a difference: more cancellation of debts and allowing repayment of debts in local currencies, while softening the terms for officially guaranteed debts; the lowering of interest rates by commercial bank creditors; provision of more concessional loans by multilateral institutions and the adoption of their conditionality requirements to growth and development needs of African countries; lengthening of amortization periods while converting arrears in short-term debt into long-term loans; the adoption of individual and endogenous long-term adjustment reforms that would not only provide the right signals but redress the essentially lopsided structures of the TWCs.

* * * *

A survey of the debt literature on Africa and Nigeria shows that the focus of studies is on three basic approaches to the debt issue, namely: the growth-cum-debt modelling, indicator approach to debt capacity and the empirical approach. The growth-cum-debt is the traditional approach to the debt question. The emphasis has been principally on the use of external finance for investment purposes. Some studies take a non-optimizing approach and try to cast light on the sustainability of debt policies by inspection of the economy's projected path. Others using optimizing approaches identify the optimal debt level as that at which marginal

costs and benefits of using external finance are equalized. Also because the uses of external finance could surpass this investment and in fact be used to cater for consumption need due to fluctuations in income, considerable interest in this has been shown especially as it relates to the use of external finance in reducing costs of adjusting to permanent downward shifts in the economy's fortunes. This approach uses the fundamentals of Harrod-Domar and neoclassical growth models in specifying the relationships between external borrowing, domestic savings gap, foreign exchange gap and debt service.

The second approach attempts to empirically identify circumstances under which countries experience debt-servicing difficulties using as explanatory variables a group of external debt ratios and other economic indicators, such as debt service ratio, a reserves/import ratios, per capita GNP, the debt/amortization ratio, ratio of capital inflow to debt service, imports/GNP ratio, and export fluctuations index. In addition, this approach focuses on debt capacity from both borrower's perspective (primarily on borrower characteristics) and the lender's perspectives (supply of external finance to the TWCs). Suffice to say issues like the effects of rescheduling, refinancing, country risks feature prominently in the analytical construct of this approach.

Examining the debt capacity and problem issues in the Nigerian economy especially from the empirical side, it would appear that the most ideal approach would be to base such studies on the theoretical consderations as is wont to be the case with the afore-mentioned approaches. However, in much of the empirical literature on Nigeria less attempt has been made to provide rigorous theoretical underpinning, instead the connections are more directly made with traditional perceptions of the obstacles to development. For example Ubok-Udom (1978) examines the case of rationalization of the costs of external borrowing in the Nigerian economy without much regards to theoretical underpinnings. In a similar manner, UBA (1984), Ojo (1989), Okigbo (1989), Olaloku (1990) and Oshilim (1991) study the problem, causes and solutions to the Nigerian debt crisis since 1982 without first of all providing a sound theoretical base. Though Bangura's (1987) and Olusanya's (et al; 1989) method of conceptualisation of the issue at hand are slightly different (tney use the political economy approach) it can to a large extent be said that they have underplay the potency of theoretical underpinnings. In fact, even the studies on the most recent debt policy issues such as tne debt-conversion programme nave adopted the same approach (see for instance Okpechi, 1988; Bello, 1989; Ayodele, 1989; Philips, 1989; Olowononi, 1989; and Oshilim and Adidu, 1990).

Our quarrel with this approach is not so much that it fails to help in illuminating some salient issues pertaining

to the Nigerian debt crisis. No! In fact in most of the studies that utilize this approach some level of awareness regarding the intricacies inherent the crisis is shown. However, one expects that with the present state of the art such studies should have been couched upon sound analytical framework. This brings us to the next approach, the growth-cum-debt models which essentially starts from the analytical angle.

Because it is the most recent work in the literature which adopts the growth-cum-debt approach, we shall discuss Ihimodu (1985) in greater details. This implies that we consider it a good representive of this approach for a number of reasons that would soon become obvious. This study analyses the implication for a developing country like Nigeria of incurring external debts. Precisely, the paper is divided into five sections. Section II provides the theoretical justification (the need) for foreign resources. Section III discusses the role of external loans in the Nigerian economy, and Section IV analyses factors influencing the demand for external loans during the last civilian administration.

In a bid to do all this, the author specified his model by first of all maintaining that growth models such as that of Harrod-Domar which emphasise capital shortage tend to imply that the infusion of foreign capital would lead to growth. This is rationalised on the fact that capital is

scarce in developing countries, hence attempts to secure capital from outside are made in order to achieve some level of growth (foreign resources have the potential of augmenting the available domestic savings in developing countries).

So if a country has a specific target rate of growth it wants to attain and it so happens that there is a difference between planned investment denoted by Ip and planned saving (Sp) then a savings gap is said to be an indicator of the size of foreign resources required to achieve a planned growth rate. Symbolically, the savings gap is represented thus:

$$FR = Sg = Sp - Ip \quad \ldots\ldots\ldots \quad (1)$$

where $Sp < Ip$.

This inequality implies that insufficient domestic resources are available to support the desired level of domestic investment.

Another gap is likely to be present in the economy which often is referred to in the literature as the trade or foreign exchange gap. This gap is said to exist when import requirements exceed the import capacity, a peculiar feature of developing countries. This can equally be expressed as:

$$Tg = X - M \quad \ldots\ldots\ldots \quad (2)$$

where $X < M$ implies a balance of payment deficit.

The equilibrium condition between Sg and Tg is derivable from the national income indentities. Thus:

$$I + X = X + M \quad \ldots\ldots\ldots \quad (3)$$

where: $X - M = S + I$ ..... (4)

hence: $X - M = Sp - Ip$ ..... (5)

However, in most cases the likelihood that Tg = Sg is not there as even if a savings gap is not a problem but a trade gap exists a developing country cannot readily transform its domestic savings into foreign exchange. Hence there is always the need for foreign resources. So in general, developing countries demand for foreign resources including external loans is premised upon the ability of these resources to relieve the countries of the burden of scarce domestic savings and foreign exchange. That is, external resources can be used in a bid to buy time until domestic savings and foreign exchange can be increased.

Using this model, the study goes ahead to examine the role of external borrowing in the Nigerian economy and specifically the factors that influenced the demand for external loans during the last civilian administration. Indeed there is no denying the fact that the model has helped to condense the dynamics of Nigerian debt to some basic elements, and so gives clear insights into the mechanics of the process of the indebtedness itself. Also not to be denied is that the study has highlighted some possible sources of the Nigerian debt problems. However, the use of this model in conceptualizing Nigeria's external debt especially as used in this study is plagued with many analytical shortcomings.

One, the lack of parameterization of the model in the empirical study of Nigeria's external debt leaves many questions unanswered. How can we measure the savings gap in order to know the amount of foreign resources we need to fill the gaps? How can we infer the amount of resources the country is likely to receive from foreigner even if we know the magnitude of our Tg and Sg?

Two, of course it is evident that debt problems frequently have their source in overambitious government expenditure plans in Nigeria however, the model specified above which is an offshot of the Harrod-Domar growth model is based on some rather rigid behavioural and institutional assumptions. What is more, the model fails to capture one important fact; that in reality policy makers have more influence on fiscal parameters than the exogenously imposed institutional constraints.

Three, the model is specified within the non-optimizing frameworks. This has been the reason why it points to the sources of sustainability problems. However, it is not designed to tackle the issue of how much a country should borrow using the optimality criteria.

Lastly, the empirical relationship between domestic savings and external finance ought to have been seen in the context of the role that external finance is seen to play. The emphasis on growth driven by investment leads to the neglect of the role of external finance in achieving a more

efficient intertemporal allocation of consumption. Consideration of the requirements of intertemporal efficiency helps us to understand the negative relationship between savings and inflows of external finance which appears to the case in reality. All these are not taken account of in Ihimodu's model. We feel if Ihimodu had used a neoclassical specification which takes care of most of these criticisms more insight would have been got from it. (A good example of such a model is provided by Khan and Green, 1990).

As indicated earlier, another approach that has enjoyed patronage among studies on the country's debt question is the indicator approach. The most recent study utilizing this approach is Ajayi (1989). We shall consider the study as a typical representative of this approach. This warrants that we examine it in a fairly detailed fashion.

Going by its title, the study is supposed to provide a macroeconomic approach to Nigeria's external debt. It has as its objective the following: (1) to analyse trends in and causes of debt accumulation and servicing; (2) determine debt service ratios and debt servicing capacity; (3) calibrate a debt viability model and provide appropriate scenarios; and (4) draw policy implications from the above.

In providing the background to its model specification, the study identifies and categorises the causes of debt accumulation in Nigeria under two main headings, namely: external factors and internal factors. Specific factors

identified under the former include terms of trade, rising interest rates and growth in the industrialised countries. The problems posed by the external factors were exacerbated by the adoption of wrong macroeconomic policy. Two of such domestic policy errors that often occur are those attributed to fiscal irresponsibility and exchange rate misalignment.

Having provided the background, the study set out the model with the following general form:

DSR_I[1] = the debt export ratio or the debt GNP ratio

where

TOT = terms of trade

CGDP = growth rate of income in industrialised countries

FRRI = foreign

REER = real effective exchange rate index

EPY = fiscal position of government defined as revenue minus expenditures divided by the GDP/GNP

T = linear time trend.

In providing the justification adopting this approach as well as choosing the debt GNP ratio as the dependent variables, the study argues that while all other ratios are very important it needs to be pointed out that movements in debt to income and debt to exports of goods and services are the most relevant. For the most convincing evidence of ability to service foreign debt is the stream of foreign exchange a country earns. Besides the international lenders see the ratio of a nation's debt to exports as an important debt-burden indicator.

Before the estimation proper the study a priori expected a positive relation to exist between TOT, GCDP and DSR_I^1. Also an increase in REER and FRRI is expected to worsen DSR_I^1. Lastly T is intended to capture the influence of other factors on the DSR_I^1. The study uses various forms of the independent variables in estimating the equations. In all cases, the equations relating the debt ratios to internal factors only were estimated. Then the equations relating the DSR_I^1 only to external factors were estimated. Finally, the general equation incorporating both internal and external factors were estimated.

The result of the estimations show that when either the domestic factors or the external factors are estimated separately, the fit is generally lower than when all the external and internal factors are put together. In ascertaining the relative importance of the variables included in the equation, the Beta-coefficients were used. The conclusion is that the most important variable is the real effective exchantge rate in both equations.

Much as this study attempts to capture the effects of both domestic and external factors on Nigeria's capacity to service her debt obligations, we cannot help but to register our disagreement with the approach it adopts.

The justification provided for focusing on the debt service as an appropriate base with which the country's debt development should be compared is not analytically sound.

For these ratios have no necessary relationship to policy sustainability considerations. Besides, apart from measurement difficulties, it ignores other element in the overall balance of payments (such as capital flight) and the terms under which Nigeria can refinance maturity debts. It is frequently pointed out that historically, situations involving debt service ratios that were quite high have been successfully managed and that many countries have been in severe servicing difficulties with low ratios. What is more the debt service ratio has no direct link with the allocative efficiency of the economy. Ajayi (1989) model never show how debt service ratio can be used as a key variable in analysing the sustainability of policies concerning debt in the economy. Indeed, if this shortcoming were to be overcome some multidimensional evaluation procedures using a number of debt indicators as well as indicators of general economic performance and some relevant political variables ought to have been developed.

Another shortcoming of Ajayi's model that merits mentioning relates to the historical origin and development of the debt problem in Nigeria. This approach seems to lack the power to trace the origin of the debt problem and thus in the course of that raise fundamental issues relating to the historical development of the problem.

As if he is aware of the shortcoming of the debt literature on Nigeria we have pointed out above, though there

is no evidence to show in his paper. Raheem (1990) constructs an elaborate model that appears to provide an early-warning system for assessing and managing Nigeria's external debt problems. In spite of the fact that the paper does not provide the actual estimation of the model as it was supposed to be an interim report submitted to a workshop, the study if anything, has shown numerous important variables influencing external borrowing that can be captured in a single model.

The report appears to provide a model of capital flows that could simulate debt flows and the attendant debt service requirement, project the time profile of Nigeria's debt, supply answers to such question as how much foreign debt the country should contract over time, in what forms, on what terms, how to choose an optimal combination of external finance to suit Nigeia's economic objectives and assessing repayment capabilities. In addition, the model takes into account the issue of country risk which generally involved estimating the probability of debt restructuring due to country-specific factors in a probit or logit framework. Moreover, the study never dismisses the possibility of incorporating the model into Nigeria's economy-wide econometric model though it is claimed the model can stand on its own.

Drawing extensively from the works of Sachs (1981, 1984), Bardhan (1967), Blanchard (1983), and others, Raheem (1990) starts his analysis by considering the standard

borrowing problem facing a social planner in a typical small open economy: external loans available for a TWC is determined primarily by the amount supplied by other countries and financial agencies; borrowers have ready access to loans at a given interest rate; they enter the loan market to finance all investment projects with positive present value at the prevailing interest rate; they use loans to equals the marginal utility of consumption at various points in time; borrowers are extensively rationed in the international markets (they may be unable to obtain credit at any price, much less the posted market price).

Using a typical optimisation procedure with a two-factor and two-good neoclassical production function, the equation that implicitly defines an upper bound to borrowing was derived thus:-

$$\sum_{i=1}^{T} (1+r)^{-(i-1)} C_i \leq \sum_{i=1}^{T} (1+r)^{T-(i-1)} (Q_i - I_i) - (1-r_i) D_i \quad .. \quad (i)$$

where

Q_t = national output

Y^t = national income

C_t = total consumption

D_t = external borrowing

$(1+r)$ = interest rates on debt

T = t^{th} period of time

I_t = total investment.

However, manipulating equation (1) and moving from a finite to an infinite-horizon case, we obtain a very important equation thus:

$$(1+r)\ D_t < \max \sum_{i=t}^{\infty} (1+r)^{-(i-t)}\ (G_i - I_i) \qquad \ldots \qquad (2)$$

This equation states that in order for debt repayment to be feasible (for D_{t+1} not to exceed zero) indebtedness at any time must be less than national productive wealth, where the latter is defined as the maximum discounted value of GDP net of investment in the remaining period.

Raheem further argues that if the simplifying assumption that payment for amortization is a constant fraction θ (i=1, 2) of debt outstanding is made debt service payments, P can be represented by:

$$P = \sum_{i=1}^{2} (r^i + \theta^c)\ D^i \qquad \ldots\ldots \qquad (3)$$

where r^i is the interest rate and superscripts 1 and 2 represent official and private loan sources respectively.

Furthermore, if the equilibrium condition for international balance of payments can be specified as:

$$M = X + D - P \qquad \ldots\ldots\ldots \qquad (4)$$

where imports, M, can be financed by both exports, X and net transfer (D - P); Raheem argues that the above structure serves as the basis upon which the empirical specifications

of the model of debt and its repayment problem can be derived. Capital flows are then disaggregated into three major components, namely: outstanding loans from official creditors (OLOC); outstanding loans from private creditors (OLPC) and direct foreign investment (DFI) representing net equity capital flow from private sources.

The model then specifies that OLPC are explained by import flows (MGS_t), foreign exchange reserves position ($FEXR_t$) and the past level of short-term loans ($OLPC_{t-1}$). This is justified on the ground that capital flows from this service have been observed to aid finance trade. Thus:

$$OLPC_t = \alpha_o + \alpha_1 MGS_t - \alpha_2 FEXR_t + \alpha_3 OLPC_{t-1} + U_1 \quad .. \quad (5)$$

It should be noted that the inclusion of the lagged endogenous variable $OLPC_{t-1}$ is meant to test the hypothesis that foreign debts are self-perpetuating.

Similarly, the model specifies that long-term capital flows are explained by gross domestic product (GDP), terms of trade (TOT) and government deficits (GDEF). So, we have this equation:

$$OLOC_t = a_o + a_1 GDP + a_2 GDEF_t - a_3 TOT - U_2 \quad .... \quad (6)$$

Government deficits may be externally financed as economic growth might be constrained by shortage of capital so that an access to more financial resources from external sources will serve as a buffer in reducing the strains of such capital shortages (this happens when in drawing up a fiscal budget

the government sets a target on the extent to which the financial gap would be filled by external borrowing). This is the justification provided by the report on the specification of these equation.

However these two equations fail to capture a number of salient variables that to our mind influence both private as well as official loans to TWCs and especially Nigeria. For instance, it is widely accepted now that viewed from efficiency consideration the emphasis on capital inflow rather than ensuring that the existing underutilized domestic resources are effiecientiy and optimally used is empirically unjustified. What is more, from the country's development planning experience, external financing cannot be relied upon so the much attention given to it in the above specification is dubious. Furthermore, amongst various variables that influencd OLPC and OLOC in reality, the model seems to consider the economic ones as the most important explanatory variable, leaving aside other socio-political ones which from historical evidence at most times play more fundamental role in determining OLPC and OLOC. For example, the specification is silent on the effect of the political strings attached to loan disbursements on OLPC and OLOC.

Other important variable that are absent in the specification of OLOC and OLPC include interest differentials between domestic rates and the relevant Euro-market rate (LIBOR) and a variable to capture the effects of rescheduling

and refinancing exercises (as it is an empirical fact that these exercises determine to a large extent the willingness of the creditors to further disburse new loans to the debtor countries). Of course the omission of the first variable is recognised and justified by the author on the ground that hitherto administered interest rates are largely influenced by the country's balance of payments position rather than by the supply and demand forces in the negligible domestic apital market. But we are of the opinion that the variable plays crucial role in influencing OLOC and OLPC especially from 1986 when the economy was deregulated.

The next equation specified in the model is that of direct foreign investment (DFI) in the country. This is rationalized on the fact that it is beginning to be accepted in the literature that the debt crisis TWCs are facing is awakening their interest in encouraging DFI: the poorer countries need additional foreign capital to finance economic growth, but do not desire to add more loans that call for fixed schedules of repayment. The flexibility inherent in dividend and capital repatriations makes foreign equity investment more attractive than it has been in the past.

So the size of the market for which population size (POP) serves as a proxy and the degree of openness of the economy (DOPEC) are assumed to be the most relevant explanatory variables that best explain direct foreign investment. A dummy variable QA is added to show the effect

of indigenisation effort on direct foreign investment flows. Thus:

$$DFI_t = g_o + g_1 POP + g_2 DOPEC - g_3 QA_t + g_4 DPI_{t-1} + U_3 \quad .. \quad (7)$$

From the rationale given above for the specification of the DFI_t one can begin to see flaws in the reflections of these processes. One, it fails to show that in most cases TWCs are forced to allow the inflow of FDI by external forces especially the foreign creditors. No variable that can explain the impact of this or the entire process is included in equation seven. Another quarrel we have with the DFI equation relates to capital flight. Experience of most TWCs shows that not only the openness of the economy but the extent to which capital can be maximally repatriated out of a TWCs determines the willingness of a foreign investors to invest in that economy. This has not been captured by the equation. In addition, other socio-political variables that greatly affect the inflow of investment which even economic theory recognises (such as political instability, possibility of nationalisation etc) have conspicuously been eliminated in the equation. Needless to say, the dummy variable included in the equation, QA_t has serious shortcoming. Though the specification recognises this important event in the economic process of Nigeria, the dummy cannot actually capture the various intricates of the indigenisation effort and their attendant effects on DFI. For how can QA_t capture all the implications of the dubious deals stroke by foreign investors

and their domestic accomplices in the equations. Certainly such anomalies which have serious implications for debt accumulation and economic progress of the country both in the short- as well as the long-runs cannot be quantified let alone capture in an approach that utilises econometrics!

The model further specifies stochastic equations for amortization of foreign debts as well as interest payments. Cumulative level of past debts, the current account position (BOC), average interest rate structure on debt (AIRTEL) and the level of foreign exchange reserves (FEXR) appear to be the major factors that determine the debt service efforts of the authority. Incidentally this applies to repayment of loans from private creditors (RPLPC) as well as from official creditors (RPLOC). Thus:

$$RPLCPC_t = K_o + K_1 DLPC_t + K_2 AIRTEL_t + K_3 BOC_t - K_4 FEXR_t - K_5 QC_t + U_4 \quad \ldots\ldots\ldots \quad (8)$$

and

$$RPLOC_t = M_o + M_1 DLOC_t + M_2 AIRTEL_t + M_3 BOC_t - M_4 FEXR_t - M_5 QC_t + U_5 \quad \ldots\ldots\ldots \quad (9)$$

A dummy variable QC representing unilateral moratorium on debt repayment is added in the above two equations. This is justified by the Federal Government's decision to peg the amount of foreign exchange allocated to debt service to a certain limit without giving regards to the full contractual obligations that go with it. This happens when a debtor country is unable to service fully its debt portfolio as at when due.

Another equation specifying interest payments on total external debt (ITTED) is given. ITTED are explained by cumulative total external debt (TOEL), average interest rate on total external loans (AIRTEL) and foreign excnange earnings from the export of goods and services (XGS). Thus:

$$ITTED_t = d_0 + d_1 TOEL_t + d_2 XGS_t + d_3 AIRTEL_t - U_6 \quad \ldots \qquad (10)$$

Other definitional equations were provided especially those relating to foreign exchange reserves (FEXR), maturity structure (MTEL), grace period etc.

Finally, the report attempts to provide an econometric model that can be used to project when Nigeria is likely to face repayment and rescheduling problems. The model starts by letting N^D denote demand for new foreign loans, N^S denoting supply and L* denoting a limit on arrears which triggers off a rescheduling. Desired arrears can be defined to equal excess demand for loans. Thus:

$$A^* = N^D - N^S \qquad \ldots\ldots\ldots \qquad (11)$$

So observed net debt (N), observed arrears (A) and an indicator $\delta = 1$ if rescheduling and $\delta = -1$ if otherwise, are given by these regimes:

1. Excess supply: $A^* <$, $N = N^D$, $A = 0$, $\delta = 1$.
2. Moderate excess demand: $0 < A^* L^*$, $N = N^S$, $A = N^D - N^S$, $\delta = 1$.
3. Large excess demand: $A^* > L$, $= 1$.

The model has the power to forecase by specifying tne distribution of components of N^D, N^S and L* not observed by the analyst, and the functional form and dependence of the systematic components on observed variables. This can be done by utilizing logistics or normal yields logit or probit models of repayment problems or of reschedulings.

Lastly, a word or two is supposed to be said regarding Raheem's choice of the above model specification. He chooses to use linear method in specifying his equations (especially equations three through to ten) without actually providing a justification for that. Is that suppose to mean that all the processes involved in the debt issue can be captured by this simple linear specification? Evidence on the ground and even intuition seem to suggest the contrary.

* * * *

In view of the critical review of the literature we carried out above especially on Nigeria, we feel that Raheem (1990) stands out as the most elegant and elaborate attempt ever made in this to conceptualize as well as carry out empirical study (as far as econometrics is concerned) of the debt problem in Nigeria, for it seems to have recognised and even incorporated the shortcomings of hitherto existing studies. However, it is evident from our critique in the previous paragraphs that it is, itself, not devoid of serious shortcomings.

It therefore becomes relevant that in order to ameliorate all these shortcomings, that is, if at all we hope

to marry theory with reality especially in dealing with a policy issue like external debt, we need to adopt a different method of conceptualisation or at least modify the one used by Raheem. This position can be justified by the fact that a more comprehensive treatment of the Nigerian debt problem requires the utilization of economics, politics and history. Moreso, it has already been pointed out that restricting ourselves to the use of econometric modelling in conceptualizing the whole gamut of processes involved in the matter is quite inadequate.

Of course, we are not denying the fact that econometric modelling is at time more relevant in conceptualizing and even providing projections to certain socio-economic problems and phenomena, but rather we are maintaining that the debt problem as it is on the ground today, requires the utilization of method that is more all-embracing than the econometric approach. This is however not to say that the power of analytical framework as the foundation upon which our empirical study should take off has diminished. In fact it is in the spirit of this that we shall presently specify the model to be used in our study.

2.3 MODEL SPECIFICATION

1. Our model specification should start with provision of a clear insight regarding how to perceive the essential

structures of the economy, especially the nature of the economic base (precisely the social and technical relations of production) and the superstructure and their dynamics. We share the categorisation as well as characterisation of the Nigerian system provided by Williams (1976), Turner (1978) and Onimode (19884).

2. Nigeria, since the inception of colonialism, has been a monocultural economy. This makes it prone to the vagaries of the world market for its export commodities. Hence whenever there is a fall in the price(s) of the commodities exported, or a fall in demand for them, the economy experiences temporary cash flow problem: so the desire to achieve accelerated growth and development, the economy is sometime forced to seek external loans both from private as well as official sources. In the process of insuring these loans against possible risks the government is forced to play an increasing role in providing guarantees on such loans contracted. Coupled with the need to amortize as well as service these loans the government is made to consider the debt matter as one of the most important policy issues. Hence the government is shouldered with the responsibility of putting in place policy measures that would make a frontal attack on the problem.

3. Creditors on their own part do not consider themselves as financial attruists. Of course when talking about aids and grants the erroneous impression is often

created that donor countries are dishing out funds at almost zero costs. But in actual fact, this kind of capital inflows has political as well as economic strings attached. So it is safe to maintain that the relationships existing between the debtor countries (recipients) and the creditors (the lenders) are based strictly on business. This is irrespective of the kind of contractual agreement involved. Furthermore, the interest s of foreign creditors, foreign industrialists, businessmen/women and countries appear to be the same: all are interested in repatriating capital, either in the form of profits, interests, patent fees, consultancy fees etc, as much as possible from Nigeria. In addition because of the fact that the creditor nations and other economic agents in the advanced countries have virtual monopoly over capital and technology most of the terms regarding contractual agreements in the capital market are determined by them.

4. Being that loans from private as well as official sources are influenced by such variables as imports, foreign exchante reserves position, gross domestic product, terms of trades, government deficits and other socio-political variables the Nigerian economy is responsive to any shocks likely to be experienced in either the world commodity and capital market or in the administrative centres of the donor/ lender countries. Another variable closely related to the above ones is direct foreign investment. Owing to the fact that in most cases recipient countries are forced to show more hospitality to the inflow of direct foreign invesdtment

(if at all they are to enjoy continuous flow of new loans and have the debts that fall due rescheduled), the ability of the recipient country to service and amortize its outstanding debt might be greatly hampered. This is so because from experience of most Latin American countries direct foreign investment never in most cases augment the development efforts of the recipient country but rather furthers and complicates capital outflow. Indeed in some cases it aggravates the social and political tension in the recipient country (Payer, 1974).

5. When debt problem reaches a critical level especially when a debtor country is unable to generate enough foreign and domestic resources to service as well as pay off its outstanding debts as they fall due, crisis policy measures are put in place. The most popular measures are rescheduling, refinancing and debt conversion programme. Rescheduling and refinancing are suppose to give the recipient country some breathing space to enable it garner enough momentum so that it can adequately live up to its debt obligations in the future. The answer to whether this is possible with a typical underdeveloped country like Nigeria is to be sought by this study. The debt conversion programme is supposed to help the debtor country reduce its debt stock as well as debt service burden by converting some portion of the debt outstanding into equity shares and other viable projects. However, experience with this policy measure seems to suggest that other long-term issues bordering on economic as well as political sovereignty are involved.

6. The examination of the probability that the success of repayment and rescheduling exercises can be done either by the mathematical or the historical method. Though the former uses mathematical logic and precision, it nevertheless has serious shortcoming (some of which we have pointed out). The historical approach appears to be better because it seeks to utilize all available materials ranging from economic, social to historical facts

7. Debt crisis is distinguished in the study from debt trap. Debt crisis is the unwarranted socio-economic situation that emanates from the ill-workings of an economy exacerbated by the country's inability to service as well as amortize its outstanding debts as they fall due. This could be a short-term problem which may require elemental or fundamental effort in going round it in a short while. Debt trap on the other hand is a situation where a country finds itself further getting deeper into the abyss of debt crisis. Here the indebtedness is self-perpetuating. This implies that with each passing year the policy measures put in place to help turn round the economy as well as solve the debt crisis further push the country into the debt problem. Appraising the various debt management policies put in place by any TWC like Nigeria with the aim of determining whether the debt crisis can be avoided thereby preventing the economy from falling into the trap can certainly only successfully accomplished without using a more all-embracing method - the historical method.

8. It is from this point that we shall begin to examine Nigeria's debt management policies put in place between 1982 and 1990.

2.4 END NOTES

1. By conventional framework, we mean the methodological and methodical approach to economic theorising used by bourgeois political economy-Economics.

2. Domar (1947); Harrod (1948); Solow (1956); Swan (1956); Phelps (1961); Cairncross (1962) and Garba (1989).

3. It is a common place in the literature to find the most frequently cited works as being: Lewis (1954); Fei and Ranis (1964); Jorgenson (1961, 1967).

4. He says, "... even the modest acquaintance with history shows that underdevelopment is not original or traditional and that neither the past nor the present of the underdeveloped countries resembles in any important respect the past of the now developed countries. The now developed countries were never underdeveloped though they may have been undeveloped..." (Frank, 1969, - 104).

5. Griffin argues that "the general neglect of agriculture and the bias in favour of industry which until recently have been such a notable feature of development policy, stem directly from these model..." (Griffin, 1969b).

6. In fact, even a large number of detailed economo-metric studies has shown beyond doubt that this assumption is untenable. See Griffin, 1969b, pp 77-90.

7. Griffin's position is premised upon the simple fact that there is no evidence to show that this prediction is generally correct: "It has been demonstrated that in not a few countries the growth of national income per capita, the level of rural wages, the expansion of agricultural output, the evolution of employment in industry and the behaviour of the aggregate savings and investment ratio have differed markedly from what the theory would lead one to expect. In almost every conceivable way the theory fails to conform to the reality of a great many underdeveloped countries... in many respect this theory of growth and development is curiously static and a-historical... One cannot even begin to analyse these problems if the conceptual frame-work being used is one of static, unchanged, constant "subsistence" income and "traditional" institutions, values and modes of behaviour..." (Griffin, 1969a, p 30).

8. The existence of this gap is associated with the prevalence of the so-called structural rigidities in the TWCs.

9. In an attempt to explain history, traditional economics was led to become first and foremost, an algebra of logical deduction from a certain number of axioms based on a sketchy psychology of some "economic man" called rational economic agent. It thus forbids itself from the outset to raise the question of the dynamics of the system (the transformation of structures), and it even excludes from its field of study, calling it a matter for historians. It also forbids itself to raise the <u>real</u> question of "underdevelopment" or how it began historically (Amin, 1974). For more flavour of this theme, see Hunt and Schwatz (1973), Nore and Greene (1979), Streeten (1970) and Hutchison (1977).

10. Marx (1986) stated in his prefaces and forward of the German and French editions thus:

> "In this work I have to examine the capitalist mode of production and exchange corresponding to that mode. Up to the present time (1867), their classic ground is England. That is the reason why England is used as the chief illustration in the development of my theoretical ideas...
>
> "The social statistics of Germany and the rest of continental Western Europe are, in comparison with those of England, wretchedly compiled. But they raise the veil just enough to let us catch a glimpse of the medusa head behind it..."

11. This can be read from statements like: "Since the prime problem for capitalism is not to produce but to sell, capital moves towards countries and reigns where there are extensive outlets and expanding markets, that is where the population standard of living is high"; and "We begin with the end, with creating a market actual or potential which is sufficiently large. In this way capital is attracted, and the corresponding consumer goods are produced... What has especially shocked people in my thesis is this idea that excessive unproductive consumption may not only impoverish but even enrich a capitalist country" (Emmanuel, 1972, p 82). Amin (1974) reached similar conclusion.

12. Lenin (1970) seems to have disposed of the arguments of the centre-pheripherists when he says: "There was formerly an economic [illegible] the colonies and European peoples - at least, the majority of the latter - the colonies having been drawn into <u>commodity</u> exchange but not into [illegible]<u>ction</u>.

Imperialism changed this. Imperialism is among other things the export of capital. Capitalist production is being transplanted to the colonies at an ever increasing rate. They cannot be extricated from dependence on European finance capital... In commodity-producing society, no independent development, or development of any sort whatsoever, is possible without capital. Europe and the dependent nations have both their own capital and easy access to it on a wide range of terms. The colonies have no capital of their own, or none to speak of, and under finance capital no colony can obtain any except on terms of political subordination" (p 129).

13. Whereas the international liquidity problem refers to the inability of a country to service debts now in the amount initially contracted, solvency crisis relates to the question of whether the value of a country's liabilities exceeds the ability to pay anything (Ajayi, 1989; Dornbusch, 1986; and Aliber, 1980). When examined closely a solvency problem would mean that the real interest rate on the marginal external loan exceeded the increase in national income made possible by this loan. A liquidity problem would, on the other hand, mean that the borrower would be unable to obtain the foreign exchange to make the debt service payments on schedule. Combining any or all of this with the argument on structural rigidities as it relates to the problem of the country's lack of capacity to absorb and efficiently utilize new net inflow of capital, we can see how neatly the explanation of the debt crisis fits into the Gap thesis.

14. In the peonage or debt slavery, the worker is unable to use his nominal freedom to leave the service of his employer because the latter supplies him with credit necessary to supplement his meagre wages. The aim of the employer/creditor/merchant is neither to collect the debt once and for all, nor to starve the debtor, but to keep the labourer, rather permanently indentured through his debt to the employer. The employee has no hope of earning his freedom with low wages, which do not keep pace with what he consumes, let alone the true value of what he produces for his masters. In like manner, nominally independent TWCs find that their "debt" and their constant inability to finance current needs out of imports keep them tied by a tight leash to their efforts to set up in business for themselves. It is debt slavery on a global scale. If they remain within the system, the debtor countries are doomed to perpetual "underdevelopment", or rather to development of their exports at the service of MNCs at the expense of development for the needs of their own citizens (Payer, 1974).

15. For example, Payer (1974), Nowzad (1980), Kincaid (1981), Hope (1983), Betz (1986) and Hemmer (1986). Others include Korner (1987), Mistry (1988), Taylor (1988), Helleiner (1989), Hussain (1989), Green (1989), Olukoshi and Olusanya (1989), Green and Khan (1990) and Zehender (1990).

CHAPTER THREE

REVIEW OF THE DEBT MANAGEMENT POLICIES(1982-1990)

> "The standard prescription... for a payments crisis is for a combination of devaluation with deflationary monetary and fiscal policies... if the prescription is followed by the country is usually rewarded with more generous extension of new credits and, where needed, a rescheduling of the old ones..." - C. PAYER (The Debt Trap, 1974).

3.1 INTRODUCTION

The period 1978-1982 is considered by the majority of writers on the Nigerian economy as a critical one.[1] For by 1981, it became obvious that the economy cannot insulate itself due to its social structure from the global crisis of production and reproduction which emanated from the workings of the international capitalist system in the 1970s. At the domestic front, this crisis manifested itself in onerous forms: overdependence of the economy on oil and the attendant repercussions which is most often than not worsened by inflation, underutilization of capacity, unemployment, mismanagement, black marketeering and smuggling, BOPs crisis, etc.

Between 1977 and 1979, revenue got from petroleum accounted for 72.9 per cent of total federally collected revenue and between 1980 and 1982 the proportion remained slightly the same (i.e. it accounte for 72 per cent). This

fluctuation in oil revenue affected movements in aggregate revenue quite significantly. For example when petroleum revenue fell by 25.1 per cent in 1978 aggregate revenue fell by 88.3 per cent.[2] In the subsequent two years, aggregate revenue shot up by an average of 43.8 per cent due to the increase recorded in petroleum revenue. However, in 1981 and 1982 petroleum revenue fell by roughly 50 per cent whereas total revenue nose-dived by 33 per cent. It is pertinent to note that though non-oil exports exhibited meaningful gains during the period, these gains were so insignificant that they could not cushion the adverse effects of the vicissitudes of the oil market on oil revenue in 1978, 1981 and 1982.[3]

In this period, too, the problem of low productivity became pronounced as it affected almost every sector of the economy. In the agricultural sector it affected lall types of activity and the consequence was the inability of the nation to feed itself, hence the increased reliance on food imports and the attendant drastic depletion of foreign exchange reserves; and the reduced capacity to produce raw materials for local manufacturing industries.

The manufacturing sector was not left behind in this regard either. The local value added of many industries was very low. What is more, such industries found it difficult to sustain their production capacities due to shortages of raw materials and essential spareparts. This situation was

worsened by the variations in fiscal policies especially those associated with protection through import restrictions in 1978 and 1979 and of course increased smuggling activities.[4]

Low productivity, decline in business prospect and lack of new opportunities combined to exercebate the cancerous problem of unemployment. Though most of the unemployed did not care to register with the Ministry of Labour, Employment and Productivity, virtually all indicators used in delineating the trend of unemployment seemed to show the seriousness of the problem in the period under study. For instance, the statistics on lower grade unemployed shows that during the period 1977-1982, the highest annual percentage increase in registered unemployment was the 42.3 per cent recorded for 1982. In 1982, registered unemployed school leavers alone rose astronomically by 76.5 per cent over the figure for 1981.[5] However, the problem was not restricted to lower grade workers and primary/secondary school leavers. Graduate unemployment had added a new dimension to the problem though no proper quantitative account was taken by the Ministry.

Another manifestation of the crisis was inflation. Using 1975 as the base year, the composite consumer price index (CCPI) recorded a 16.6 per cent increase between 1977 and 1978. The index rose by 11.8 per cent for the period 1978-1979, 20.8 per cent and 6.5 per cent for 1980-1981 and

A crisis of this magnitude cannot properly be measured or resolved without an objective understanding of what essentially make up its basic features and mechanics.

In view of the fact that the conceptualisation of the causes of any crisis arising from specific positions, class interests, relationships and historical formations, besides laying the basis upon which policies are formulated and implemented (and serving to justify/legitimise them) it would be worthwhile to examine the causes of the crisis as perceived by the administrations that ruled the country. This is the surest way we can hope to establish a meaningful basis for understanding the essential characteristics of the crisis and the solutions proffered so far so as to help us work out and implement correct strategies and programmes to ameliorate the crisis.

In this regard, we set out to examine the genesis of the debt problem and the debt management policies put in place since 1982, starting from Shagari administration down to the present (Babangida) administration. As we cannot divorce the debt crisis from the overall socio-economic crisis, an attempt shall be made to examine the debt management policies, locating them within their rightful historical perspectives.

3.2 THE NIGERIAN ECONOMY: 1978-1983

3.2.1 Shagari's Economic Recovery Programme

By the time Shagari administration was about two years old, it had become clear that the Nigerian economy was under serious strain even though the president and his economic adviser, Edozien tried to belittle the dimension of the crisis. The inflow of foreign exchange had started drying up, the outflow had exploded due to the sag in the price of oil in the international market, the BOPs was showing signs of precariety and deficit financing had assume disturbing proportion.[9] These problems became more acute in 1982 and the subsequently year.

As for the causes of this crisis many views have been put forward by various authors and establishments. The National Party of Nigeria's (NPN) government and the leaders of the other parties identified the oil glut and the world capitalist recession as the cause of the crisis. Others especially the political rivals of the NPN, although they accepted the position of the Federal Government, argued that the dwindling oil revenue was "mismanaged". The quarrels over contracts and the shout for "equal opportunity" show clearly that the position of the rivals was: if contracts were more equitably distributed amongs the various interest groups the crisis would have been minimal.[10] In fact Dr. Azikiwe went to the extreme to argue that a more developed capitalist system backed by state welfare would eliminate the payments crisis of the Nigerian state.[11]

In view of this temporary policies were put in place. This was the modification in the stance of monetary and fiscal policies for 1982 which called for the promulgation of the Economic Stabilisation (Temporary Provisions) Act 1982 and became effective from April 20, 1982. This Act provided for, inter alia, compulsory advance deposits for most imports and an upward adjustment in the interest rate structure. Almost all the provisions of the Act had been embodied in both monetary policy circulars 15 and 16 of the CBN in April 1988 and January 1983 respectively. These measures were designed to improve the BOPs position and also revamp the economy through self-reliance and curtailment of frivolous imports.

Some of the specific policies pursued include the continuation of the rural banking programme, Green Revolution and anti-smuggling measures. But these policies were restricted to ensuring fiscal discipline of the government expenditure and injecting sanity into the BOPs position, and so the economy still faced the problem of general liquidity as the inflow of foreign exchange via oil exports was hanstrung by vicissitudes of the oil market. The government therefore saw itself as having no option other than to make recourse to massive borrowing from imperialist banks and other financial institutions, so much so that by March 1983 Nigeria had accumulated massive external debt as shown in Table 1.

By the end of 1982 fiscal year, it had become clear that the execution of the eight-month Economic Stabilisation measures instituted in April 1982 were not resolving the crisis. The tightening and curtailment of government expenditure and foreign exchange disbursement were rather leading to foodstuff and other essential commodities shortages, unemployment, undercapacity utilisation and inflation. It was in response to this that a committee of experts with a term of reference of reviewing the economic problems facing the country and proferring immediate and long-term solutions was instituted in January 1983. This committee known as the National Economic Council made up of special advisers, commissioners, permanent secretaries and other officials from federal and state governments. The committee was chaired by Dr J.S. Odama, one of the economic advisers to President Shehu Shagari.

A report known as the Odama Report was submitted to the government on February 1983. The Federal Government then issued a white paper concerning the wide range of recommendation by the Report in June 1983.[12] It is interesting to note that the government's position on the recommendation differed considerably from that of the Council. In fact, the most important points raised by the Council were either deliberately jettisoned or diluted with more trivial emphases by the government especially regarding what the Council considered as "fundamental structural adjustments". Further, when we compare the perception of the

nature, causes of and solution to the crisis of the Council with the actual policies put in place as enunciated by the government, we find a great divergence. This is what the Council had to say:

> "The Economic Stabilisation measures of 1982 and 1983 are primarily crisis management package. We recognize and accept the rationale and circumstances of the thrust of the measures... and it is our belief that a medium- and long-term solution to our economic problem would require more than policies directed towards our immediate crisis. Our fluctuating economic fortunes in the last decade or so is a pointer to the vulnerability of our mono economy. The economy is too fragile and hardly responsive to policy decisions within the system because of the dominance of the external sector. This character makes planning and plans ineffective because the dominant parameters in such plans are usually only sensitive to exogenous factors outside the country of policy makers."[13]

And:

> "This painfully explains the limitation of our current policies directed towards the recession. We believe that what the economy needs is a fundamental structural adjustment directed primarily towards self-reliance"[14] (our emphasis).

The Council believes that the basic strategy for this adjustment includes restructuring of the economic activity through improved incentive system, priorities in government budgetting through improvement in planning and control systems. Also greater fiscal discipline, disengagement of the government from commercial business, more internal revenue, production of local raw materials and food production etc, must be given priority.

Furthermore, the report does not share in the granting of a cover-excuse to the private sector which was allowed to play its actual role and the myth of the neglect of the agricultural sector.[15]

It seems the Shagari administration neglected all these fundamental issues raised by the report. Even if it is accepted that the administration had accepted the position of the Council, it abandoned it when it started its second tenure-in-office. This can be clearly seen from the economic programme set out by the administration as contained in Shagari's speech of 29th December, 1983. This speech contained the basic elements of the programme:

> "Given our present financial situation and the trends in the demand for oil, it is clear that a structural adjustment of the economy is imperative. To this end we have taken a hard look at the level and nature of Government expenditure. The 1984 Draft Estimates have been prepared to reflect this need. Secondly, I have directed that all government projects be classified into "core" and "non-core" categories. This is meant to establish priority rating of each project in the light of our present circumstances... Other measures being taken include diversification of revenue sources, reviewing the strategy of agricultural production so as to attain self-sufficiency in basic food and industrial raw materials; divesting Government of some holdings in selected corporations and companies..."[16]

And the part of the speech that most interest us is:

> "... During this period Government intends to secure a structural adjustment loan from the World Bank and a balance of payments loan from the International Monetary Fund. This is in

> addition to the rescheduling of our short-term trade debts recently concluded... out of the estimated foreign exchange earning of N8.562 billion during 1984... N300 billion will be utilised in servicing our external loan committments..."[17]

Though the Shagari administration did not last long to see this set of policies implemented, it nevertheless provided the basis for the economic policies of the then incumbent military regime.

3.2.2 External Debt Management Under Shagari Administration

By now it should be obvious from the above discussion that for the nature and causes of Nigeria's external debt crisis to be fully grasped, a knowledge of the background to the economic crisis of 1977-1983 especially as it manifested itself in the BOPs crisis and addictive debt accumulation is needed. Suffice to say that it was the self-perpetuating prevalence of these two phenomena as they operate within the essential structure of the economy that led the economy into the first serious debt crisis.

Many researchers on the Nigerian external debt would want us to believe that the debt management in the true sense of the term under the Shagari administration could not be regarded as "constructive debt management". This position is justified by the fact that debt management options such as debt-securisation, debt buyback, partial/complete debt forgiveness etc, were not considered as viable means of

reducing the stock as well as burden of Nigeria's debt. Afterall the reckless abundance with which Nigeria kept on borrowing from the external sources coupled with the inefficient way such borrowed capital was put to use was quite unprecedented.

We disagree with this position for a number of reasons. One, the continued accumulation of debt between 1978 and 1982 seems justified considering the rationale for external borrowing provided by the conventional school: for a crisis-ridden economy to generate enough growth potential to service as well as amortize the principals, refinancing through further borrowing is necessary. Two, until 1983 the relative size of the debt outstanding and service was considerably manageable; and three, debt management options such as those mentioned above which are popular today, did not appeal to Nigeria's policy makers as the debt situation did not warrant that. It is perhaps instructive to mention that only two debt management options, rescheduling and refinancing were popular during the period. Available evidence has shown that Nigeria had not left them unutilized as will become apparent soon.

The requirement of huge public expenditure to provide contracts, loans and foreign exchange to business enterprises and import, foreign inputs such as raw materials, spare parts and machinery for industry by the Nigerian political economy coupled with the roisy oil exports in the 1970s leading to

credit worthiness improvement and the readiness of ICM to lend "liberally" led the Obasanjo administration to obtain a Euro-dollar loan of US $1 billion. This loan was intended to finance a number of public sector projects some of which include pipelines, storage tanks, refineries at Kaduna and Warri, cement factories, pulp and paper mills at Jebba, Calabar and Iwopin, sugar projects at Savannah and Sunti Lafiaji, iron and steel plants at Ajaokuta and Warri and ports development.[18]

Like most capitalist crisis of production and reproduction, the 1977/78 crisis was in the actual sense short-lived. It did not therefore dictate for any refinancing of the short-term trade arrears. Hence the debt problem was not really very serious, moreso by 1979, the oil sector had picked up again with the price rising to $40 per barrel in 1980/81.

However, because the Obasanjo administration's austerity measures did not properly address the issue of the structural dependence of Nigeria's industrialisation strategy, the gilded rosy picture of the oil sector led the Shagari administration to increase imports which exposed the economy to crisis and debt.[19] To make matters worse the latter embarked on massive and reckless borrowing between 1980 and 1983 from ICM. Both the Federal as well as the State arms of the Government were involved in this connection.

Under the Shagari administration, many tricks were employed in creating the atmosphere by foreign financiers, export credit departments and Nigerian authorities for further long-term borrowing. For instance, though part of the costs (such as local labour and raw materials) were paid in Naira the percentages of the foreign finance cost of project were astronomically raised to as high as 90 per cent or 100 per cent.[20] The Awoniyi Commission of Inquiry into contracts in Niger State came out with astonishing revelation especially concerning the ₦100 million Bi-Water (UK) Limited contract to provide water treatment plants for forty-five towns in the state. The contract had a 90 per cent foreign exchange component. By the end of 1983, Bi-Water had received 95 per cent of its payment though only one-ninth of the work had been done.[21]

Closely associated to the above trick is the trick of inflating front-end fees or management fee used as a substitute for the skyrocketing of interest rate charges on the total loan and also fraudulent practices regarding foreign exchange associated with the trade credits.[22] No wonder Oladele Olashore argued in 1985 that the country got not more than one-quarter value for its imports bill because of fraud and other finance charges on such imports. This assertion seemed to have been corroborated by the National Export Committee Report.[23]

Over-invoicing and non-shipment of the actual goods for which lines of credit had been opened in the CBN by foreign banks, suppliers and domestic commercial banks and public establishment with the connivance of CBN officials and the custom departments, were used in transferring huge sums of money abroad. Johnson Mathey Bank affairs lends credence to this.[24]

Debt management under the Shagari administration encountered many troubles one of which was the lack of confidence in the determination of the value of the country's external debt ever since the crisis was officially acknowledged.[25]

Though there has not been an authentic determination of Nigeria's external debt during the period under consideration one thing remains uncontestable, namely the structure of the debt portfolio changed and the debt burden increased. The first two decades after independence saw the external debt portfolio being biasedly structured in favour of multilateral institutions and bilateral sources of loan. But by the 1980s the debts owed to the ICM have occupied a strategic position in the portfolio. For instance, in 1982 ICM debts accounted for 62 per cent of the total debt, 50 per cent in 1983, 35 per cent in 1984 and 54 per cent in 1985. In addition, the unrefinanced trade arrears have similarly shown signs of increase. They rose from 39.2 per cent between 1982 and 1983 to 97.3 per cent between 1983 and 1984. This is not to say

World Bank and other bilateral loans have not grown earlier than 1980s. They indeed had; but they actually lost the leading position in the debt portfolio in the 1980s (see Table 1).

The implication of this sudden portfolio change for debt management is: by their very nature trade credits have short-term to maturity and by implication are unconnected with the utilisation of the commodities involved in the trade agreements. The same applies to contractor/supplier credits and loans from the ICM. In other words in spite of their short- and medium-terms to maturity, they have no relation to the actual performance of the projects for which such credits are taken in the first instance. Worst still they have variable interest rate charging usually fixed around 1 per cent and 1.5 per cent of the London Inter-Bank Lending Rate (LIBOR) or American Prime Rate with a ceiling bond of between 8 per cent and 18 per cent. But what is more worrying is repayment of these types of credits and loans starts before the projects begin to earn revenue to allow for amortisation and payment of interests, thereby eating deep into the domestic resources that would otherwise have been used for economic development.[26]

Perhaps what further worsened the debt problem during the period was the heavy indebtedness of state governments to the ICM (see Table 2). Those states at the top of chart include Oyo (₦1,209.03 million), Rivers (₦1,117.86 million),

Gongola (₦1,059.56 million), Borno (₦1,028.91 million), Imo (₦890.89 million), Sokoto (₦890.15 million), Ondo (₦764.59 million) and Anambra (₦746.6 million).

It therefore comes as no surprise that debt management had constituted a big problem for the Shagari administration as shown by various debt burden indices. For example, as a proportion of export earnings, debt service increased from 5 per cent in 1981 to 8.7 per cent in 1982 and 19.9 per cent in 1983. Similarly debt repayment or amortization rose from 3.7 per cent in 19882 to 10.7 per cent in 1983. Interest payment was not left out either. It rose dramatically from 5 per cent in 1982 to 9.2 per cent in 1983, while external debt as a percentage of gross national product was high - 15.6 per cent in 1982 and 12.2 per cent in 1983; the total money committed to debt service was something to write home about - ₦1.126 billion in 1982 and ₦2.097 billion in 1983 (see Table 3).

All this would not have been a great source of anxiety if the general performance of the economy were not unfavourable. It should be noted that there was a fall in export earnings, exponential growth in imports, decline in gross domestic product (GDP) and low level of activity in the primary production sector.

In this connection the Shagari administration's debt management had greatly affected Nigeria's economic development in both direct as well as indirect ways. Debt

servicing which requires setting aside of domestic resources is more direct. Servicing is affected by the dates of maturity and interest rates. The change in the external debt portfolio from 1978 to 1982 helped in bringing the debt problem to a hilt. In 1982, the repayment of the short-term and mediump-term loans and credits contracted since 1978 had started after 3-year grace period. Unfortunately, the long-term World Bank and bilateral loans contracted in the 1960s had started maturing too. This situation was made worse by servicing of new ICM loans and credits.[27] Hence the debt repayment constituted a drain on the foreign exchange of the country. By 1982 debt service was about f1.1266 with amortisation representing 42 per cent of the total repayment and interest constituting 58 per cent. But because the Second Republic was more concerned with short-term trade arrears, the repayment of medium-term debt was done without undue fear of default. So it was in 1983 that the repayment became highly problematic. In that year debt service ratio dramatically rose by more than 100 per cent point to 19.9 per cent.[28]

Owing to the fact that debt management is part of a wider programme designed to correct the BOPs problem which often come under the guise of structural adjustment package (SAP) the Shagari administration responded to the problems of debt management by continuing, attempting to secure some support from the IMF by way of negotiating for a stabilisation loan and appealing to rescheduling and opening of new credit lines and/or refinancing.

Consequent upon this, the Economic Stabilisation programme was put in place. This programme had as its primary objective the provision of a broad base for structural adjustment except that the then administration strongly objected to the devaluation of the Naira, liberalization and removal of subsidies. Also, agreements was reached with the country's creditors which allowed trade debts to be converted to medium-term debt to be repaid within three years with a grace period of 5.5 months at 1.5 per cent to 1.35 per cent above the LIBOR. This agreement was signed in 1983 (July). In a similar vein another agreement was signed in September the same year concerning the refinancing of $480 million with two years of maturity, 3½ months grace period at 1.5 per cent - 1.3.75 per cent above LIBOR (see Table 4).

3.3 THE NIGERIAN ECONOMY: 1983-1985

3.3.1 Buhari's Economic Programme

A sound appraisal of external debt management under the Buhari administration requires a proper knowledge of the broad conceptualisation of the causes, nature of and remedy to the economic crisis that started under the Shagari administration.

The Blue Book and other public pronouncements, interview and releases of the top echelon of the Buhari administration

articulated a comprehensive body of facts and figures from which the administrations' conception of the crisis can be discerned.[29] Incidentally this conception is a product of the seven study groups appointed in September 1984 to review the objectives, policies and programmes contained in the Blue Book. The degree to which the submissions of these study groups had altered the basic tenets of the Blue Book is not known, albeit its influence in reshaping the conception of the government was felt in the 1985 budget policy measures.

In the Blue Book, the administration found the previous administration wanting especially in areas like management of the economy, public accountability, upliftment of the standard of living of people and sensitivity of the political leaders to social problems.

It went further to list a number of symptoms of the crisis, some of which include lack of financial discipline; huge external debts; over-dependence on internal and external borrowing to fill the budget deficits; a weak BOPs position; kickbacks and other forms of corruption; inflation of contract sums; over-invoicing of imports; smuggling; illegal dealings in foreign exchange; forgery; fraud; embezzelment; misuse and abuse of office; food scarcity; hyper-inflation; under-utilisation of capacity; widening of gap in income distribution; the perversion of the electoral process which threatened stability, unity and damaged the reputation of the nation. Chapter One of the book seems to have set out the

mechanics which create the structure that needed only a mild "crisis" like the oil glut to set in motion a crisis chain reaction.

In spite of the fact that the Blue Book provided the administration with a foundation for conceptualising the crisis, the basic elements of the recovery programme that were put in place could be identified from the 1984 and 1985 budget speeches and the actual policies implemented by local, states and the Federal Governments. The elements include: increasing the rate and volume of internal revenue raised through the payment of taxes, fees and levies; restraining government expenditure; freeze on wages and salary increases by eliminating allowances and large-scale retrenchment of workers; encouragement, support and promotion of the so-called private sector, promotion of large-scale private investment in agriculture through credit incentives and land policies; commercialisation and privatisation of parastatals and corporations; promotion of the use of local raw materials through purposeful completion of basic industrial projects; greater coordination of budgetting and a high rate of internal and external debt (of both states and the Federal arms of Government) repayments.[30] The policies as a whole were supposed to tackle the general problems of mismanagement and indiscipline which were considered responsible for the crisis.[31]

It is important to note that Buhari administration's conception of the causes and manifestation of and solution to

the economic crisis were similar to that of the administration it overthrew, more especially as they relate to the issue of mismanagement and indiscipline as can be discerned from the Blue Book and President Shagari's 29th October, 1983 speech at the National Institute for Policy and Strategic Studies (NIPSS), Kuru.[32]

3.3.2 Debt Management Under Buhari Administration

Though the Shagari administration was not given the opportunity to put in place its recovery programme, it nevertheless provided the policy blueprint for the subsequent administrations. Hence the advent of the Buhari administration did not change in every sense radically the basic strategy of debt management, in spite of its unreadiness to reach an agreement with the IMF.

In a desperate bid to fill the gap the IMF standby loan would otherwise had bridged, the administration planned to borrow from Saudi Arabia and resorted to several counter-trade deals.[33] However, the short-term debts constituted a serious threat to the economy in 1984 despite the rescheduling of some in 1983: the foreign banks refused to confirm letters of credit opened by domestic banks essentially because there existed large amount still outstanding and the administration's refusal to do business with the IMF.

By middle of 1984, pressure every way began to mount on the administration to honour debt obligations and as expected, the first sector of the economy to react was the manufacturing industry due to its import-dependent structure. The mouth piece of the so-called private sector, the Manufacturers Association of Nigeria (MAN) in a powerful memoranda submitted to the Chief of Staff and Minister of Finance on 10th and 7th May respectively expressed its concern over the link between the debt servicing and foreign exchange allocation to industry and agriculture. While the debt-service was $2.097 billion and $3.540 billion in 1983 and 1984 respectively, the repayment alone accounted for $1.248 billion in 1984 which incidentally was the equivalent of the amount allocated for industry in contradiction to the ₦5 billion it demanded.[34]

Arrangement were however concluded in 1984 to refinance trade arrears of about $1.00 billion to $1.26 billion arising from bills for collection, open account transaction and unconfirmed letters of credit via the issuance of promissory notes of six years maturity with a grace period of 2.5 months. In this case, the London Club of creditors accepted the Bank's term without fanfare but the insured creditors Club (Paris Club) posited that the country should do "business" with the IMF before it accepts any of the Bank's refinancing terms.[35]

All this constituted a source of big problem to the economy as there was depression in the economy (see Tables 3 and 5 for indices on this). It was therefore against this backdrop that the services of Chase Manhattan Bank of London was employed in ascertaining the nature of Nigeria's debt as by December 1984, the refinanced trade arrears was N1.1984 billion.[36]

It is instructive to note that the Buhari administration raised the percentage of oil revenue set aside for servicing debt to 44 per cent in 1985. This was done as an attempt to single-handedly show Nigeria's creditors that their interest was in the heart of the administration, all in the face of the latter's refusal to apply the full dose of the IMF package. Actually, quite a number of the nation's creditors especially the uninsured creditors were satisfied with this committment to maintain a high debt service but the majority of the insured creditor acting in concert under the auspices of the Paris Club still wanted Nigeria to accept the IMF dosage in full so as to facilitate a more consistent servicing of the debts.

Initially the administration thought it would deal with them individually as it had started making contacts with their respective export guarantee departments, but they were more difficult to penetrate.[37] The creditors had to slow down their credit to Nigeria in a conspiracious bid to force Nigeria to adopt the IMF in full.

Meanwhile the high debt servicing invited serious opposition from the public: MAN, National Association of Nigerian Students (NANS), Academic Staff Union of Universities (ASSU) and other pressure groups. There was a strong unanimous call for either a cancellation of or a moratorium on the debt. Whereas some insisted that the debt management should be suspended pending the ascertaining of the actual debt owed, others argued that the 44 per cent allocation of foreign earnings to debt servicing was just unrealistic considering our dwindling economic fortune and development needs of our country. This social discontent, little as it may seem, in no small measure led to the overthrow of the Buhari administration.

3.4 THE NIGERIAN ECONOMY: 1985-1990

3.4.1 The Structural Adjustment Programme: 1986-1990

Many developments fuelled the opposition to Buhari administration, some of which are the untold hardships resulting from the implementation of the emergency economic programme put in place from 1983 to 1985; the revelation of the large-scale fraud which emanated from trade transactions involving the John Mathey Bank of London, indigenes and Asian businessmen which culminated into mass-based anti-debt opposition and the related human rights violations; and perhaps the refusal by the administration to succumb to the

whims of the IMF. As if to put more salt into the injury, the nation's creditors evidently worried over the social tension that was building up threatened to suspend insurance cover for the traded goods between some of the European exporting countries and Nigeria.[38]

In an apparent bid to save the face of the regime, some lieutenants organised a palace coup d'etat that saw some high-ranking officers, the Head of State and his Chief of General Staff ousted in August 1985. Sensing the mood of the public regarding the IMF conditionalities the incumbent administration under the headship of Major-General Babangida "threw" the issue to the public for debate.[39] Among the conditionalities of the IMF were a 60 per cent devaluation of the naira; liberalisation of import policies; removal of petroleum and agricultural subsidies; wage freeze and a general deregulation of the economy. The public retorted with an emphatic "No". The apparent rejection of the loan was not so much for the tough conditionalities but for what was perceived as a deliberate attempt to by the IMF to impose their ideas of how to run Nigeria down our throat. However despite the rejection of the loan, the administration went ahead to satisfy all the conditionalities of the IMF which the Paris Club and other insured creditors had been insisting since 1983. Consequently, the SAP was introduced in June 1986 and was initially to cover a two-year period from July 1986 to June 1988.[40]

The major objectives of the programme are to: restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports; achieve fiscal and BOPs viability over the period; lay the basis for a sustainable non-inflationary or minimal inflationary growth; lessen the dominance of unproductive investments in the public sector; improve the sector's efficiency and intensify the growth potential of the private sector.[41]

In order to realise these objectives, a three-fold strategy was introduced as follows: the adoption of a realistic exchange rate policy coupled with the liberalisation of the external trade and payment system; adoption of appropriate pricing policies in all sectors with a greater reliance on market forces and reduction in complex administrative controls; and further rationalisation and restructuring of public expenditure and custom tariffs. Some policy measures that are important aspects of this strategy include the Second-tier Foreign Exchange Market (SFEM); Tariff Concessions; Custom Duty Concessions; Privatisation and Commercialisation of Public Enterprises; a review of the Nigerian Enterprises Promotions Decree which now allows 100 per cent foreign participation for numerous businesses hitherto the exclusive rights of Nigerians, wage freeze etc.[42]

By the end of 1989, all this had been implemented but as to whether the economy has trully benefitted from this programme available evidence from numerous studies on the subject seems to indicate that answer is in the negative.[43]

It should be noted that implementation was successfully done without the IMF usual blessing. This is why the then Foreign Minister Professor Bolaji Akinyemi toured Europe and North America in order to sell the budget proposals to the nation's creditors banks as well as government.

3.4.2 Current Debt Management: 1986-1990

Consequent upon the approval of the SAP by the IMF and the World Bank, the major European creditors agreed to open the hitherto closed lines of credit as a reciprocal gesture to the budget proposals. In addition they insisted that Nigeria should still receive the IMF support for a more comprehensive rescheduling of its debts. By early 1986, Nigeria reached a temporary agreement with the London Club of creditors for a 90 days moratorium on the medium- and long-term debts amounting to about N7 billion. The condition was that only due interest would be paid during the moratorium.[44] The spirit that governed this set of negotiations seemed to have provided Nigeria the wisdom with which to try using various debt management options. So between 1986 and 1990 Nigeria has tried about four options. These are: debt embargo and ceiling; debt refinancing; debt rescheduling and lastly, debt conversion programme.

In the 1986 budget the Babangida administration placed a ceiling on the debt service for 1986 at a level not exceeding 30 per cent of foreign exchange earnings. It is instructive to note that this action was taken independently from the current loan rescheduling and other negotiations with the official creditors. The administration merely considered it feasible within the business-like atmosphere existing between the parties involved.[45]

In the following year, a rescheduling agreement involving medium-term as well as long-term debt running into $1.6 billion falling due to the London Club for 1986 and 1987 with a repayment period of 1986-1996 and a grace period of four years was signed. In the package, letters of credit due in 1986 and 1987 estimated at $2.4 billion were also rescheduled for repayment between 1987 and 1990 with a grace period of one year at interest rate of 1.25 per cent above LIBOR or US-Prime. A similar agreement was reached with the Paris Club involving $6.5 billion with principal and interest due between October 1986 and 1987, including of course, short-term claims up to December 1983. It was agreed that the terms were to be bilaterally settled.[46]

The year 1988 saw another round of rescheduling with the London Club but this time involving $5.9 billion. The specifics of this negotiation are: $2.5 billion letters of credit arrears initially rescheduled for four years under the 1987 agreement; $600 million is for interest charges and

commission payable on letters of credit; $1.7 billion medium/ long-term debt initially rescheduled in 1987; new maturities for 1988 amounting to $1.2 billion; letters of credit were made repayable over 12 years while the conventional loan were to be repaid in 20 years with three years of grace.[47]

In a similar vein, the following agreements were reached with the London Club in March and June 1989: repayment between 1992 and 2003 of refinanced letters of credit of $2.4 billion; repayment of $2.8 billion between 1992 and 2008 of medium- and long-term debt; interest rates of 13/16 and 7/8 per cent above LIBOR on refinancing and restructuring amendment agreements, respectively, while payable debt is non-interest bearing if there is no default; and lastly, a menu of options that contains proposals for debt conversion scheme.[48]

Another round of agreement with the Paris Club was signed some time in March 1989 the specifics of which include: rescheduling of 60 per cent of short-term trade debts arrears due on December 3, 1990; rescheduling of all post-September 1986 maturities of $110.03 million for repayment between June 30, 1989 and December 31, 1994; rescheduling of all long/medium-term arrears maturities for repayment between 1995, February 28 and 1999, August 31; and completion of the remaining bilateral agreements before September 30, 1989.[49]

In 1990, a series of negotiations with the London Club of creditors was held. Nigeria presented its proposals: the rescheduling of its debts over a period of 30 years with a grace period of 10 years, interest payments of 3 per cent, debt forgiveness and non-capitalisation of arrears. Nigeria limited interest payment at what it perceived as moderate level considering its lean foreign exchange resources and an attempt to make the Club reason with it regarding the interest payment at 3 per cent.[50]

The most recent effort at management of Nigeria's external debts comes under the guise of Debt Conversion Programme (DCP). In February 1988, Debt Conversion Committee (DCC) was established to prepare a DCP so as to enable the nation to benefit from some of the benefits of the scheme, i.e. external debt reduction to alleviate the debt burden; stimulation of foreign investment inflow; encourage repatriation of flight capital; and to promote exports. The DCP was formally initiated in July 1988 when the guidelines for implementation were issued,[51] but the DCC amended some of the clauses of the original guidelines in order to "further simplify the approval process and widen the scope of the programme which came into operation in April 1989."[52]

The establishment of DCP seemed to have generated some enthusiasm among investors and creditors for the auctioning has experienced substantial boost since its inception. For instance the number of applications received by the CBN as at

December 1989 was 52 valued at US $333.3 million. When a sectoral breakdown is done, eight out of the applications valued at $48.3 million, 32 applications valued at $156.9 million and one application valued at $8.0 million were for investment in agricultural, manufacturing and mining and exploration sectors respectively. For investment in the building/construction, hotel/tourism sectors and government securities, the respective figures were three applications worth $10.4 million, one application valued at $50.0 million and three applications amounting to $12.5 million. Four applications worth $47.2 million were forwarded Gifts and Grants. The total applications received up to December 1989 was 13 in number worth $2,048.5 million (see Table 6).

However, only 49 applications worth $612.3 million and 49 applications worth $390.9 million in 1988 and 1989 were recieved respectively. By December 1989, a total of 98 applications had been approved in principle since the inception of the programme which is worth $1,003.1 million (Table 7). From the 10 auctions, two in 1988 and eight in 1989, held since the beginning of the programme, a total of $222.4 million of debt has been redeemed. In addition, five applications were given approval to convert outside the auction system, utilised part of their approvals and redeemed $884.3 million at a mean discount of 51.32 per cent in 1989. Hence $306.7 million worth of total debt was converted under DCP as at December 1989.

On the whole, a total of Nigeria's external debt valued at $306.7 million has been reduced through DCP. Similarly there has been a marked inflow of new money to the tune of $4.5 million (foreign denominated) transaction commission paid. The level of foreign direct investment increased by $188.5 million. The DCC approved and released a total sum of $807.4 million (out of ₦1,088.7 million proceeds) into circulation to finance various projects (see Tables 8 and 9).

DCP was applied in the second quarter of 1990 to further reduce the stock of Nigeria's external debt. Debts on promissory notes worth $57.24 million converted against the value of $56.10 million during the preceding quarter. The proceeds were invested as follows: $15.03 million in Hotel and Tourism and $42.21 million in manufacturing, agriculture and other real investments. This compares with the respective data of $10.00 million and $46.10 million recorded in the preceding quarters. With the conversion the second quarter of 1990, the cumulative value of promissory notes since the conversion exercise was $401.1 million.[53]

In spite of the debt management techniques used to reduce the debt burden, the debt problem continues to be a big source of concern. The total debt outstanding both in dollar as well as naira terms continue to escalate. It rose from ₦17,290.6 million to ₦41,451 million, ₦133,956.36 million and ₦212,750.8 million in 1985, 1986, 1988 and 1989 respectively. Though the rise in dollar terms is not as

marked as in naira terms, it nevertheless escalated. It rose from ₦17,297.5 million in 1985 to $23,445.1 million in 1987 and $28,857.3 million in 1989.

Debt servicing and service ratio experienced an unprecedented explosion between 1985 and 1989. The debt service in 1986 was ₦2,502.2 million. It rose to ₦3,590.6 million, ₦8,140.7 million and ₦15,577.7 million in 1987, 1988 and 1989 respectively. The debt servicwes ratio however fell from 33.2 per cent in 1985 to 29.4 per cent in 1986. In 1987 and 1988, it stood at 11.9 per cent and 26.1 per cent respectively. For 1989, the figure was 26.9 per cent (see Table 9).

To conclude this chapter it is important to stress that since 1985 there has been a deliberate attempt to change the profile of Nigeria's external debt portfolio. For example, in 1984 medium/long-term loans constituted 62.6 per cent while short-term loans were left with 37.4 per cent of the total debt outstanding. By 1986, the former stood at 79.6 per cent while the latter constituted 20.4 per cent. In 1988 the medium/long-term component of the total debt outstanding rose to 87.1 per cent while short-term loans constituted 12.9 per cent (the respective figures for 1989 and 1990 are not available as at the time of writing. See Table 10). This development is important because usually, short-term debts are associated with high interest charges and have no relationship whatsoever with the actual performance and take-

off of the projects for which they are contracted. So for Nigeria to have attempted reducing the short-term debts in its external debt portfolio it is a commendable development!

3.5 END NOTES

1. For example, A. Abba (et al): The Nigerian Economic Crisis: Causes and Solutions, (1985); S. Mohammed and T. Edoh (ed): Nigeria: A Republic in Ruins (1986); M.O. Kayode and Y.B. Usman (ed): The Economic and Social Development of Nigeria (1985) and O. Oculi (ed): Nigerian Alternatives, Department of Political Science, Ahmadu Bello University (ABU), Zaria (1987).

2. CBN: Economic and Financial Review, vol 21 No 1, March 1983.

3. Ibid.

4. N.B. Iloabachie, "Salient Features in the Structure of the Nigerian Economy" in S. Mohammed and T. Edoh (eds): Nigeria: A Republic in Ruins (1968), p 119.

5. CBN: Annual Abstract of Statistics (1977-1983 issues).

6. Ibid, 1982.

7. CBN: Economic and Financial Review, 1983.

8. N.B. Iloabachie, op cit, p 117.

9. CBN: Annual Report and Statement of Accounts, 1982, 1983 and 1984.

10. Z.A. Bonat: "Class Position, Ideology and Explanation of Social Reality: Perspectives of the Current Socio-Economic Crisis in Nigeria", ABU, Zaria.

11. Dr. Nnamdi Azikiwe: "Change '83: Things are Falling Apart in Nigeria", The New Nigerian, April 16, 19883.

12. The African Development: Special Issue on Nigeria, vol ix No 3 (1984), pp 75-115; for the full text of the white paper.

13. Ibid, pp 96-97.

14. Ibid, p 97.

15. Y.B. Usman: Nigeria Against the IMF: The Home Market Strategy, Vanguard Printers, Kaduna (1987) for an analysis of this.

16. The New Nigerian, December 30-31, 1983.

17. Ibid.

18. U.A. Mutallab: "Towards a More Effective Use of External Finance in Nigeria", United Bank for Africa (UBA) Conference on Nigeria's External Debt (1984).

19. Y. Bangura: "The Politics of Nigeria's Debt Crisis" in O. Oculi (ed): The Nigerian Alternatives, Department of Political Science, ABU, Zaria (1987), p 100.

20. Quentin Peel: "Nigerian Debt Problems - Causes and Solutions", UBA Conference on Nigeria's Debt, p 7.

21. West Africa: September 12, 1985, p 163.

22. Y. Bangura, op cit, p 102.

23. Internationall Bank of West Africa Quarterly Economic Review, 1985 and New Africa, op cit.

24. For a brief but good examination of this, see Y. Bangura op cit, p 102.

25. This has prompted the Federal Government to employ the services of Chase Manhattan Bank to ascertain the exact nature of the debt. Even at the state, efforts were made in this regard, too. For example, the Bauchi State Government instituted the Nazif Commission of Inquire to examine the extent of the state's indebtedness.

26. O. Ojowu: "Long-term Management of Nigeria's Foreign Exchange" in J. Attah (et al): The Nigerian Economy Under (S)FEM, 1987, pp 17-35 and Y. Bangura, op cit, p 106.

27. Y. Bangura, op cit, p 109.

28. Ibid, p 109.

29. For a good exposition of all this, see the New Nigerian, June 188, 19 and 20, 1984 editions. It published the document under the rubric of "Objectives, Policies and Programmes of the FMG".

30. African Development, op cit, pp 162-193.

31. Y.B. Usman, op cit, p 19.

32. For a full text of the speech, see The Nigerian Standard, Tuesday, November 1, 1983, p 11.

33. Y. Bangura: "The Recession and Nigeria's Foreign Policy", a paper presented at Bayero University, Kano Staff Seminar Series, Faculty of Arts and Social Sciences, April 22, 1986.

34. Y. Bangura: "The Politics of Nigeria's Debt", op cit, p 115.

35. Ibid, p 116.

36. Central Bank of Nigeria: Annual Report and Statement of Accounts, 1984, p 147.

37. West Africa, January 2, 1984, for the details of the contacts made with Britain and Germany.

38. Y. Bangura: op cit, pp 118-119.

39. I.G. Umaru: Some Implications of the Second-tier Foreign Exchange Market for the Welfare of Nigerians (1988), an unpublished B.Sc thesis, Department of Economics, ABU, Zaria, p 10.

40. Federal Republic of Nigeria: Structural Adjustment Programme for Nigeria, July 1986-June 1988, Lagos (1986).

41. S.E. Omuroyi: "A Review of the Structural Adjustment Programme, the Foreign Exchange Market and Trade Policies in Nigeria" in Central Bank of Nigeria: Economic and Financial Review, vol 25 No 4, December 1987, pp 29-38.

42. A. Ahmed: "Strategies for Foreign Investment in Nigeria: A Central Bank Perspective" in Central Bank of Nigeria Economic and Financial Review, vol 26 No 2, March 1988, pp 26-37.

43. For example O. Ojowu (ed): Economic Update: Nigeria's Structural Adjustment Budget, Gaskiya Corporation, Zaria (1987); Attah, J. (et al): The Nigerian Economy Under (S)FEM, Gaskiya Corporation, Zaria (1987); S. Ayodele (ed): Reflating A Depressed Nigerian Economy, Monograph Series No 1, Department of Economics, ABU, Zaria (1988); and the proceedings of a Conference on SAP and the Future of Nigeria, organised by Centre for Economic and Social Research (CSER), ABU, Zaria, March 1989.

44. This was an outcome of the negotiations held between a four-man team of the government led by the Honourable Minister of Finance and an eleven-member steering committee representing twenty of Nigeria's largest creditor-banks. For a detail of these negotiations see the Newswatch of April 14, 1989, p 31.

45. O.M. Ojo: "Nigeria's External Debt Problems: A Review of Management Efforts and the Prospects", the Economic and Financial Review, vol 27 no 2, June 1989, p 50.

46. Ibid, p 51.

47. Ibid, p 51.

48. This menu provides further relief such as the conversion of payable debt into interest bearing naira denominated securities with a coupon rate of 13.25 per cent and maturity of 18 months, conversion of other bank debts into a Nigeria Investment Bond (NIB) with a grace period of 10 years, a repayment period also of 10 years and interest of 6 per cent flat and amendment of the Guidelines on Debt Conversion to make bank debt eligible for conversion under the programme.

49. M.O. Ojo, op cit, p 51.

50. CBN: Economic and Financial Review, vol 28 no 2, June 1990, p 27.

51. Eligible transaction categories with the DCC are mainly three: (i) debt for cash for the purpose of making a gift/grant to Nigerian entities; (ii) debt for privatisation; (iii) debt for equity investment in completely new projects. Nigerians and non-Nigerians are eligible to partake so long as no application worth less than US $250,000 in the first instance and $25,000 in the subsequent redemptions are forwarded. A fee of 2.5 per cent discounted value of the debt approved for conversion is payable in US dollars to the CBN. Restrictions are imposed on remittances such that the dividend and interest income etc, cannot be repatriated until after five years, while capital repatriation is disallowed until after ten years, after which not more than 20 per cent per year is allowed.

52. CBN: Annual Report and Statement of Accounts, December 1989, p 98.

53. CBN: Economic and Financial Review, vol 28 no 2, June 1990, p 27.

CHAPTER FOUR

IMPLICATIONS OF NIGERIA'S EXTERNAL DEBT MANAGEMENT POLICIES (1982-1990)

"People who insist on being presented with a blue print for change before they move an inch (to investigate) are probably not very interested in change." - M. PARENTI ("Democracy for the Few", 1974).

4.1 INTRODUCTION

In Chapter Two, we laid bare the theoretical foundations upon which examination of problems of international trade and finance can be carried, after which we outlined the various external debt management policies Nigeria has so far put in place in Chapter Three. We shall now set out to provide an appraisal of these policy measures.

Because this is the crux of the study, we shall handle the matter in a more fashioned way. Hence the first part of this chapter will attempt an indepth appraisal of the causes of Nigeria's debt crisis with the aim of transcending beyond the popular ones often advanced. Then efforts would be geared toward brining out the long-term implications of the management measures. The last part provides an alternative explanation of more fundamental implications of the debt problem for the country. It is hoped that this will bring out some salient implications of the debt policies adopted by Nigeria that Raheem's analysis has not been able to show.

4.2 ORIGIN AND CAUSES OF NIGERIA'S EXTERNAL DEBT CRISIS: AN APPRAISAL

In order to actually understand the nature, magnitude and mechanics of any socio-economic phenomenon/problem of the proportion of Nigeria's external debt crisis, we must first of all attempt a location of the genesis and causes of the phenomenon/problem. We have demonstrated in the previous chapters that the existing studies on the Nigerian case tend to see the genesis and causes of the country's debt problem as being similar to those of the international debt crisis. This has been specifically discussed under the two main headings: the liquidity/solvency crisis and the inherent structural rigidities and distortions in pricing crisis (though they are usually discussed under different guises, the message remains the same).

Owing to the fact that the debt crisis is organically linked with the overall economic crisis of the TWCs by examining the roots of the general crisis we shall invariably be examining the causes of the external debt crisis. Academics within and outside Nigeria and of course government officials over the years - the early period following the crisis - have explained it in terms of a "global recession" and crisis in the oil market.

Global recession is said to have slowed down economic growth in the world economy, especially the DCs which in turn forced the demand for Nigerian exports down. The oil glut

also led to falling prices, resulting to dwindling government revenue. All this drove the country into being unable to finance its much-needed imports and development projects. All this forced the country to resort to external loans which was the last resort anyway. In other words, the problem was reduced to a "liquidity" or cash flow problem. Hence the belief that reduced state spending on welfare services and capital projects (austerity measures) would solve the problem.

We have already seen in Chapter Three how others especially the NPN political rivals perceived the problem. Although they accepted the "oil glut" and "global recession" explanation of the crisis, they insisted that more serious was not only the mismanagement of the dwindling state revenue but lack of proper incentives given to the private sector and government excessive involvement in the economy which further aggravated the structural distortions of the system.

However, these explanations have since been challenged by radical commentators who in contradistinction have come up with their version of the story. They argued that the explanations given - mismanagement, global recession, oil glut etc - are merely the objective manifestations of the crisis rather than the causes. For it is an uncontestable fact that the cyclical crisis of the capitalist system of production and exchange which has been worsening since the early 1970s (but Nigeria has been curiously insulated due to

the oil boom) has finally caught up with it. It is true that oil prices have skyrocketed since 1973 from $10 per barrel (pb) to $40 pb but fell from $44 pb to over $30 pd in 1982 and 1983. However, this fall was not enough in itself to cause a crisis of the 1982 size, unless of course there are other factors. The commentator therefore argue (and we believe too) that it is the economic system which we operate since independence that makes it conducive for fraud and unbriddled foreign and domestic exploitation by MNCs.[1] So given the fact that the performance of the oil industry determines the level of federally-collected revenue, the oil glut in the long-run was bound to affect Nigeria.

It therefore follows that being an integral part of the world capitalist system Nigeria cannot insulate itself from the world recession - it is bound to be affected in one way or the other. In fact the crisis has to be situated within the structure of the economy in order to be able to conceptualise its character, general tendency towards recurrence and the class-logic of the specific policies put in place to solve it (crisis). The numerous structural contradictions of the capitalist system have been rooted in the fabric of the Nigerian economy through the operations of the MNCs, the local business companies, international banks and the Nigerian state. The various activities of these business agencies transmit, and generate within the Nigerian system the contradictions and crises of the global economy.[2]

Shenton and Freund (1978) demonstrate the presence of crisis of over/under production during the precolonial era. Bangura (et al; 1986) also show graphically the effect of the imperialist onslaught and domination of the Nigerian economy which was subject to the colonial economy and the dictates of the general capitalist system of development and crises of 1929 depression and of 1955/56, following the Korean war boom (this is something Raheem's method cannot hope to capture).

Though the 1929 crisis had serious implications for the colonial Nigerian economy, it is generally agreed that the 1955/56 had deeper structural roots with the collapse of the agricultural basis of capital accumulation as shown by the drop in earnings from agriculture in the GDP. From 61 per cent in 1964 to 18 per cent in 1982. This had a multiplier effect on the 1962-1964 and 1966-1970 crises thereby further exposing the structural vulnerability and instability of the Nigerian system. This situation remained unchanged until the 1970s oil boom. The unprecedented rise in foreign exchange from the oil not only led to large capital expenditure under the second, third and fourth development plans (for 1970/71-1973/74, it was N3 billion compared with a total expenditure of N30 billion for the 1975/76-1979/80, and N82.5 billion for the Fourth Plan: 1981-1985)[3], but also reinforced and extended the structure of capitalist import-substitution industrialisation that was started before and immediately after independence.

Indeed, most of the industries that were established during this period were simply assembly and packaging firms that really contributed very little to local value added. For instance, Third Development Plan cites that most of them have a value added of less than 15 per cent. In essence, the Nigerian industry was dominated by light industries that manufactured such items as food, beverages, and tobacco using simple technology. What is more, a number of studies seemed to have confirmed this assertion.[4] The huge amount of money invested in the production of goods and services in Nigeria was spent abroad. Food imports more than doubled between 1976 and 1979 and 1981 when it exceeded the N2 billion mark. For manufactured goods, the increase was nearly 50 per cent between 1976 and 1978/79 and almost 100 per cent again by 1981 (all within two years when it was as much as N2.6 billion). The importation of machinery and transport equipment was not left behind. It increased by 121 per cent between 1976 and 1981. Hence for every one naira spent in the economy 60 kobo found its way out of the country.[5]

What is more, there was a substantial increase in the importation of capital equipments and raw materials. Capital imports rose by about 156 per cent between 1974 and 1979 and by 28 per cent between 1978/79 and 1981; and raw material imports which were necessary for the type of industrialisation that was being pursued, had reached a level of N5.7 billion.

However (perhaps) the largest chunk of the drain on Nigeria's foreign exchange can be explained by the fraudulent ways in which contracts have been awarded to the tune of three times the cost of executing similar projects in East and North Africa and four times of the cost in Asia[6] (the Balarabe Musa's government-World Bank episode is another example[7]); the fraudulent transaction in the foreign exchange system; and the corrupt practice of foreign companies and their Nigerian collaborators in using import licenses as a cover for transfering large sums of money abroad. For example, there was this case of how £5,000 million (₦5,357 million) was fraudulently drained from Nigeria's economy by import-export firms evading the exchange control regulations. The story claims that 29 forged clean reports were used to obtain authorisation of payment from the CBN and were subsequently exposed by a City of London Bank. Goods valued at £7 million (₦7.3 million) were said to have been exported by a company which controlled both ends of the import-export operation. Several other forged clean certificates were used to inflate the quantity and value of goods shipped out of Nigeria.[8] No wonder Mr Olashore stated that Nigeria does not get more than 25 per cent value for her huge expenditure on imports.[9]

It follows therefore that the economic crisis that afflicted Nigeria, a country which made ₦56 billion in four years cannot solely be blamed upon the oil glut. Oil glut only brought to the fore the crisis "storm which had been

gathering momentum within the structure of the Nigerian economy." By 1978, signals of the impending doom have started to appear partly as a result of the 2 per cent increase in Nigeria's oil price in April 1977 which ultimately led to a tumbling of oil exports by 16 per cent thereby reducing the oil revenue from ₦7 billion in 1977 to ₦5.9 billion in 1978.[10] It should be noted that imports in this period were increasing at an astonishing rate of 40 per cent. This led to mild deflationary measures by the Obasanjo administration in 1978. The measures achieved limited success though at the expense of increase in indebtedness of the country. However, the Shagari administration continued the expanded public expenditure programme of the oil boom period thereby increasing imports which stood at ₦1.2 billion by late 1981 and 1982, until the oil glut which was the last straw, brought Nigeria to its senses regarding the magnitude of the crisis. It then became clear that the structure of imports and pattern of industrial and economic development could no longer be sustained. Interestingly, all this was happening at a time when the value of revenue still surpass the oil revenues of the 1975 boom period, a phenomenon which seems to support the position that the crisis was not that of an oil glut.[11] Raheem's analysis fails to capture this little but salient fact.

4.3 IMPLICATIONS OF NIGERIA'S EXTERNAL DEBT MANAGEMENT POLICIES

In taking stock of the achievements and shortcomings of any policy measure under an ideal planning process, attention is usually given to issues relating to the overall planner's strategy as well as tactics. Strategy represents that part of the planning process that provides the broadest framework within which issues are conceptualized, resources and constraints are identified, choices are made among competing alternatives and long-term targets are set. The ways and means of hitting the targets set out in the strategy together with the institutional arrangements laid for the eventual implementation and evaluation represent that part of the planning process referred to as tactics.

A hard and close look at the debt management policies Nigeria has put in place since 1982 tempts one to conclude that we *never* had any long-term (or even short-term) debt strategy. All that we have been doing is trying one policy measure or the other which are actually within the IMF/World Bank prescribed debt strategy. We shall return to this in the next section; but in the meantime, let us concentrate on the implications of Nigeria's debt management policies.

We have seen in Chapter Three that debt scheduling, refinancing and the debt conversion programme (DCP) are the specific policy measures Nigeria has been using in its attempt to reduce not only the stock but the burden of debt

of the country. The use of the debt rescheduling and refinancing options is premised upon the assumption that Nigeria in the early and mid-80s was faced with the liquidity crisis, a temporary cash flow problem. This became necessary as by the nature of its debt portfolio structure it has not been able to service its short-term debts and trade arrears (except under the Buhari regime but at a cost of severe economic austerity). What is more, by the early 1980s the bilateral and multilateral loans contracted in the 1960s and early 1970s had started maturing.

So all the rescheduling agreements reached with the country's creditors between 1983 and 1990 are meant to postpone debt service for a while to 1990s when it is believed the country shall have generated enough capacity to start servicing the debts. This expectation is further backed by another assumption regarding the workability of the interim economic measures presently being implemented: Nigeria, apart from being an oil-rich nation (which makes the risk of default minimized) has agreed to implement the IMF/ World Bank assisted SAP. Hence there is every likelihood that the economy will be diversified thereby creating more sources of foreign exchange with which to eventually pay back the backlog of her debts.

But, if we are to take the respective years of the existence of Shagari, Buhari and Babangida administrations as short-run periods, what evidence is there to show for the

success of the debt refinancing/rescheduling measures? Has the economy got the respite envisaged? By virtue of the fundamental reason behind all this measures, namely to bleed Nigeria by forcing it service and pay back all outstanding debts some of which are dubious, the respite got was used in "increasing" Nigeria's debt burden. For instance, under the Shagari administration, debt service rose from ₦1,126 million in 1982 to ₦2,097 million in 1983. Within the same period, amortisation rose from ₦477 million to ₦967 million. External debt outstanding rose from ₦13,033 million to ₦17,781 million within the same period (even if we are to use the dollar value of the outstanding debt, the same trend can be discerned: it rose from $3,444.8 million in 1981 to $14,130.7 million in 1983). Also, total increase on such debts rose from ₦649 million to ₦967 million (see Table 3).

One would have thought the respite got from 1982 and 1983 rescheduling and refinancing agreements stimulated economic growth in the Nigerian economy, but when indices of the performance of the economy, such as movements in gross reserve, percentage growth rate of real export and GDP and BOP position are taken account of, it could be said the economy had refused to pick up. For instance, gross reserves fell from ₦1,960 million in 1982 to ₦1,346 million in 1983. However, percentage real growth rate of export improved a little. It rose from a negative value of 19.7 per cent in 1982 to a negative value of 5.1 per cent, indicating that

improvement is negligible as the movement is still in the negative regime. The economy witnessed a downturn in its fortune, as the percentage growth rate of real GDP declined from -1.91 in 1982 to -6.37 in 1983. However, the BOP position improved slightly from a negative figure of N5,418 million in 1982 to a negative figure of N4,752 million (see Tables 3 and 11). All this evidence shows that the objective for which debt rescheduling and refinancing agreements were reached with the nation's creditors was not achieved at least within the period Shagari administration lived.

But how about under the Buhari administration? Indeed, one would have expected that between 1983 and the last days of Buhari administration was enough a stretch for the economy to have stimulated growth. However, if we are to go by the evidence on the ground this expectation was proved wrong. Like what obtained under the previous administration, percentage growth rates in the primary goods, mining and petroleum sectors continued to be negative. Percentage growth rate of the GDP moved from -6.37 in 1983 to 0.56 in 1985. Also, growth rate of real export fell from a record level of 15.1 per cent in 1984 to 2.2 per cent in 1985. However, the overall BOP position seemed to have improved slightly from -N4,752 million in 1983 to -N394 million. This indicates that the movement was in the negative regime. Hence, the gross reserves continued to fall from a figure of N1,346 million in 1983 to N1,249 million in 1984 to N1,056

million in 1985 (see Table 3). All this seemed to have worsened Nigeria's debt problem as foreign exchange earmarked for servicing and amortisation increased. From Table 3, it can be seen that debt service increased from N2,097 million in 1983 to N5,534 million in 1985; amortisation from N1,130 million in 1983 to N3,094 million in 1985; and the interest on the outstanding debts rose from N967 million to N436 million, though the latter appeared to have slightly declined from N17,781 million in 1983 to N17,499 million in 1985.

If we are to look at debt burden indices such as external debt/GDP ratio, we cannot help but conclude that Nigeria's debt burden had lessened a bit especially under Buhari regime as it fell from 21.2 per cent in 1983 to 18.2 per cent in 1984 and to 17.0 per cent in 1985. This had been possible due to the slight reduction in external debt outstanding and an improvement in the real growth rate of GDP even though the overall improvement was in the negative region. However, if we use debt service/export ratio which seems more appropriate (as it seeks to measure the capacity of the economy in generating foreign exchange to service and retire its outstanding debt), we shall see that the debt service burden increased substantially within the same period: it rose from 19.9 per cent in 1983 to 48.1 per cent in 1985 (see Table 3). This indicates that rescheduling/refinancing has not helped the economy pick up between 1982

and 1985 as was expected.

It may well be argued that because the Buhari administration refused to deregulate the foreign exchange, commodity and money markets, the economy was bound not to experience any appreciable growth. This argument may have backed the insistence of the nation's creditors that Buhari administration should implement all the conditionalities of SAP to the letter before any further negotiation to reschedule/refinance the nation's debts. This position could well be accepted, but now that all this has been implemented, what is the result? Has the economy improved?

Going by the most important index of the performance of the economy (nominal) GDP we could accept that there was improvement. For, GDP at current factor cost rose from ₦8,1292.8 million in 1986 to ₦107,640.0 million and ₦136,958.7 million in 1987 and 1988 respectively. By 1989, it had risen to a record mark of ₦158,271.0 million. This was indeed remarkable! But all this rise could be explained away by the fact that the deregulation of foreign exchange market devalued the naira drastically. Moreover, when all this rise is subjected to conversion into dollars, the currency denomination in which debt will be serviced and retired, the figures would not have been that impressive. Even if we are to assume away the above argument and subjecting the increases in nominal GDP to the rate of inflation of 5.4, 10.1, 38.4 and 40.9 in 1986, 1987, 1988 and

1989 respectively, growth of the Nigerian economy would have been negative (see Tables 10 and 15).

As for the foreign sector, there appeared to be an improvement especially between 1986 and 1989. For instance, the value of total exports rose from N81,292.8 million in 1986 to N136,958.7 million and N156,271.0 million in 1988 and 1989 respectively. Thanks to the devaluation of the naira. Instead of investing these surpluses in foreign exchange got from these exports, the additional proceeds were used to increase the servicing of debts. For example, debt service rose from N2,502.2 million in 1986 to N3,590.6 million and N8,012.5 million in 1987 and 1988. By 1989, the total debt service had risen to a record level of N15.577.7 million. To make matter worse, Nigeria's total debt outstanding increased from N41,451.9 million in 1986 to N212,750.8 million in 1989, Similarly, ratios that capture the magnitude of Nigeria's debt burden seem to have shown that Nigeria did not perform well between 1987 and 1989. Debt/GDP ratio rose from 93.6 per cent in 1987 to 134.4 per cent in 1989, whereas the debt service ratio rose from 11.9 per cent in 1987 to 26.1 per cent and 26.9 per cent in 1988 and 1989 respectively (see Table 10).

The favourable terms and concessions Nigeria got from the various rescheduling/refinancing agreement have not, as we have shown above, given the economy a temporary breathing space from the excruciating debt burden. For the lean

exchange reserves instead of being spread over other essential sectors of the economy were used to service the nation's debts.

In a sense, it may be argued that we should not expect our debt stock to be reduced in the short-run, but rather in the medium- and/or long-run. However, one question that ought to be asked then is, How realistic was the projection that in the 1990s and beyond, the country's foreign exchange position (which would invariably be used to retire the nation's colossal rescheduled/refinanced debts) would be enhanced? For one thing, debt rescheduling/refinancing only spread repayment over a long period and to some extent increase the debt burden as they merely push them to the future at higher cost due to the tendency of interest rates on them to rise. In fact, in some instances, creditors refuse to "bless" the various agreements with the so-called new money. Of late, the FG has been making its discontent regarding foreign investors' reluctance to make new investment in the economy known.[12] This might not be unconnected with their penchant for recovering the debts and not to lend new money thereby encouraging capital outflow which actually strangles the economy as shown by recent studies such as Ajayi (1991). Further, refinancing/ resscheduling could prove so cumbersome, protracted and more-so costly to the country as the expenses of travelling and accommodating the negotiators would be in hard currencies,

especially when negotations are continuous due to the inability of Nigeria to comply with repayment schedules.

All this indicates that the costs of rescheduling/ refinancing could be so much that all the purported gains derivable from the exercises are simply negated in the long-run. Besides, what we must not lose sight of is that Nigeria ever since it was incorporated into the world capitalist system of development has not been able to insulate itself from capitalist crises: of 1929, 1940s, 1960s and 1970s. This ought to serve as a lesson of history for Nigeria. Should there be a severe or even mild crisis in the early/ latter part of 1990s, could the Nigerian economy be minimally affected; what would happen to our external debts position? or has Nigeria discovered the magic wand and anthology of incantations that would wade off such impending crisis? Parts of the answers to these posers could be found only when the long-term implications of the DCP are analysed.

Instructively, the implications of the third policy measures directed at the debt problem in Nigeria, DCP can be viewed from both short-term and long-term angles. We have shown in Chapter Two that the DCP among other things is a debt-reducing option; the idea behind it being that the only way to reduce the debt stock and burden is to convert existing debts to equity shares and other investable assets or local/foreign currencies which of course, would eventually

be used to invest in viable projects. The DCP is therefore seen as a means of not only reducing the debt burden and stock but also promoting private foreign and domestic investment in the country. This is precisely the principle and logic that have guided the articulation and implementation of DCP in Nigeria since 1988.

As per the performance of the DCP in Nigeria, a lot of praises has been rained upon it for the simple fact it has achieved some limited measure of success: by June 1990 foreign direct investment increased by over $200.00 million; reduced the outstanding debt to the tune of $401.6 million and has released about $1,020.74 million into circulation to finance various projects in the economy.[13]

Of course by some standard, this is a laudable achievement but when fundamental issues are raised regarding the programme especially as they relate to long-term objectives, little benefits can be derived, or even in the intermediate-term. For one, the proportion of the debt reduced to total debt outstanding is negligible (1.06 per cent when 1989 figures are used).[14] Two, there are several constraints that will make it less effective than expected: critical issues relating to the workability of SAP which from available evidence seems to be negating the objectives for which it is implemented; the country's economic prospects and investment climate; the reluctance of some creditors to drop

the debt assets from their balance sheets and absorb the loss largely due to legal constraints in home countries and their ulterior motive in "exporting capital". Three, the programme could be counter-productive to monetary and fiscal policies, as the inflow of capital could lead to an inflationary process via the financing of the conversion either through the commercial banks and new money or increases in interest rates leading to increases in costs of production and prices.[15] The long-term implication of the DCP touches on the issue of planning - a vital vehicle in the TWCs' development process - and the nation's geo-political and economic sovereignty. For the preservation of these two pillars of development is often constrained by the presence of foreign domination by finance capital. This is precisely the kind of development DCP is encouraging in Nigeria.[16]

It would be recalled that the major reason behind the Nigerian Enterprises Promotions Decree (NERP) of 1972 and 1977 amendments was to check unnecessary foreign control of the commanding heights or the key sectors of the Nigerian economy. It was in pursuance of this that the decree confirmed participation of foreign investors in any enterprise incorporated in Nigeria to joint ventures thereby preventing absolute ownership by foreigners in Nigeria. Although this was to some extent the case in principle in reality foreign investor were able to eventually penetrated the commanding heights through their Nigerian colloborators

both in governmment and the so-called private sector. What the DCP does is to legitimize and consolidate their presence. Indeed, the rate at which the DCP is mortgaging the economy to foreigners to say the least is alarming.

The committee which was set up to prepare the modalities for the take-off of DCP has recommended that foreigners could possess 80 per cent equity participation of some 22 enterprises in schedule 4 of the NERP decree. These ventures include basic iron and steel industries, the industrial chemical (organic and inorganic products), manufacturing and agricultural machines, metal and wood work industries, oil refinery and ship building. The Federal Government has already dropped the indication that further modifications to NERP would be made in due course. Moreover, investments in industries like jewellery, clothing, clock repairs and rice milling which used to be the exclusive reserve for Nigerians are now open to foreigners for a maximum participation of 40 per cent (sic).[17]

The DCP would certainly benefit the creditors in several ways. They can now recover some of their money from the country which has defaulted in spite of the billions and billions of naira they have repatriated away through various covert and overt means. The DCP has now offered them the best opportunity to gain full control of an economy which they began to lose in aftermath of NERP in 1972 and 1988, as

the programme has promoted privatisation of public enterprises (and unemployment through so-called rationalisation) which consumed large amount of the nation's fortune to establish in the wake of independence.

The DCP has facilitated the linking of the Nigerian Stock Exchange (NSE) with the major world stock exchange markets thereby further exposing the country to the vicissitudes of the capitalist development of over-production and recession.

The multiplier effect of all this is that the DCP ensures the wind of further deregulation to blow from the commodity market through foreign exchange market to the money and capital markets thereby opening up the economy to the control of foreign interests. Indeed, the implementation of DCP has ascribed undue emphasis to the role of foreign capital in development process of the country. However experience of Latin America and Asia has shown that such a programme compounds rather than solve the problem of strategic and structural dependence and domination of TWCs by the industrial and financial octopuses called MNCs (Klochkosvky, 1984).

4.4 INDIGENIETY OF NIGERIA'S DEBT STRATEGY

Now, having discussed the implications of Nigeria's debt management policies, it would be worthwhile to proceed on to the issue of indigeniety or otherwise of Nigeria's debt "strategy" which we started earlier in this section.

A second look at the origin, articulation and even implementation of the various country's debt policy measures tempts to convince one that Nigeria has never formulated an indigenous debt strategy. As a matter of fact these policies are thought-out, articulated and forced down the throat of Nigeria by the other parties in the debt rescheduling forum - the creditors. In this regard, Professor Olaloku's assertion that there is no iota of strength for muscle-flexing in the debtors camp seems to be right. For one, since the "collapse" of confidence in the efficacy of long- and medium-term planning in Nigeria which by historical accident, coincided with the period of this study, there has never been any deliberate/conscious attempt to draw up among other things a long-term strategy for dealing with the collosus of our economic problems, the debt problem inclusive. It appears as if the policy measures put in place since 1982 are done whenever someone (the nation's creditors) asks Nigeria to do so. This is a bitter fact that cannot be denied!

But come to think of it, even if Nigeria were to have had an indigenous debt strategy which would have certainly

been an integral part of the overall economic strategy, what chances were there for it to get off its creditors' "black book"? Our best bet is the events in the early 1980s would have certainly forced it to jettison the strategy as Nigeria was already desperately in need of debt rescheduling and new lines of credit, given the nature of its industrialisation and development. This is why the Paris Club which comprises of insured private and multilateral creditors insisted on several occasion that Nigeria should play ball with IMF and World Bank before it reschedules the former's matured debts and open new lines of credit. In other words, until Nigeria accepts the full does of IMF/World Bank inspired SAP which incidentally contained "incentives" to foreign investors, its requests would not be honoured.

At first Nigeria refused to do business with the IMF and the World Bank, thinking that it can tackle the problem on its own accord (no wonder the Buhari administration raised the debt service payment to an unrealistic rate of 45 per cent of our foreign exchange just to convince the nation's creditors that it had their interests at heart and to avoid at least some of the IMF/World Bank conditionalities). It became obvious later that Nigeria cannot help but accept the bitter pills. Thence came the acceptance of the Club's condition of course under the guise of Babangida's version of SAP in 1986. It would be instructive to note that all the debt management policies so far implemented, true to the letter, are an integral part the reform package - which in turn is part of the IMF/World Bank blue prints for economic recovery and world debt strategy.

Of course it is a fact that between 19882-1986 some agreements were reached with the country's uninsured creditors and London Club, but such agreements were possible owing to the fact that the latter were simply pleased with Buhari's commitment to use a big proportion of the country's foreign exchange to reduce their would-be losses as most of their loans were uninsured.[18]

Now the question that logically comes to mind is, Why should Nigeria be forced to adopt SAP and IMF/World Bank external debt management strategy? The real motive obviously goes beyond mere helping Nigeria turn the economy round.

There is more to it than what is generally believed. We believe Raheem's econometric model failed to capture this adequately.

4.5 THE REAL MOTIVE BEHIND THE DEBT POLICY MEASURES

In theory, SAP is supposed to realign the "distorted" and irresponsive structures of the Nigerian economy by addressing three policy issues relating to "sources of lagging growth". According to a World Bank report, these issues include:

> 1. internal constraint based on "structure" or from the physical environment. These include under-developed human resources, the economic disruption that accompanied decolonisation and post-colonial consolidation, climatic and geographical factors hostile to development, and rapidly growing population;
>
> 2. Adverse trends in the international economy, particularly since 1974. These include stagflation in the industrialised centres, higher energy price, the relatively slow growth of trade in primary products and - for copper and iron-ore exporters - adverse terms of trade;
>
> 3. Domestic policy inadequacies of which three are critical. First, trade and exchange rate policies have over-protected industry, held back agri-culture and absorbed much administrative capacity. Second, too little attention has been paid to administrative constraints in mobilising and managing resources for development capacities, public sector frequently become over-extended. Third, there has been a consistent bias against agriculture in price, tax and exchange rate policies.[19]

But what has been the result of SAP and the IMF/World Bank debt strategy? Many studies carried out in the 1970s and 1980s have vividly shown that the reform programmes failed to address the real issues. Payer's (1974) study of Phillipines, Indonesia, Indo-China, Yugoslavia, Brazil, India, Chile, Ghana and North Korea, for instance clearly shows that reform programmes merely consolidated the structure which sustains and perpetuates the "under-development" of the TWCs, thereby pushing them deeper into the abyss of debt.

There have been many studies carried out on Africa of recent, some of which include Onitiri (1985); UN/ECA and the OAU (1982) assessment of SAP.[20] Though their observations were done on a more or less theoretical level the conclusions reached are telling. Indeed further and more recent studies carried out on the implementation of SAP in Africa and Nigeria in particular seem to confirm the observations of Payer (1974) and others.[21]

Various interpretations of the above scenario could be offered. But we strongly believe that the most objective interpretation, given the facts on the ground cannot be devoid of finance capital's motive of promoting and protecting its strategic interests in Nigeria and Africa as a whole.

For one, we know that the capitalist system is a crisis-prone system - plagued with all sorts of contradictions which

from time to time put TWCs in precarious circumstance. This is a situation that the capitalists in DCs and their lackeys in the TWCs never wanted or/and usually unanticipate. This is because any slight recession in the capitalist world has adverse repercussion on private accumulation both at home and abroad.

The parasitic nature of the DCs makes it such that whenever there is a world recession the DCs device ways and means (given their level of technical development and flexibility) of cushioning the adverse effects of the crisis by further tightening their grip on TWCs via further penetriation, using of course none other opportunity than debt crisis. Usually this comes under the rubric of liberalisation and free market.

Historical perspective has shown that Britain was once the strongest supporters of protectionism especially in the early part of its industrialisation drive. But after having developed its productive base and export-oriented economy it became a stout advocate of Laissez faire, Laissez passe policy. This was the gospel Britain preached to the Americans which then constituted its most important markets, all in a bid to tighten its stranglehold on the latter. USA in like manner used the same technique/tactic to penetrate the Latin American countries and Asia in the 18th and 19th centuries.[22]

It appears therefore that the same trick is currently being used by the DCs in forcing the TWCs to open up their already beelding veins for further capitalist penetration. For the DCs found out that their operations were constrained in the 1950s and 1960s following the "winning" of nominal independence by their erstwhile spheres of influence, and in most cases, accompanied by a new source national wealth - oil. The latter made independent development possible especially via "industrialisation" and protectionism.

This is why the nation's creditors insisted that Nigeria should do business with the IMF and the World Bank, knowing fully well that SAP cannot provide the former with an indigenous path to development but rather a subservient and lopsided one.

Now are there evidence to show for all this? The answer, we feel, is in the affirmative.

Dubeity of Nigeria's external debt

The manner in which loans were contracted and acquired ever since Nigeria ventured into the ICM has left much to be desired. We have previously cited an example of how the country was bled by some foreign interest and their Nigerian accomplices sometimes in 1980. Thus criminal acts have not only swell the country's outstanding debts and burden but have made Nigerians to suspect that perhaps a large chunk of the debts owed are fictitious.

Indeed since the crisis was officially acknowledged in 1982 no solid and reliable data have been established to confirm the total value of the debts. For instance, when the London Club submitted claims totalling $8.8 billion to the FG, Nigerian importers replied with counter-claims of $6.4 billion.[23]

The fear that Nigeria is only honouring dubious claims seems to have been confirmed by the reports of various commissions of inquiry set up to verify the authenticity of debt claims on Nigeria. For example, the verification exercises carried out by Manhattan Bank in 1986 and Nazif Commission in Bauchi in 1988 confirmed that about 40% of the claims are false. In fact the most recent verification of our debt - the one undertaken by Standard Chartered Bank PLC on behalf of the Federal Government - led to the latter's rejection of some $4.0 billion worth of external debt considered to be doubtful.[24]

The misuse of borrowed funds myth

It is popularly asserted in the literature that in almost all cases, the loans contracted from foreign sources since 1978 have been wasted on unviable projects such as the provision of infrastructures - construction of Benin-Shagamu express way, paper mills at Jebba, Calabar and Iwopin, sugar projects, iron and steel industries and refineries at Suti Lafiagi, Ajaokuta, Warri and Kaduna.[25] However what

commentators often tend to forget is that Nigeria as a country trying to industrialise, needs such infrastructures. Afterall the private sector cannot due to its its make-profit-quick philosophy carry out such projects if left alone. Moreso, foreign and domestic investors would not want to invest in an economy that does have necessary infrastructures provided by the state.

Perhaps what should have been said regarding such projects is that they serve as appropriate conduits for the siphoning away of the country's foreign exchange through inflation of front end fees or management fees, over- and under-invoicing (whichever the case may be); and non-shipment of credit had been opened etc. The nature and implication of these social vices we have discussed in Section 4.2.

Capital haemorrhage under the SAP

Perhaps the most lucid way the motive of finance capital is manifested most recently is in the so-called cocoa boom of 1987.

The evolution of SAP was expected to among other things minimize dependence of imports and oil sector, enhance non-oil export base, and bring the economy back on the path of steady and balance growth. To this effect, the FG decided to scrap the commodity boards, abolish export licencing and allow retention of exports proceeds. Then all of a sudden, there was an upsurge in the local price of cocoa whereas the

world market price was falling. Many commentators then concluded that the boom was a "localised" one which not only showed the effect of the scrapping of the Nigerian Cocoa Board but an indication that SAP was really working, afterall farmers were enjoying unprecedented realistic results of deregulations of the market!

For the period following the abolition of the Cocoa Board[26] a tonne of cocoa attracted between N3,500 and N4,000 and by the end of the season settled at about N5,000 per tonne. In the ensuing season a tonne went to N8,400 especially of graded cocoa and at a time when world market price was declining. Statistics from the international cocoa organisation show that the average price of cocoa stood at between £1,500 on the London Terminal Market. In contrast with the local prices which have risen to astronomical levels it seemed the more the price falls at the world market the higher it goes at the local market.[27] However, by the end of 1988 and early quarter of 1989 the so-called cocoa boom had turned out to be a disaster for Nigerian cocoa farmers as foreign merchants shied away from Nigeria on the pretext that the country's cocoa was of substandard quality (the effects of which is aptly captured by the trends in Tables 12, 13 and 14).

Recent studies on the boom seem to suggest that foreign and domestic interests used the deregulations in the foreign exchange market and cocoa market and of course all those incentives given exporters to repatriate accumulated supluses

they generated in Nigeria.[28] For the local prices offered by the export marketing companies appeared unrealistic. At the 1987 world price of £1,050 or ₦7,500, it was clear that the export marketing companies could have made losses as their offer price was ₦8,000 which by far outstrips the realisable price at the world market. Moreso, the chaotic manner in which the trade was conducted left much to be desired. Pricing problems aside, the adulteration of the market by traders was a source of concern even to the government.

There is abundant evidence to show that many inexperienced produce merchants were springing up in the trade, and as a result of their limited knowledge of the cocoa business, they were said to have presented for grading all kinds of cocoa, regardless of their quality. Consequently, the Nigerian cocoa received a lot of bashing at the world market thereby losing the high premium it previously enjoyed. This has prompted the FG to insist on registering all private buyers and enforced grading regulations. But when it discovered that the practice still continued to harm the economy it slammed a ban on exportation of raw cocoa and other commodities sometime later in 1989.

These startling revelations are certainly and graphically made apparent because of the method of analysis (which appears not only to be robust but inter-disciplinary) we have adopted. This therefore makes it more revealing and telling than Raheem's which utilizes the econometric logic.

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CHAPTER FIVE

SUMMARY AND CONCLUSION/RECOMMENDATION

> "Development is endogenous - there is no 'front runners' to be followed. One can be impressed, inspired by others' achievements, but any attempt to emulate could at best produce a carbon copy in which the originality of a creative social life and evolution would be lost." - A. RAHMAN ("Towards An Alternative Development Paradigm", 1991).

5.1 SUMMARY

We have identified the various perspectives from which explanation of the world external debt crisis can be sought; and of course the implication of approaching the problem from this vintage position. We then provided a critical examination of the causes of the debt crisis and came to the conclusion that it emanated from the recurrent crisis of the world capitalist system.

After that we examined the various proposals put forward by numerous authors and agencies and attempted to locate the various debt management policies within the global debt strategies. Our analysis consequently led us to conclude that the various debt policy measures were premised upon wrong assumption: that the basic cause of the crisis was faulty domestic economic policies compounded by leakages and capital flight.

This seems to have provided the justification for the articulation of SAP which invariably insists on scouting for external advice and supervision to ensure the adoption and implementation of "appropriate" domestic policies. Unfortunately however, policy measures such as overtight austerity programme which necessarily entails controls on the level of the government expenditures, controls on the use of domestic credit, the elimination of subsidies, increases in producer prices for agricultural produce, the adaption of (S)FEM, privatisation and commercialisation of public corporations, seem to be pushing the economy further into the abyss of debt slavery.

Finally we demonstrated that finance capital sees Nigeria's debt crisis as an opportunity to further penetrate and tighten up the economy to the capitalist exploitative stranglehold by doing away with restrictions and constraints imposed by various measures implemented by the country in its drive for industrialisation, especially in the 1960s and 1970s.

5.2 CONCLUSION/RECOMMENDATION

The methodological postulates of logical consistency and adequacy demand that recommendation of any study like this one should be premised upon the observations resulting from the appraisal of the policy issue under research.[1] In

fulfilment of this requirement therefore we shall start our recommendation with the debt strategy.

Debt strategy

We have demonstrated that Nigeria is characterised fundamentally by a weak domestic productive base which is made so by certain developments. One of such developments is the operation of the world capitalist system. Another is the lopsidedness of production, exchange and consumption patterns which usually manifest themselves in a variety of ways: heavy dependence on the exports of primary commodities and minerals for the generation of foreign exchange that is in turn repatriated out to facilitate the importation of consumer and capital goods necessary for its sustenance.

All this has made the rhyme and rythm of the Nigerian economy to be determined by and tailored to suit the strategic interests of finance capital. This is manifested in policy articulation and implementation. It is obvious from our analysis of the implications of Nigeria's debt strategy that the additional foreign exchange got from exportation of primary goods between 1982 and 1989 was used to service and retire largely dubious debts. This foreign exchange ought to have been used to expand the economy via importation of needed raw materials and basic industrial inputs for the kind of industries we have in Nigeria. We have also seen that the likelihood that the debt strategy

will help get Nigeria out of its economic quagmire is next to nil.

So, if any lasting solution to the debt crisis is to be found, Nigeria should be in a position to articulate and implement a comprehensive indigenous debt strategy, which should be an integral part of a long-term economic strategy. The debt strategy should be indigenous in the sense that evaluation, timing and terms of servicing and retiring of the nation's outstanding debt would be consisting with national wishes and aspirations, available resources, ability and willingness to pay. In this regard, the following recommendation would be in order:

* a thorough verification of Nigeria's outstanding debt should be carried out. This exercise should be such that will identify the dubious circumstances sorrounding the contraction, disbursement and utilisation of all debts incurred since 1978 to date.

* Nigeria should make it bold to refuse servicing and paying all the dubious debts found by the debt verification exercise. Also, Nigeria should seek a debt moratorium whereby agreement would be reached with the nation's creditors to allow Nigeria delay its debt payment and servicing for some twenty or more years. If the response of the creditors is blunt refusal, then Nigeria should simply refuse to honour such debts, arguing that it ought to be compensated for all the exploitation it was subjected to during the post- and

colonial days by the West. This however, is suppose to be a short-run solution which is meant to bid some breathing space for the economy to pick up so long as the economy is firmly in control of Nigerians.

* The establishment of Nigeria Ministry of Internal and External Debts (NMIED) fully manned by qualified professionals and specialists on the debt problem. The terms of reference of such a ministry should be to coordinate and monitor verification exercises of the country's debts; appraise the credit-worthiness of, and from time to time monitor, the projects for which loans are contracted; advice the government on how best to service and amortize the country's debts, which itself should be premised upon objective resource-evaluation of possibilities on the long-term basis;

* As Nigeria cannot extricate itself totally from the mechination of international capitalist community especially after it might have adopted the above indigenous debt strategy, it should at the regional or global level be in the forefront in advocating for the formation of a regional/global debtors club. This should be part of its foreign policy perspective. The need for such a global/regional forum becomes very necessary because of two reasons: (1) apart from the fact that the creditor clubs and other multi-lateral/unilateral credit organisations deal with debtors on a case-by-case basis, they often forced the debtor countries

to adopt policies that would only suit the former's interests; (2) the call for a new international economic order, which inter alia includes a call for improvement in the international trade and financial agreements, can only be meaningful if debtors' forum is formed. Of course, it is obvious that the forum would have an uphill task as the creditor nations would use all means at their disposal to undermine its effective operation. We however believe that the exercise would be worthwhile, given the experience of Organisation of Petroleum Producing Countries (OPEC), its shortcomings notwithstanding.

The need for an indigenous reform programme

Owing to the fact that the verified outstanding claims would have to be paid eventually in future with domestic resources which depend on the performance of the economy, the suggested Nigerian debt strategy must be implemented side-by-side with an indigenous structural reforms programme. Unlike the present IMF/World Bank sponsored SAP which seems never to touch on the fundamental issues relating to the essential social and technical relations inherent in the productive base and superstructure, the Nigerian reform programme (NIRP) should concentrate on providing a long-term economy strategy. The emphasis of this particular strategy should be inward-oriented: developing the economic base and at the same time re-orienting the basic thrust of overall economic strategy to be in tune with the national aspiration of locating the

engine of growth and developing within the domestic sectors rather than the foreign sector which, since the incorporation of the Nigerian economy into the capitalist mode of production, has been the case. This would be in line with the balanced and basic need approaches to economic development, which emphasize on developing the weaker but essential sectors of the economy. The latter will invariably serve as booster to enhanced economic activity that would first seek to satisfy the needs of domestic markets before the economy ventures into export-oriented production.

However, the realisation of the NIRP cannot be achieved without making the economy a kind of closed economy. It should be noted that the status of being a closed economy would not prevent Nigeria of marketing and exporting some tradeable commodities such as fuel and other basic mineral, as the terms of marketing are determined to a large extent by OPEC and not the socalled free international capitalist markets. This would make Nigeria less prone to the counter-productive measures, its creditors might take against it following the adoption of Nigeria's debt strategy. Even if there should be reforms in the international economic area, the choice of NIRP as economic strategy would be relevant in the sense that external causes are the <u>conditions</u> of change and internal causes, the <u>basis</u> of change; external causes become operative through internal causes. To drive the nail home, let us take an example. In a suitable temperature an egg changes into a chicken, but no temperature can change a

stone into a chicken, because each has a different basis. We can draw an analogy from the workings of a society. There is constant interaction between the people of different countries. The interaction and mutual impact of different countries in the political, economic and cultural spheres are extremely great. They exert influence on internal changes in the other countries in the world. These changes however were effected through the inner laws of development of the countries. It is through internal causes therefore that external causes become operative.

To adopt the NIRP, the road to self-perpetuating growth and development would certainly not be an easy task. But considering the enormous human and material resources Nigeria has presently, there is the possibility that this strategy will sail through all stormy obstacles that are likely to put on Nigeria's path to development by the West. However, this strategy can never be realised if a comprehensive planning process is not adopted, for as Onimode (1976) rightly observes that the history of planned economic development reveals, comprehensive planning cannot be successful unless the commanding heights (that is, basic industries, transport communication, banking and finance) are in the public hands.[2] However, Onimode failed to assert, in addition, that if planning is a process where man consciously and deliberately attempt to comprehend the laws of nature and society and in due course utilizes such laws to avoid accidents and improve the well-being of humanity, then there should be a radical

change in the attitude and actions towards planning in Nigeria.

It therefore follows that if the planning process is to be meaningful in Nigeria such process must satisfy the following requirements:

* a comprehensive examination of natural and social processes and their dynamics in the Nigerian system;

* identification of various alternatives, resource potentials and constraints;

* setting of objectives and rationale of the plan;

* specification of strategy and tactics for the implementation of specific plan projects;

* efficient resource allocation and adequate provision of institutional structure and infrastructures;

* a highly flexible planning structure and process that would allow fast and prompt evaluation, monitoring and response to changing signals.[3]

The planning machinery should be such that in satisfying the rising material and cultural requirements of its population, Nigeria must ensure a speedy and balanced growth of production and a rational distribution of products for both consumption and production. In this regard, special agencies to keep track of the GNP must be

instituted. A planning commission, to be named Nigerian Planning Coordination Commission (NPCC) should work out a proper ratio between the national resources to be earmarked to consumption and investment; distribute or allocate such resources, especially investable resources to sectors involved in material production, intellectual and other pursuits; allocate resources to the consumption sector among different sections of the populations. This approach is different from the one Nigeria has been pursuing since independence whereby the industrialisation strategy of allocating resources is biased in favour of import-substitution consumer industries. This approach seeks to provide material guarantees for national construction and the people's livelihood and also sees to a general balance between domestic supply and demand.

Nigeria should scientifically work out a single national economic plan, without which it cannot organize the nation for a struggle to achieve its objectives. However, this does not mean an all-inclusive plan setting arbitrary targets for the grassroots. It is certainly going to be impracticable in the sense that there are millions of products and even a greater number of varieties and specialisations of these products which cannot be covered by a single plan. While it cannot be denied that NPCC could work out accurate figures for a few dozen products, it could only make rough estimates for the rest. Even in the case of the former, the figures cannot possibly cover all varieties and specifications, which

can only be determined by business agencies or between suppliers and users. And since production and demand change from time to time, careful and exact planning by higher authorities creates difficulties in balancing supply and demand.

Needless to say, this requirement is consistent with the alternative view of development represented by converging trends in grassroot movements which reject the notion that development can be "delivered" from "above". Development, meaning the development of peoples and societies is an organic process of healthy growth of creative faculties and their application. Of course this process may be stimulated and facilitated by external elements but any attempt to force it toward one's own standards from the outside can only result in maiming it. Development should be endogenous where no "front runners" are to be followd. "One could be inspired or impressed by others' achievements but any (frantic) attempt to remulate could at best produce a carbon copy in which the originality of a creative social life and evolution would be lost."[4]

In mass-oriented and indigenous development strategy, which we are recommending here, thereofre, our reality will be constructed by grassroot social formations and not by "top-down" professional investigation. However, this does not belittle the role of professionals to contribute to the construction of specific aspects of reality, for instance, a broad national and international aspects of which popular

forces may not be accessible to. Certain skills of professionals are actually requisite at the grassroots in assessing specific aspects of reality, and a constructive interaction between the two has the possibility of enhancing popular construction of our reality. This would not only always grant the right of popular forces to consider adapting or rejecting any external input to their own effort at creating their own reality but will give the opportunity for the professionals to learn and be enriched immensely.

As regards best strategy to adopt for the basic industry our choice of products, industrial structure, ownership and distribution patterns, choice of technology, should be consistent with the national objective of providing equitably for the needs of our people; establishing the basis of self-sustaining industrialisation; and ensuring effective and genuine control over our industries, and the maximum utilisation of all our domestic resources. However, the realisation of all this would be a mirage if we do not base our choice on the production of the basic materials required by our population (food, clothing, drugs, educational materials, household items); the production of intermediate inputs for industry, construction, transport, communication; the production of tools and employments for agricultural production; and most importantly, the production of machines and tools for the production of other machines.[5]

Basic industries must be owned and managed by the state, but they too must be allowed some degree of freedom in

carrying out state plans. Most of the productions and sales plans worked out by the NPCC for these enterprises should likewise serve as suggestions. Decentralisation of control over income and expenditure of such enterprises should be encouraged to give them financial power and responsibility. However, to ensure steady supplies and market stability, the state will have to monopolise purchase and marketing of products vital to the economy and the people's livelihood, such as iron and steel, coal, grains and other basic items. On the other hand, it should gradually relinquish its monopoly over the many goods and services of daily use and open them to free purchase and marketing by commercial agencies.

All the proposals advanced above entail proper mobilisation and utilisation of material potentials and resources. But they cannot be achieved with supplementary effort from the angle of political and social orientation regarding national and civic and national responsibility. This campaign for a change in national orientation should be geared towards encouraging Nigerians to readjust their taste and consumption pattern to suit the present dispensation. Also, a campaign to make all Nigerians committed to work diligently and selflessly and also defend their national secutiry should form part of mass literacy programme.

In all this way, sufficient attention would be paid to the improvement of the people's livelihood as well as

guarantee a proportionate and speedy development of the economy to satisfy the varying and growing needs in national construction and economic independence.

Only after these have been met should Nigeria start aiming at the regional market, other developing countries markets and eventually the world market. We believe that after all this had been realised, the nation would be in a position to reconsider whether to start paying back all the verified outstanding debts it owed.

5.3 END NOTES

1. See Chapter Two for the definitions of the various postulates.

2. Bade Onimode: "Planning and Plan Implementation: A Critique of Concepts and Methodology", in A. Fadahunsi (ed): Planning and Plan Implementation, Proceedings of a Seminar held at Ilorin in August 1976.

3. See I.G. Umaru: "Planning for Change: A Conceptual Framework", an unpublished term paper presented at the Department of Economics, ABU, Zaria (1990).

4. Anisur Rahman: "Towards an Alternative Development Paradigm" in IFDA Dossier 81, April/June 1991.

5. NES: Capital Goods and Technological Development in Nigeria, Nigerian Economic Society Annal Conference (1990); and Abba, A. (et al): The Nigerian Economic Crisis: Causes and Solutions, Gaskiya Corporation Ltd (1985).

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TABLE 1: NIGERIA: EXTERNAL PUBLIC DEBT (END OF PERIOD)
(₦ million)

	1982	1983	1984**	1985
1. COMMITMENTS* (Total)	14741.5	17758.4	22384.5	212004
2. TOTAL DRAWINGS	10187.1	12845.0	16929.9	15917.7
a) Conventional Loans	8205.4	10086.2	11486.2	12771.6
b) Trade Arrears	1981.7	2758.8	5443.7	3619.6
3. TOTAL REPAYMENTS	1367.7	2267.3	4083.2	4531.6
4. TOTAL OUTSTANDING OF WHICH	6819.4	10577.7	12846.7	11386.1
a) Federal Government Debt Obligation	6801.0	8576.8	10945.8	12376.8
i) ICM Loans	4431.4	3907.0	3228.9	8800.6
ii) World Bank loans	280.7	295.1	900.1***	1271.9
iii) Bilateral loans	107.2	91.3	180.0	723.0
iv) Refinanced Trade Debt/ Promissory Notes	-	1524.6	1193.1	1581.3
v) Unrefinanced Trade Arrears	1981.7	2758.8	5443.7	3619.6
b) State Govt Obligations	2018.4	2000.0	1900.9	5104.0
i) ICM loans	1043.0	1119.5	1131.5	3217.1
ii) World Bank loans	249.7	271.3	371.1	1143.6
iii) Bilateral loans	56.0	88.0	85.7	289.25
iv) Unguaranteed State Government's loans	66.7	522.1	312.6	454.0

*Includes Trade Arrears
**Provisional
***Includes import of capital goods financed by the World Bank

SOURCE: CBN: Annual Report and Statement of Accounts, December 31, 1984, Federal Ministry of Fiance, Lagos.

TABLE 2: NIGERIA: STATE DEBTS (TOTAL)

STATE	AMOUNT (₦ MILLION)
Anambra	748.60
Bauchi	549.90
Bendel	678.13
Benue	460.02
Borno	1,028.91
Cross River	460.17
Gongola	1,065.23
Imo	630.29
Kaduna	525.44
Kano	578.05
Kwara	202.29
Lagos	593.79
Niger	390.05
Ogun	480.19
Ondo	734.50
Oyo	1,208.03
Plateau	668.48
Rivers	
Sokoto	890.15
TOTAL =	13,292.38

SOURCE: CBN: Economic and Financial Review and Mohammed Siddique and Tony Odoh: Nigeria: A Republic in Ruins (Gaskiya Corporation, 1986), p 133.

TABLE 3: NIGERIA: DEBT MANAGEMENT AND ECONOMIC PERFORMANCE IN NIGERIA (₦ MILLION)

	1980	1981	1982	1983	1984	1985
Debt Service			1128	2097	3540	5534
Amortisation			477	1130	2292	3094
Interest			649	967	1248	2436
External Debt (Year End)			15053	17781	18291	17499
Gross Reserves (Yr End)			1960	1346	1249	1056
Import Cover (Weeks)			6.00	5.72	6.34	6.00
Export Growth (%)						
Nominal			-23.9	-18.8	11.2	-1.6
Real			-19.7	-5.1	15.1	2.2
Import Growth (%)						
Nominal			-7.6	-28.0	-16.3	-10.7
Real			[illegible]	[illegible]	-21.6	-12.0
Debt Service/Export (%)			9.7	19.9	30.3	48.1
Amortisation			3.7	10.7	19.6	26.9
Interest			5.0	9.2	10.7	21.2
External Debt/GDP (%)			15.6	21.2	18.2	17.0
GDP Growth (%)						
Nominal			[illegible]	[illegible]	[illegible]63	18.79
Real			-1.91	-6.37	-0.56	-
Overall Bal of Payments			-5418	-4752	-295	-394
GDP Real Growth Rates in Primary Production (₦ million)			-3.91	-18.21	-10.26	-4.71	427
Agriculture (₦ m)			+4.93	-5.77	-6.83	-5.24	150
Mining			-10.11	-28.42	-14.67	-3.96	7.54
Petroleum			-11.62	-31.64	-13.73	-2.59	8.54

SOURCE: IMF: Nigeria: Preliminary Observations of the 1984 Article IV Consultation Mission, Feb. 1985.

TABLE 4: NIGERIA: TERMS AND CONDITIONS OF BANK DEBT RESTRUCTURING IN JULY AND SEPTEMBER 1983

DATE OF AGREEMENT AND TYPES OF DEBT RESCHEDULED	BASIS	AMOUNT PROVIDED ($ m)	GRACE PERIOD	MATURITY	INTEREST RATES (IN %) SPREAD OVER LIBOR-US PRIME RATE
Agreement of July 1983 Arrears as of End March 1983	100% of Arrears on Letters of Credits	1,350	5½ mon	3 years	1.5 - 1.375
Agreement of September 1983 Arrears as of End March 1983	100% of Arrears on Letters of Credits	480	3½ mon	2 years	1.5 - 1.375
In Progress New Loans	New Financing	1,000-1,200	2½ mon	6 years	

KEY

Mon = Months

SOURCE: "The External Debt of Sub-Saharan Africa: Origins, Magnitude and Implications for Africa" (K.L. Krumm): World Bank Staff Working Paper No 741, Table 10, p 54.

TABLE 5: NIGERIA: SECTORAL BREAKDOWN OF APPLICATIONS RECEIVED FOR DEBT CONVERSION AS AT END OF DECEMBER, 1989

SECTOR	NO. AND VALUE OF APPLICATIONS RECEIVED IN				CUMULATIVE FIGURES AS AT	
	1988 (Aug-Dec)		1989 (Jan-Dec)		December 31, 1989	
	No of Applications	Value in US $ m	No of Applications	Value in US $m	No. of Applications	Value in US $ m
Agriculture	31	1,164.7	8	48.3	39	1,213.1
Manufacturing	35	224.5	32	156.9	67	381.3
Mining and Exploration	2	10.6	1	8.0	3	18.6
Building and Construction	-	-	3	10.4	3	10.4
Hotel and Tourism	4	181.7	1	50.0	5	231.7
Gifts and Grants	8	40.0	4	47.2	12	87.2
Others	1	93.7	3	12.5	4	106.2
TOTAL	81	1,715.2	52	333.3	133	2,048.5

SOURCE: CBN: Annual Report and Statement of Accounts December 31, 1989, p 99.

TABLE 6: NIGERIA: SECTORAL BREAKDOWN OF APPLICATIONS RECEIVED FOR DEBT CONVERSION WITH APPROVAL IN PRINCIPLES AS AT DECEMBER 1989

	NO AND VALUE OF APPLICATIONS RECEIVED IN				CUMULATIVE APPLICATIONS WITH APPROVAL IN PRINCIPLES	
	1988 (Aug-Dec)		1989 (Jan-Dec)		No of Applications	Value in US $ m
	No of Applications	Value in US $ m	No of Applications	Value in US $ m		
Agriculture	20	218.6	9	55.6	29	274.2
Manufacturing	21	84.2	33	260.5	24	344.7
Mining and Exploration	1	8.0	1	2.6	2	10.6
Building and Construction	-	-	2	9.7	2	9.7
Hotel & Tourism	3	181.5	1	0.2	4	181.7
Gifts & Grants	3	26.2	3	62.3	6	88.5
Others	1	93.7	-	-	1	93.7
TOTAL	49	612.3	49	390.9	98	1,003.1

SOURCE: CBN: Annual Report and Statement of Accounts, December 31, 1989.

TABLE 7: NIGERIA: SECTORAL DISTRIBUTION OF DISBURSEMENT AS AT END OF DECEMBER 1989

SECTOR	NO OF APPLICATIONS	AMOUNT ₦ m)
Agriculture	5	177.4
Manufacturing	21	303.4
Building and Construction	1	10.3
Gifts and Grants	5	237.7
Others	3	78.6*
TOTAL	35	807.4

*No movement of fund outside the Central Bank of Nigeria was involved.

SOURCE: CBN: Annual Report and Statement of Accounts, December 31, 1989, p 100.

TABLE 8: NIGERIA: SUMMARY OF TOTAL DEBT CONVERSION DONE AS END OF DECEMBER 1989

	TOTAL AMT RECEIVED: US $ m	%	DISCOUNT OFFERED IN US $ m	₦ million	DISCOUNT REDEEMED US $ m	₦ mil	CONVERSION PAID US $m	₦ m
From Auctions	222.4	47.8	106.5	743.2	116.0	791.1	2.8	2.0
Out of Auctions	34.3	51.3	43.9	324	40.9	297.6	1.7	0.9
TOTAL	306.7	-	150.4	1,067.7	156.9	1088.7	4.5	2.9

SOURCE: CBN: Annual Report and Statement of Accounts, December 31, 1989, p 100.

TABLE 9: NIGERIA: DEBT RESTRUCTURINGS (US $ million)

	1970	1980	1982	1983	1984	1985	1986	1987	1988	1989
Principal Rescheduled	0	0	0	-	-	0	1253	2227	20	2627
Interest Rescheduled	0	0	0	-	-	0	443	448	9	1268
Principal Forgiven	-	-	-	-	-	-	0	0	0	0
Disbursement from Rescheduling	0	0	0	-	-	1415	5879	7784	1684	9497
Debt Stocks Rescheduled	0	0	0	-	-	1415	2602	4884	1654	5697
Debt Stock Reduction	0	0	0	-	-	0	0	0	40	257

SOURCE: The World Bank: The World Debt Tables 1990-91. Washington DC. p 269.

TABLE 10: NIGERIA: SELECTED ECONOMIC INDICATORS AND PRINCIPAL DEBT RATIOS (₦ million)

	AVERAGE 1971-1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total Debt Outstanding	328.4	1265.7	1611.5	1866.8	2331.2	8819.4	10577.7	14536.6	17290.6	41451.9	100789.1	133956.3	212750.8	
Total Debt Service	30.4	160.8	182.9	110.4	518.5	775.2	1335.2	2640.5	3718.0	2502.2	3590.6	8012.5	15577.7	
Principal	14.7	66.1	65.7	6.2	211.3	321.2	899.6	1856.9	2737.5	1515.0	1208.8	2663.5	6987.5	
Interest	15.7	94.7	117.2	104.2	307.2	454.0	435.6	783.6	980.5	987.2	2365.8	5477.2	8590.2	
GDP at Current Factor Cost	17457.4	34540.1	41974.3	49632.3	57569.8	58830.1	60679.0	68662.1	78775.6	81292.8	107640.0	136958.7	158271.0#	
Total Exports	4310.0	6064.4	10836.8	14077.0	10470.1	8722.5	7502.5	9088.0	11720.88	8920.5	30239.9	31192.8	57971.2	
Total Imports	2999.3	8211.7	7472.5	9658.1	12013.2	12565.5	8903.7	7178.3	7932.9	5983.6	17861.7	21445.7	30860.2	
External Reserves	1931.3	1192.5	3043.0	5445.2	2424.8	1026.6	725.2	1080.0	1641.1	3587.4	4643.3	3428.3	13473.8	
Debt/GDP (%)	1.9	3.7	3.8	3.8	4.0	14.9	17.4	21.2	21.9	51.0	93.6	97.8	134.4	
Debt/Exports (%)	7.9	20.9	14.9	13.3	22.3	101.1	141.0	160.0	154.2	486.9	333.3	429.4	367.0	
Debt Service Ratio (%)	0.7	2.9	1.7	0.8	5.0	8.9	17.8	29.1	31.7	28.0	11.9	26.1	26.9	
Interest/Exports (%)	0.4	2.7	1.1	0.7	2.9	5.2	5.8	8.6	8.4	11.1	7.4	17.6	14.8	
Reserves/Debt (%)	588.1	94.2	188.8	291.7	104.0	11.6	6.9	7.4	9.5	8.7	4.6	2.6	6.8	
Reserves/Imports (No of Months)	7.73	1.74	4.89	6.77	2.42	0.98	0.98	1.89	2.48	7.19	3.12	1.58	2.8##	

#Figure from World Bank: World Debt Tables, 1990-91 vol 2, p 267.
##Computed from IMF: International Financial Statistics, 1990.

TABLE 9: NIGERIA: DEBT RESTRUCTURINGS (US $ million)

	1970	1980	1982	1983	1984	1985	1986	1987	1988	1989
Principal Rescheduled	0	0	0	-	-	0	1253	2227	20	2627
Interest Rescheduled	0	0	0	-	-	0	443	448	9	1268
Principal Forgiven	-	-	-	-	-	-	0	0	0	0
Disbursement from Rescheduling	0	0	0	-	-	1415	5679	7784	1684	9497
Debt Stocks Rescheduled	0	0	0	-	-	1415	2602	4884	1654	5697
Debt Stock Reduction	0	0	0	-	-	0	0	0	40	257

SOURCE: The World Bank: The World Debt Tables 1990-91, Washington DC, p 269.

TABLE 11: NIGERIA: EXTERNAL DEBT OUTSTANDING (END OF PERIOD) (₦ million)

	1971-1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988#	1989##
Total Debt Outstanding	328.4	1265.7	1611.5	1866.5	2331.4	8819.4	10577.7	14536.6	17290.6	41451.9	100789.1	133956.3	212750.8
Breakdown by Source (%)													
Bilateral	58.6	16.6	25.2	25.9	28.1	1.9	1.7	2.4	2.1	2.8	2.0	2.5	2.49
Multilateral	32.8	12.2	10.2	9.7	7.8	6.0	5.4	8.7	7.4	11.3	8.7	7.5	8.49
International Capital Mrkt	-	50.6	63.8	58.4	56.5	62.1	47.5	41.5	44.7	52.4	40.2	40.0	34.13
Refinanced Arrears	-	-	-	-	-	-	14.4	7.9	7.4	10.0	32.6	32.8	NA
Unrefinanced Arrears	-	-	-	-	-	27.5	26.1	37.4	35.7	20.4	11.6	12.9	NA
Others	8.6	20.6	0.8	0.6	7.6	7.5	4.9	2.1	2.7	3.1	1.9	4.3	NA
Breakdown by Type (%)													
Medium/Long-term	100.0	100.0	100.0	100.0	100.0	77.2	73.9	62.6	64.3	79.6	85.4	87.1	NA
Short-term	-	-	-	-	-	22.5	26.1	37.4	35.7	20.4	14.6	12.9	NA
Dollar Value of Debt Outstanding (US $m)	509.9	2163.8	2824.6	3444.8	3667.7	13124.1	14130.7	18034.1	17297.5	18631.3	23445.1	31947.0###	32832.0###

#Figures as at September 1988, except those fo trade arrears which were as at December 1988
##Figures as at September 1989
###Figures from the World Debt Tables
NA = Not Available

SOURCES: 1. Nigeria: Federal Ministry of Finance and Economic Development, Lagos and CBN.
2. The World Bank: The World Debt Tables, 1990-1991.

TABLE 12: NIGERIA: EXPORT OF MAJOR AGRICULTURAL COMMODITIES (SELECTED ITEMS)

COMMODITY	QUANTITY ('000 TONNES)				VALUE (₦ MILLION)				PERCENTAGE OF TOTAL EXPORT VALUE			
	1986	1987	1988*	1989**	1986	1987	1988*	1989**	1986	1987	1988*	1989**
Cocoa	148.4	201.5	110.4	115.1	370.[illegible]	30.2	[illegible].9	115.9	4.5	0.1	0.[illegible]	.2
Palm Kernels	33.0	38.6	67.4	103.0	7.[illegible]	30.2	1.4	1.6	0.1	0.2	0.7	.9
Groundnut	0.03	-	0.4	-	0.[illegible]	-	1.4	-	-	-	***	***
Major Agricultural Products	242.8	332.5	497.4	365.9	407.4	1588.5	1794.2	1739.1	4.5	5.2	5.7	3.0

*Revised
**Provisional
***Ineligible

SOURCE: CBN: Annual Report & Statement of Accounts, 1987, 1988, 1989 (Ends of Year).

TABLE 13: NIGERIA: AVERAGE WORLD PRICES OF NIGERIA'S AGRICULTURAL COMMODITIES (SELECTED ITEMS (NAIRA PER TONNE)

YEAR	COCOA	PALM KERNEL	RUBBER	GROUNDNUT
1986	3,633.2	254.4	1,920.6	NA
1987	7,966.0	744.3	3,888.0	NA
1988	7,168.6	1,121.4	5,391.5	2,857.3
1989	7,167.5	1,857.6	7,223.3	NA

NA = Not Available.

SOURCE: CBN: Economic and Financial Review Vol 28 No 2, June 1990, p 117.

TABLE 14: NIGERIA: CAPITAL GOODS AND RAW MATERIAL IMPORTS (N MILLION)

YEAR	CAPITAL EQUIPMENT	RAW MATERIAL
1974	490.1	519.3
1975	1,136.6	903.0
1976	1,515.0	1,094.0
1977	2,129.8	1,543.0
1978	2,595.5	1,880.0
1979	1,376.9	1,115.7
1980	2,228.8	2,166.9
1981	2,661.3	3,038.5

SOURCE: Extracted from Committee of Experts' Reports Table 6.

TABLE 15: COMPOSITE CONSUMER PRICE INDEX (CCPI) AND RATE OF INFLATION 1979-1989 (1960 = 100)

YEAR	1979	1980	19881	1982	1983	1984	1985	1986	1987	1988	1989
CCPI	532.3	585.1	707.1	761.4	938.5	1909.6	1382.0	1456.2	1602.8	2218.5	3125.3
Rate of Inflat-tion	11.8	9.9	20.9	7.7	23.2	39.5	5.5	5.4	10.1	38.1	40.9

SOURCE: CBN: Annual Report and Statement of Accounts (several years).