PUBLIC DEBT MANAGEMENT IN NIGERIA

by

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Being a Research Project submitted to the Post Graduate Ahmadu Bello University, Zaria in partial fulfilment of the requirements for the award of the Degree of Masters in Business Administration (MBA)

October, 1997

DEDICATION

I hereby declared that this research project entitled public Debt Management in Nigeria is the result of my research efforts and has never been presented for the award of a Degree. All materials used for the purpose have been duely acknowledged by way of references and Bibliography.

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Date

CERTIFICATION

This is to certify that the research project entitled public Debt Management in Nigeria" meets the requirements for the award of the Degree of Master in Business Administration of Ahmadu Bello University, Zaria is hereby approved for it's contribution to knowledge and litrary presentation.

Internal Supervisor	Date
External Examiner	Date
Head, Department of Bus. Admin	Date
Dean, Post Graduate School	Date

DEDICATION

I dedicate this work to the continuing search for knowledge for the betterment of the human race.

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ABSTRACT

Debt can provide a healthy source of funding economic developments if proceeds are wisely used and economic benefits exceeds costs of debt service. Unfortunately, Nigeria has mismanaged her debt - both external and domestic - and this has created a vicious and debilitating cycle, which we may refer to as a debt trap.

As at 1995, Nigeria's internal debt burden reached N415.9 billion. On the external debt front, Nigeria currently owes about $30 billion (including arrears) which roughly equals GDP and requires about *40%* of total export earnings to service. Given the present state of the economy and Nigeria's erratic track record in settling external obligations, this debt burden cannot be supported. Furthermore, it is responsible for several side effects such as:

* reduced inflow of foreign direct investment,
* reduced short term credit lines (by banks and suppliers), and development financing funds (by export credit and multilateral lenders),
* damaged external credibility in the eyes of foreign creditors and danors,
* lax fiscal management and discipline, resulting in inflationary pressures
* capital flight and speculations against the Naira, and
* persistent and rapid devaluation of the Naira.

The methodlcgy used for the purpose of collecting data for this sutdy was purely secondary, the method of analysis is descriptive. It is clear that Nigeria needs to pursue debt relief rather than continue with debt rescheduling, which only postpones the inevitable. It is also clear that Nigeria's external credibility and past tract record make it imperative to develop a medium term strategy acceptable to external creditors and implementing the required policy reforms with the degree of discipline and transparency which will rebuild external support and confidence.

In addition to negotiating the required IMF standby, Paris club negotiations will need to be approached with full recognition of the commitments necessary to qualify for Toronto, Enhanced Toronto or Trinidad terms. We certainly face an uphill negotiating task and must negotiate in the expectation that debt relief must be earned and will be received only after successful performance has been achieved.

Debt relief will require successful implementation of an acceptable medium term economic reform programme over a period of two or three years.

CHAPTER ONE

1.1 INTRODUCTION

Nigeria tremendous potential for growth and poverty reduction has yet to be fulfilled. A key constraint has been the recent conduct of macroeconomic, particularly fiscal policies. These has led to rising inflation, fallen growth and declining real incomes. The public delivery of services is poor and deteriorating. Moreover, there has been little transparency and accountability in the management of public resources. Thus, the issue is not only that of improving economic management, but also one of improving overall governance. The Nigerian people aspire to, and deserve to move out of poverty within the framework, of a stable and rapidly growing economy. This is certainly feasible if adequate policies are put in place and sustained. Partial and poorly implemented reforms will not serve to reverse current trends. Thus, the government is at a crossroads. It faces a choice between improving the welfare of the population or allowing the situation to deteriorate further. Credible policies that will lead to improving welfare need a stable and viable macroeconomic framework in order to achieve the expected outcomes. For reviewing growth, deeper reforms of budgetary planning, expenditure control and transparency would also be needed in order to address the structural weaknesses in public resource management. Expenditure priorities would need to be revised: Poverty reduction efforts would not only require more resources but also more affiance in their use for health, education, roads, urban transport and agriculture.

Most economies especially those in the third world have at one time or the other experienced short fall between domestic savings and the desired level of investments. External borrowing have often been resorted to in order to fill such gaps. Thus, borrowing in itself is not undesirable. However, if such loans are not properly monitored, the problem of serving them ensues and invariably leads to the problem of debt overhand. Monitoring is not just with respect to quantum but also the nature of loans taken and the terms of agreement. For example a short-term borrowing for the financing of a long-term project is a mismatch. Many third world countries which engaged in borrowing to fill the savings investment gap ended up having the dual problem of debt service burden

and debt overhand, albeit, for reasons that differ from country to country, varied as the reasons may be, the crux of debt crises is nothing but a reflection of lapses in management and control. Nigeria is a case in point.

The Nigerian economy has undergone considerable strains and stresses since the collapse of oil boom in the early eighties. The production and consumptions patterns that emerged from the era of oil boom could not be sustained in the face of declining foreign exchange earnings in the years of oil glut. Thus, pressure mounted on the various sectors of the economy resulting in huge deficit imbalance in government finances, low external reserves and current deficits in balance of payments, among others.

1.2 STATEMENT OF THE PROBLEM

Debt is an instrument of financing that is recognized worldwide. It is used by both the public and private sectors as a means of bridging the gap between what is available and what is required. Nigeria's total debt level has been rising over the years, yet the country has no enough development projects or infrastructure to justify this.

The situation is even more disturbing when we consider the size of the national budget that do go to debt servicing annually. Yet, substantial part of the total debt had to even be rescheduled. As a result of the Government's inability to repay, debt management has become one of Nigeria's national economic problems.

It is in the light of this, that this study entitled "PUBLIC DEBT MANAGEMENT IN THE NIGERIAN ECONOMY", is being considered.

1.3 OBJECTIVE/SIGNIFICANCE OF THE STUDY

As we are all aware, Nigeria's debt burden has constituted a major constraint on economic performance in recent years and an objective appraisal indicates a continuation of this trend unless concrete remedial measures are adopted to minimize the constraints.

The objective of the study is to assess the debt situation of current economic development and the effort made so far to address it, including the prospects for its effective management. Finally, it is not intended to sensitize the readers of this paper on the magnitude of the problem, but also to indicate

in what ways we, Nigerians could support our efforts to deal with the debt overhang.

1.4 SCOPE OF AND LIMITATION OF THE STUDY

The topic is quite a broad one, therefore it is important to delineate the areas of coverage which the project will concentrate on. This study covers mainly the accumulation of foreign debts; how the debts have been efficiently and inefficiently managed; and the debt conversion programme: debt equity swap.

The research is however limited to both foreign debt management which can be traced to 1978 when loans with more than $1.8 million were obtained from the Euro market; and the internal debt management which could be traced back to the colonial rule. From then on, the structure of Nigeria's debts took on another shift.

1.5 DEFINITION OF TERMS

GDP: Gross Domestic Product

OMO: Opening Market Operations

AFEM: Autonomous Foreign Exchange Market.

CHAPTER TWO

2.1 INTRODUCTION

Debt Management may be defined as those policies which seek to alter the stock; composition or structure or terms of a debt with a view to maintaining at any given time a sustainable level of debt service payments. Thus, an efficient debt management is one that contains the debt service burden within the level. Put differently, debt management refers to the technical and institutional arrangements involved in organizing domestic and external liabilities. The technical aspects focus on the need to determine the level of internal and external debt required and to ensure that terms and conditions of those borrowings are commensurate with the future debt service capacity of the country. The institutional aspect include the administrative, organizational, legislative, accounting and monitoring aspects of managing both new borrowings and the total stock of debt.

However, in the case of external debt, what is particularly important is not so much the debt service payments but the debt service burden because the burden depends essentially on the country's capacity to service the debt. The debt service burden is linked to some macro-economic indicators. The most widely used debt service ratio is debt service payments as a proportion of export earnings. In order therefore to ensure efficient debt management, debt service ratio, which reflects the debt service burden, has to be at least stable and kept at a sustainable or desirable level.

2.2 PUBLIC DEBT DEFINED

Total public debt of a country is made up of both internal and external debts. The internal debt consists of the central government borrowing from the banking system through monetary policy instrument such as treasury bills, treasury certificates, development stocks and treasury bonds, and other non bank public in form of debt to contractors or other economic agents for service rendered.

External debt, on the other hand, is defined as the "gross amount at any given time, of disbursed and outstanding contractual liabilities of residence of a country to non-residence to repay principal, with or without interest or to

pay interest with or without principal. While the definition of internal debt posses little problem, certain points need to be noted with regard to external debt. First, the definition highlight the fact that gross debt is directly related to the problem of debt service. Second, the debt has to emanate from contractual liabilities thus excluding, for example, equity participation. Third, the term "principal with or without interest "brings interest-free loans into the definition while "interest with or without principal": mean that loans of indefinite maturity, such as perpetual bonds should be included as part of external debt. Forth, the "contractual liabilities" criterion has to be made with non-residents to qualify for inclusion as external debt. External debt therefore covers all government borrowings, parastatal and private sector borrowings, whether guaranteed by government or not, as well as other financial operations of domestic economic agents.

2.3 TYPES OF PUBLIC DEBT

As mentioned earlier, the public debt of a country is made up of both internal and external debts.

2.3.1 Internal/Domestic Debt

Internal borrowings of a country consist of debt instruments publicly issued through the monetary authority of the country (the Central Bank), direct government borrowings or overdrafts from deposit money banks, and outstanding contractual obligations of the country such as debts owed to contractors or suppliers. In a country like Nigeria, inadequate data would preclude analysis of the exact magnitude and composition of the direct borrowings and overdrafts from banks and debt sowed to contractors.

The internal debt of Nigeria is administered and managed by the Central Bank of Nigeria through the issue of the traditional domestic debt instruments are development stocks, treasury bills, treasury certificates, treasury bonds and ways and means advances.

DEVELOPMENT STOCKS

The history of development stocks dates back to the colonial era when the

first registered debt stocks of 1956/61 was floated by the British colonial administration in 1956 for ₦600,000 (then 300,000 pounds). The first development loan stock of ₦4.0 million (20 million pounds) was issued by the Cental Bank of Nigeria in may 1959 on behalf of the Federal Government with a high subscription of ₦4.7 million (2.35 million pounds), all the subscriptions were eventually accepted. The stock was christened The Federation of Nigeria Development Loan Stock 1959 - 1962. When the country became a Republic in 1963, the name became the Federal Republic of Nigeria Development Loan Stock. Thus, Four Federation of Nigeria Development Loan Stock (1959 - 1962) and Twenty Five Federal Republic of Nigerian Loan Stocks (1963 - 1987) were floated on annual basis for these 29 years. It was customary for the Federal Ministry of Finance to send proposal on Government Funding requirements to the CBN after the release of the annual budget. The CBN would package the issue in terms of number of branches, tenor and coupon rates before the flotation and quotation at the Nigerian Stock Exchange.

LEVELS: The level of development stocks outstanding in 1970 has risen to ₦299.0 million with the Federal Government utilizing these funds partly for its own development finance and partly as loans on lent to the State Government. In 1980, development stocks outstanding amounted to ₦3,069 million and accounted for 38.7 percent of the total debt stock. This upward trend continued till 1987 when development stocks outstanding peaked at ₦4,909.0 million. Thereafter the stocks started to decline as no new stocks had been floated since 1988, reflecting the Federal Government's decision in that year to stop floatation of the stocks. While State Governments were advised to source funds directly from the capital market the Federal Government found it convenient to rely solely on funding through the use of ways and means advances with little regard to its implications for breach of statutory limits and monetary stability.

The standing policy of redeeming development stocks as they matured has resulted din the steady decline of total outstanding from the peak of ₦4,909.0 million in 1987 to ₦3,170 million 1995. The redemption of maturing development stocks was facilitated by the maintenance of sinking funds account for the purpose in the CBN.

STATUTORY LIMIT: The statutory limit on development stocks outstanding was set by the internal loans act, 1962 which itself was subject to the local loans (Registered stocks and securities) act or Government Promissory Notes act, 1960. The act of 1962 empowered the Minister of Finance to raise loans in Nigeria not exceeding, in aggregate the sum of N200 million (then 100 million Pounds) for development programme and on-lending to the states (then regions). The Internal Loans Decree, 19698 removed the statutory limit. Thus, at present the only statutory control on stocks is in respect of holdings by the CBN. The Finance Decree No 32 of 1969 limits CBN's holdings to 75 percent of the bank's total demand liabilities. Over the years, the statutory limits on the issue of development stocks and its holdings by CBN has been observed.

TREASURY BILLS: Treasury bills were first introduced in Nigeria in April, 1960 primarily to develop the money market and creates and avenue for investment of short term funds.

Immediately after independence, there was an urgent need to provide the service of financial markets for investible funds. One of the main objectives of settling up the local money market through the development of appropriate environment and flotation of financial investment such as treasury bills was to stem the outflow of funds into investment outlets in the London money and capital markets. It was also expected to encourage the repatriation of overseas assets which financial intermediaries had maintained abroad in the absence of an organized domestic money market. In addition, it was realized that effective monetary management by the monetary authorities would be enhanced by the development of an efficient domestic money market. This will help to stop leakages which the investment of domestic funds in the London market represented. It would also enhance the control of money supply in the economy.

The first issue of treasury bills of N8.0 million (4 million pounds) was made in April, 1969, with a maturity of 91 days at a discount rat of 4.5 - 8 percent per annum. Being a short term (money market) instrument, the tenor of treasury bills has remained 91 days from the inception, while the discount rate of the bills which was determined administratively until 1989 had varied. From novement, 1989, the discount rates at which treasury bills were issued, like

other traded domestic debt instruments, were liberalized and became market related in consonance with the policies under the Structural Adjustment Programme until 1994 when Government policy reverted to a fixed interest rate regime.

In the early years; the denominations of treasury bills issued were in multiples of ₦2,000 but later reduced to ₦1,000 subject to a minimum subscription of ₦10,000 per tender in a bid to encourage wider patronage. Authorized dealers namely, commercial and merchant banks, were however allowed to submit more than one tender. This can either be for the bank itself or on behalf of interested members of the non bank public who can only apply for the debt instrument though their banks..

LEVELS: At the end of 1960, treasury bills outstanding amounted to ₦1,80 million and represented 77.3 percent of the total domestic debt. At the end of December 1970, treasury bills outstanding was ₦556.0 million, and by 1971 the level of treasury bills outstanding had peaked at ₦616.0 million, this level was maintained until 1977. The decision not to issue new treasury bills resulted from the boost in government revenue in the mid 1970's as revenue from the oil sector improved substantially. As soon as there was a decline in revenue from the source, government reliance on credit from the Central Bank through the issue of treasury bills resumed. At the end of December 1980, treasury bills outstanding had jumped to ₦2,119.0 million and accounted for 26.8 percent of the total domestic debt. The upward trend in the level of treasury bills outstanding continued throughout the 1980's. At the end of 1993, treasury bills outstanding had attained its current level of ₦103 billion and had remained at that level up to December 1995.

Three major factors accounted for the growth of treasury bills. These were the reliance by the Federal Government on the issuance of treasury bills for financing its budget deficits as financial pressures mounted; the practice of roll-over whereby matured treasury bills were liquidated by re-issuing new ones; and the mode of debt service, budgeting and funding.

DEBT SERVICE: In the late 1980's, provision for domestic debt service were only nominal and barely covered debt service charges for Development Stocks only.

No provisions were made to cover other securities. When the Central Bank serviced external debt obligations and settled internal debt charges as they became due on behalf of the Federal Government, it charged the outlay to the account for the Federal Government. Because there were no funds provided for this expenditure, the credit translates into further increases of the ways and means advances to the Government. At the end of the year, if no funds were provided to defray the ways and means advances, special issues of domestic debt instrument , such as treasury bills or certificates were usually floated to refinance the credit that arose from these debt obligation. Thus, the growth in treasury bills and certificates reflected the accrued service charges for both the external and domestic debts of the Federal Government.

STATUTORY LIMITS: The amount of treasury bills outstanding at any time was subject to statutory limitations. However, over the years, the limits had been revised upward many times and eventually abandoned. This was in the face of acute financial difficulties the country experienced in the late 1980's following the collapse of the oil market and the consequent sharp decline in government revenue from the oil sector. The treasury bills ordinance of 1959 which authorized the issue of treasury bills stipulated that the amount of treasury bills outstanding at any time shall not exceed 10 percent of the estimated revenue of the federal government. The treasury bills ordinance of 1961 revised the amount of treasury bills that could be outstanding to 20 percent. This limit was further increased to 40, 50, 85 and 100 percent between 1962 and 1969. In 1970, the statutory limit was redefined and raised to 150 percent of the estimated retained revenue of the federal government and the gross revenue of the states.

TREASURY CERTIFICATES

The history of treasury certificates is similar to that of the treasury bills. Treasury certificates were introduced in 1968 to further deepen the domestic money market by increasing the short term investment options available. Treasury certificates are short term debt instrument with longer tenures such as 180 days (6 months), 270 days (9 months) or 540 days (18 months).

LEVELS: At the end of 1968, treasury certificates outstanding amounted to N20.0

million with the Central Bank holding only 1.0 percent while commercial banks accounted for 96.0 percent. The non-bank public accounted for 3.0 percent of the total issue. The amount of treasury certificates outstanding rose to ₦286 million in 1972 and accounted for 21.8 percent of total domestic debt. During the 1970's, the federal government decided not to raise funds through the issue of treasury certificates and to redeem all maturing ones as a result of its buoyant revenue position. This brought the amount of treasury certificates outstanding to ₦228 million in 1975 while its share of the domestic debt declined to 12.2 percent. When the financial pressures re-occurred from the late 1970's the federal government resorted to increased utilization of short term loans to finance its budget deficit. Consequently, the amount of treasury certificates outstanding increased persistently from ₦652 million or 24.2 percent of domestic debt outstanding in 1989. As a result of the special issue of ₦27,000.0 million in 1990 the amount of treasury certificates outstanding rose phenomenally to ₦34,214.6 million and accounted for 40.7 percent of the total domestic debt. At the end of 1991, treasury certificates outstanding stood at ₦34,214.6 million as *no new issues were made during the year; its share of total debt stock however,* dropped to 20.4 percent.

STATUTORY LIMIT: Like treasury bills, the amount of treasury certificates outstanding at any time is also subject to statutory limitation. For treasury certificates, the statutory limit was fixed by the Treasury Certificates Decree 40 of 1968 at the maximum of 60 percent of the estimated gross revenue of the Federal Government. This limit was maintained until the special issue in 1990.

TREASURY BONDS

The introduction of treasury bonds in 1989 as a debt management strategy was unique. The objective of this new instrument was to minimize debt service payment rather than provide deficit finance to met budgetary gaps. In consonance with the policy of interest rate deregulation adopted under SAP, the monetary authorities introduced the auction system for the floatation of treasury bills and certificates in November 1989. The expected upward movement in the discount rates, and by implication higher debt service cost to the Federal Government, prompted the CBN to find a way of mitigating the impact. It was therefore decided that ₦20,000 million of the treasury bills outstanding be

converted to low interest bonds. The bonds, styled the "Five percent Federal Republic of Nigeria Treasury Bonds 2004 - 15 are tof carry a fixed interest rate of 5 percent to be wholly held by teh central bank. A sinking fund was to be established for th eredemption of th ebonds on the same lbasis as development stocks. A tenure of 15-25 years was proposed for the various branches. Redemption would commence from February 15, 2004. Thereafter, one trance would be due for redemption each year until the year 2015 when the last issue would be redeemed.

LEVELS: At the end of 1989, treasury bills worth ₦11,350 million or 19.9 percent of the total domestic debt had been converted to treasury bonds of the Federal Republic of Nigeria (FRN). In 1990, the balance of ₦8,650 million were further converted to treasury bonds, bringing the amount of treasury bonds outstanding to ₦20,000 million or 23.8 percent of the total domestic debt. The introduction of treasury bonds was to mark the beginning of a new dimension in CBN/Government relationship on debt service charges. Government deficits increased phenomenally at levels which the money market could not absorb. Government also expected the CBN to continue to convert these deficits at the end of each year into bonds at unattractive low rates of interest. It is therefore not surprising that the value of treasury bonds outstanding has grown dramatically from ₦20 billion in 1990 to ₦237.34 billion in 1995. Given the balance of ₦23.6 billion outstanding treasury certificates and the ways and means advances of ₦/4.20 billion in 1995 which are awaiting conversion to bonds, the total value of treasury bonds outstanding would exceed ₦334.5 billion. This total represent about 75 percent of total domestic debt outstanding.

WAYS AND MEANS OF ADVANCES

Ways and means advances are not debt instruments that can be traded in the money market. Rather, the facility represents an overdraft provided by the Central Bank to meet the cash-flow problems of the Federal Government. For instance, when the budget is announced, the Federal Government normally projects its revenue for the year. At best, receipts of such revenue would not be realized until some time during which the government activities are expected to be performed. There is therefore the need for some credit facility which, in principle, should be settled once the revenue starts to flow in.

The Central Bank of Nigeria act 1958, (CAP, 30 as amended) mandated the CBN to grant temporary advances in the form of "ways and means" to the Federal Government up 25 percent of the estimated recurrent budget revenue. The statutory limit was revised downward in the CBN Decree 24 of 1991 to 12.5 percent of the estimated current budget revenue as ways and means advances to the Federal Government. The advances are expected to be liquidated at the end of each fiscal year. In practice, however, the statutory limits had not been adhered to mainly because it has not been feasible to reject Federal Government cheques once they are issued. The Central Bank has always refinanced these advances by either floating treasury bills or certificates after the end of the fiscal year.

In recent year, balance on the ways and means advances account have been converted to treasury bonds at suboptimal rates of interest.

2.3.2 FOREIGN PUBLIC DEBTS

The genesis of Nigeria's debt problem can be traced to 1978 when loans worth more than $1.8 billion were obtained from the Euromarket. This changed the character of Nigeria debt with the structural shift from confessional debts to medium term international capital market loans with tougher repayment terms. Over the years, this pattern of contracting new loans for development purposes continued, so that by 1983, the debt stock had risen to $11.9 billion. But of more importance is the fact that the funds that were borrowed to finance the development projects were diverted to financing deficits in later years, as oil export revenue fell sharply and government rather than embarking on expenditure slicing, chose to use external borrowing to finance the gap. A large proportion of the debt was not only in the form of medium term loans contracted at floating interest rates, but also their maturities were heavily concentrated at periods that coincided with dwindling oil revenues. Consequently, debt service obligation in 1984 was about 200 percent of the stock of available external reserves and oven 25 percent of export revenue. The accumulated arrears of 1982

1983 which were reconciled and accepted as public debt some years late contributed to the exacerbation of the debt problem as the debt stock rose to $27.5 billion in 1992 and debt service ratio also increased further to 65.4 percent. In addition, because the debts were denominated in European and Japanese currencies which tended to appreciate against the dollar, their values

in dollar terms also increased. Nigeria's debt outstanding at the end of the 1994 comprised the debt owed to the Paris and London clubs ad other categories of creditors accounting for 62.2, 7.1 and 30:7 percent of the total respectively.

The debt stock and debt service ratio have continued to increase for a number of factors. These include the structural shift in the composition of the outstanding debt to international capital market (ICM) in the late 1970's and also to short-term debts as against multilateral/bilateral sources which are usually more confessional. On institutional or creditor basis, the relatively large share of Paris club debt stock vis-a vis the London club dept in nigeria's outstanding debt constituted another problem. This is because re scheduling terms under the Paris club are tighter and more stringent than those of the London club. The deployment of short term funds into long-term projects financing constituted another external debt problem, while upward movement in internal interest and exchange rates have put upward pressure on the debt stock.

Apart from the increasing external debt service ratio, other indicators of external debt problem showed deteriorating trends. For instance, the ratio of external debt services to external debt/export ratio has consistently exceeded 100 percent since 1982 and recorded lower levels in 1993 and 1994, the scheduled debt service ratio ranged between 40.9 and 65.4 percent in the period 1990 - 1994.

It is needless to emphasize the the external debt profile has constituted a major bottle neck to our economic growth when the scheduled debt commitments were duly serviced, a large portion of current resources was deployed to servicing past consumption with the little left for current investment. As a result, the rat of economic growth and development had been impaired and the provision of social welfare services compromised. The inability to service the debts as and when due has provoked the hostility of external creditors leading to the low credit rating of the country. This has also discouraged the inflow of foreign capital and created a wide financing gap in the balance of payments owing to exceptional financing items in respect of the debt service payments which were deferred. The low level of foreign exchange receipts and high proportion of devoted to debt service payments have reduced the level of domestic economic activities, with serious consequences for domestic capacity utilization and production. In the absence of appreciable economic growth, the debt burden has continued to increase while the debt service capacity has continued to

decline, thus exacerbating the vicious circle of external debt service capacity has continued to decline, thus exacerbating the vicious circle of external debt. Other side effects include lax fiscal management and discipline, resulting in inflationary pressures, capital flight and speculation against the Naira, and persistent and rapid devaluation of the Naira.

Nigeria's current external debt problem can be appraised from the perspectives of the debt stocks and debt service payments obligations both of which have assumed alarming proportions in the last ten years. It is quite instructive to note that the country's debt stock was just some US$3.5 billion in 1980. However, this grown by leaps and bonds to stand at 39.4 billion at the end of December, 1994. In the same vein, the debt service payments have risen substantially from a mere 0.8 percent of export earning in 1980 to 40.9 percent in 1994.

Currently, Nigeria owes about $30 billion (including arrears) which roughly equals GDP and requires about 40% of total export earnings to service. The Federal Government dismissed the country's external creditors claim that Nigeria was owing more than $48 billion, saying that the debt is just $28.060 as already explained in the 1997 budget.

STATUTORY LIMIT: The external loans act, 1962 authorized the Minister of Finance to raise loan outside Nigeria, not exceeding in aggregate, the sum of ₦600 million (then 300 million pounds) for the following purposes:

- Development programme
- on-lending to states

The act was, again, subject to the general loans and promissory notes act mentioned earlier on. However, the external loan (amendment) act 1965 revised the subjection to add the authorization in any manner by the president. Also, in 19654, the borrowing by pubic bodies act 35 was enacted. This act recognizes bodies which can contract external loans as the Federal and State Government as well as their parastatals. It contains various provisions on obtaining the consent of the Minister of Finance, guaranteeing of the loans as well as payment of what is due on such guaranteed loans from the Federal Government. The act, was, however silent on the limit of outstanding aggregate.

The external loans (Rehabilitation, Reconstruction and Development) Decree, 1970 revised the statutory limit of aggregate external borrowing of ₦1.0 billion

for purposes of

1. The Rehabilitation, Reconstruction and Development programme; and
2. On-lending to states.

The External Loans Amendment Decree No. 30 of 1978 revised the limit to N1.0 billion. No new legislation or decrees came up again until February, 1988 when the "External Borrowing Policy was released. Specifically, the objectives of the external Borrowing Policy include:

1. Outlining strategies for increasing foreign exchange earnings and thereby reducing the needs for external borrowing.
2. Setting out the criteria for borrowing from external sources and determining the type of projects for which external loans may be obtained.
3. Outlining the mechanics for servicing external debts of the public and private sectors of the Nigerian economy; and
4. Articulating the roles and responsibilities of the various organs of the Federal and State Government as well as the private sector in the management of external debts.

Another instrument of control on external debt was the circular by the CBN issued in 1984 on the issuance of promissory notes to Nigeria's international trade creditors. It may be interesting to note that one of the conditions for the issuance of promissory notes was the local Nigerian bank must have deposited with CBN, the Naira equivalent of the amount owed. An independent body, the Chase Manhattan Bank N.A. of London was appointed as a Reconciliation Bank, with the concurrence of all the overseas suppliers to assist in carrying out verification for the debts in order to identify genuine claims and eliminate fictitious ones. Towards this end, all overseas creditors and Nigerian importers were requested to submit details of the debts.

All the creditor companies that participate din the verification exercise signed an undertaking to abide by the terms and conditions stipulated in the CBN circular of 18th April, 1984. The Reconciliation Bank established criteria for the verification known as "matching fields", which were universally applied during the exercise. Only claims which satisfied the conditions stipulated in the CBN circular under reference and passed the verification test were issued with promissory notes.

2.4 MANAGEMENT OF PUBLIC DEBTS

The responsibility of the management of Nigeria's internal debts is entrusted to the Central Bank of Nigeria under section 35 of the CBN ordinance of 1958 which states that "the bank shall be entrusted with the issue and management of Federal Government loans publicly issued in Nigeria, upon such terms and conditions as may be agreed between the Federal Government and the bank."

The service functions of the Bank with respect to debt management are fourfold, namely:

1. Advising the government as to the timing of flotation of debt instruments and terms of issue;
2. Adverting the government as to the timing of flotation of debt instruments and terms of issue;
3. Collecting the proceeds of issues on behalf of the government, supervising the issue of certificates and warrants and maintaining proper looks of accounts in respects of receipts and disbursement; and
4. Payment of interest and principal on due dates and managing the sinking fund set up to facilitate the redemption.

The CBN is therefore required to play important roles in the primary and secondary markets for securities issued in respect of government debts. In the primary market, the bank plays the role of the e"Issuing House" and "Underwriter" for government securities while in the secondary markets the bank operates as "Registrar" and "Market Maker" by making securities available for trading in the secondary and offering rediscounting facilities for the market.

ROLE AS ISSUING HOUSE AND UNDERWRITER

Functioning as an issuing house, the CBN advises the government on the terms and timing of the issue. It arrange the advertisement for public subscription and collects the proceeds of the issue for the account of the Federal Government. The certificate are then issued to the subscribers as evidence of their investment.

In the case of development stocks, the Bank arranges for the listing and

quotation on the Nigerian Stock Exchange. In its bid to ensure the success of the issues, the CBN assumed the underwriting responsibility for government securities from its inception. It made available to government the full value of the loan whether or not subscription was received for the total value of the issue. Taking up the un-subscribed portion of the issue, the CBN makes it available in the secondary market for banks wishing to invest in securities with shorter tenors than the original issue.

THE ROLE - OVER SYNDROME

In a bid to ensure that public confidence in government debt instruments is maintained, the CBN guarantees the repayment at maturity and a refund (rediscounting) to any holder who requires liquidity before maturity. To this end, the bank is obliged to provide the necessary fund for repayment even when the government is not in a position to repay the loans. For short term instruments such as treasury bills and treasury certificates, new issues are arranged for a similar amount to coincide with the date of maturity so that proceeds of the new issues are utilized to repay the old issues which are maturing. This process which keeps repeating itself every 90 days in the case of treasury bills and one or two years in the case of treasury certificates not making provision for the repayment of the loan as they matured.

SINKING FUND

For long-dated securities such as development stocks and lately, treasury bonds which have long tenors of 5 years and above, arrangements are made for annual or biannual contributions by the government into a specially created fund (*sinking fund*) for the redemption of the securities at maturity. Such contributions are invested by the Bank in same or similar securities such that on redemption date not less than 75 percent of the face value is available. This enables the government to repay the entire loan without feeling the impact as a single repayment.

THE ROLE OF REGISTRAR OF GOVERNMENT SECURITIES

Management of internal debts involves the performance of a registrar's functions. Consequently, the bank opens a register for all issues of securities where particular of holders, amount of holding and interest payment dates all

recorded. Activities relating to the transfer of ownership in the secondary market are also recorded in this register. Details of certificates issued to the original holders are contained in the register, and after each transfer, the certificates of the original holders will be withdrawn and a new certificate is issued to the new holder. Details contained in the register of holders assist the bank on the interest payment dates in determining the appropriate beneficiary.

STOCK CONTROL/ADJUSTMENT

As earlier stated in this study, the stock of domestic debt has been determined largely by the financing means of government over the years. The CBN was initially obliged to raise loans on behalf of government to meet financing gaps in its budget subject to statutory limits. These limits were revised upwards as frequently as the need arose and later disregarded. Under these circumstances, the CBN had to adopt the only pragmatic option available to it by converting the balances in the ways and means advances into either treasury bills or treasury certificates.

However, in 1989 when the policy of interest rate liberation was introduced as part of the reforms under the Structural Adjustment Programme, debt service burden ton government finances became an issue in the management of the debt stock. To mitigate the impact of expected upward movement in the Nigerian Treasury Bills (NTB) discount rate on the debt service charge on government, ₦20 billion NTBs were converted into treasury bonds at 5 percent. In 1994, the discount rate on NTB was 12.5 percent. With the high level of ways and means advances utilization as a mean of government funding, the issue of debt service cost became paramount when deciding on the security type to convert the outstanding balance on the account at the end of the year.

DOMESTIC DEBT SERVICE

From inception, interest or discount rates on government securities were administratively fixed by the Central Bank until the late 1980's when an attempt was made to establish more competitive rates in the wake of the SAP. A fixed interest rate regime was thought to be beneficial to government in that it helped to minimize the burden of debt service. However, the growth of the debt stock beyond the absorptive capacity of the economy and unattractive interest rate left

the CBN as the major holder and underwriter. The low rate notwithstanding, the continued growth in the stock led to corresponding growth in the debt service cost to the extent that the introduction of SAP in 1986, the service charge on the debts contributed significantly to the deficit in government fiscal operations at the end of each financial year starting from 1990.

With the introduction of SAP, the realities of the market determined interest rate structure necessitated the conversion of some N20 billion of the existing NIB's, intro treasury bonds t 5 percent per annum before the re-introduction of fixed interest in 1994. Subsequent conversions of balance on the ways and means advances into treasury bonds were made at 10 percent per annum interest. With the total treasury bonds outstanding as at December 1995 amounting to N237 billion, the savings to government can be computed or estimated by applying current yield on similar bonds on the market. For the same reason, government requested CBN to phase out the existing treasury certificates in 1995.

STRIPPING SYSTEM

Active open market operations which commenced in June 1993 as an instrument for indirect approach to monetary control led to the development of the stripping system (conversion of some CBN take -0 up from the primary issues to shorter dated OMO bills). Through this innovation, there has been a deepening of the market in addition to stability in rates. given stability, the shorter dated OMO bills have become popular and their rate has been emerging as a reference rate in the system for determining call money rats, particularly between banks and discount houses. The lesson from this experience is that if an instrument takes into account the maturity of the market and there is a reasonable degree of liquidity for the instrument government would be able to raise funds at reasonable rates or interest.

REPURCHASE AGREEMENTS

Another innovation in the money market which is similar to "strips" has been the development of the instrument of Repurchase agreements (REPOS) between the CBN and the discount houses. The Repo market has been essentially an overnight market although tenors of 2 - 5 days are common to take care of specific market needs especially the reverse Repos. The discount houses have

found repos a more appropriate instrument for their liquidity management in the special circumstances of the Nigerian money market.

The CBN suspended the repos in January 1995 and only offered "Reverses" (that is, sell securities with commitment to buy back at an agreed price and date) for the discount houses to invest their surplus funds. After a re-appraisal, the repos have been re-introduced in 1996.

The problems of internal debt management are multidimensional and could be classified under various sub-titles as follows:

i) **Statistical Data:** The primary problem of internal debt management has been the dearth of statistical data. Available statistics on domestic debt outstanding relate only to the traditional debt instruments issued and managed by CBN. Other obligations of government to contractors and suppliers are not included due to lack of information. Thus, analysis can not be said to reflect the true or actual domestic debt, which is thereby grossly under-estimated.

ii) **Rapid Growth in Debt:** The rapid growth in domestic debt outstanding has gone beyond the absorptive capacity of the domestic money market resulting in CBN holding a very high proportion. The burden of debt service payments on government finances has become very significant.

iii) **Low Rate of Interest:** The low rates of interest on the instruments made them unattractive, given their low yield vis a vis other investment opportunities in the market. This has resulted in the CBN becoming the underwriter of a higher high percentage of the primary issue and the holder of an overwhelming proportion of all outstanding securities. The negative effects of this trend are man; first to the extent to which funding creates undue monetary expansion, it fueled domestic debt instruments for monetary control. Direct controls such as stabilization securities had to be relied upon even though t is recognized that it does not permit optimal channelling of resources. Worse still, it encouraged fiscal indiscipline imposed by the reality of the market.

iv) **Problem of Flow of Information:** Over the years, information flows between the CBN and the Federal Ministry of Finance, especially in the area of

harmonizing the monetary fiscal policies, have not been adequate. This reflects a poor co-ordination of functions.

For prospects, Government has made the objective of a balanced budget a basis for its fiscal policy, in recent years. Even though this has not been achieved, thee is encouraging evidence that concerted effort i being made especially since the 1995 budget. It is believed that this policy would be properly coordinated with the monetary policy of the CBN. A more virile and result oriented Structural Adjustment Programme which will being to address the macro economic imbalances and lead to positive real growth rate in the economy will then become achievable.

The CBN should then be set free to implement its indirect monetary control measures anchored on open market operations. If this policy is coordinated with the original concept of AFEM (without government interference), the CBN would be able to reduce its underwriting commitments and subsequently its holdings of internal debt instruments, attain a stable exchange rate for the Naira and ultimately bring inflation under control.

The study has earlier discussed the failure of control measures to limit the growth of internal debt, the ability of government to service them and the absorptive capacity of the market. The monetary policy administration has been rendered weak in the face of the resultant inflation. There is therefore an urgent need to review the laws governing internal borrowings to limit them to levels which do not become self defeating when debt management and servicing becomes a problem constraining future development. It is necessary that government fully appreciates the need for statutory limits on its internal borrowings and for it to be committed to upholding the limit in spite of its short-term political objectives. This is the only way to ensure a stable macro-economic environment.

For the management of external debt; Nigeria undertook the first refinancing exercise in 1983, when it successfully refinanced over US$2.1 billion worth of arrears of letters of credit outstanding as at 1983. The main features of this first refinancing exercise included a repayment period of 30 months with

a grace period of 6 months. Interest was fixed at LIBOR plus 1 percent per annum.

Following the success of the first exercise, government decided in 1984 to refinance the arrears of uninsured short-term trade debts that were outstanding as at December 1, 1983, which were contracted through bills for collection, open account, etc., by issuing promissory notes to over them. Consequently, between 1984 and 1988 trade areas amounting to over US$4.8 billion were refinanced and covered with promissory notes. The promissory notes have a repayment period of over 22 years with an effective rate of return of 5 percent per annum. The terms of the promissory note agreement definitely provide one of the best relief packages that nigeria has ever got.

The London club debts covered debt arrears of commercial banks' debts which were incurred through the medium of letters of credit after December 31, 1983, i.e. arrears that were accumulated after the first refinancing exercise of 1983 as well as maturities on medium and long-term loans that fell due up to December 31, 1987.

Nigeria's first agreement with the club to reschedule its dept, then totalling US$5.8 billion, was signed in November 23, 1987. The terms of the agreement provided for an interest rat of LIBOR plus 1.25 percent per annum with repayment period of five years. In effect, the country was required to pay over US$1.345 billion per annum to service the debt. The high debt service obligation made it impossible for the country to meet its commitment and consequently, it defaulted.

The default necessitated a new round of negotiations culminating in a new agreement signed on March 22, 1989. The new agreement had the effect of reducing the country's annual debt service obligations to the club from US$1.345 billion to US$711 million. Despite this achievement, it was observed that the cash flow situation could still not sustain such a high debt service. Consequently, the country approached the club again for the restructuring of the entire debt. After intensive and protracted negotiations, another agreement was reached. The agreement contained a menu of options which included among others: buy back;

issue of 30 year par bonds with principal amount fully collateralized with US treasury zero coupons; fixed interest rate of 5.5 percent per annum for the first 32 years and thereafter 6.25 percent per annum on the par bonds (collateralized as to 12 months cover) at any one time; traditional rescheduling with interest rat of LIBOR plus 13/16 percent per annum; and provision of new money by banks which opted for traditional rescheduling, up to 20 percent of the amount so committed to the option.

The deal was successfully closed on January 21, 1992 and the country bought back 62 percent of the dept and issued collateralized par bonds for the remaining 38 percent. No bank elected the traditional option. The cost of closing the deal amounted to US$2.156 billion.

From the above, it would be observed that the country has successfully achieved some reasonable debt and debt service reduction. As at January 1993, the debt covered with promissory notes has been reduced from US$4.8 billion to US$3.22 billion, while the London club debt was reduced from US$5.8 billion to US$2.1 billion after the restructuring exercise. Of the US$2.1 billion London club debt, the sum of US$2.05 billion was fully collateralized. The collateralized tin means in effect that the US$2.05 billion debt has been pre-paid.

Unfortunately, the country has not been so successful with the management of its official debt, notably the Paris club debt. The country has the first rescheduling agreement with the Paris club in December 1986. Since then there had been two other similar agreements with the club, which were signed in march 1989 and January 1991. All the agreements provide for traditional rescheduling terms with market related interest rates, following the grouping of Nigeria among the severely indebted middle-income countries.

Although the Paris club rescheduling has provided very temporary cash flow relief, it had in no way resulted in the reduction of the net present value of the debt. The reason has been that the package was always structured to apply only to current maturities falling due within a consolidation period of about 15 months and not to the entire debt stock and capitalization of the interest there

on. Consequently, instead of reducing, the debt stock tended in increase without the country contracting new loans. Thus, the Paris club debt has remained a "pain in the neck" and urgently needs to be adequately and effectively addressed in order to accelerate the much needed economic growth. The remaining official debt, which is largely multilateral and non reschedulable, is been paid as and when due.

Another debt management strategy adopted by the country is the Debt Conversion Programme (DCP) which was introduced in July 1988. The main objectives were to reduced the external debt stock and lighten the debt service burden, encourage capital inflows including repatriation of flight capital, and assist the capitalization of the private sector investment and generation of employment opportunities. Eligible debt for conversion was initially limited to promissory notes but later expanded to cover bank debts. As at end of December 1995, a total sum of US$49.46 million had been redeemed under the programme.

Although indications of problems often encountered by debtor countries in achieving efficient debt management had been given, albeit indirectly, in earlier sections, it is perhaps necessary to harp on some of them. This section does that while proffering suggestions on the the ways forward.

In the light of experience there are a number of problems that need to be adequately addressed by debtor countries, especially those in Sub-Saharan Africa, if such countries must have efficient debt management system and achieve economic growth.

A major problem facing all debtor country government has bee the nature of relief packages given by Paris Club. All such countries have to accept 12 to 18 months consolidation periods. By the time bilateral implementing agreements have been negotiated following one Paris club again accord, it is time to approach Paris club for the next round of request for relief. Financial planning is difficult with such a short negotiating horizon.

The insistence of the Paris club on short consolidation periods derives from the club's anxiety to ensure that adjustment programmes are continued in

effect and that comparable terms of relief are being secured from other creditors. Beside generating difficulties in financial planning for debt governments, the relief package offered by the club ha the capability of increasing the quantum of the debt instead of reducing the stock. The increase arises because interest (moratorium interest) is charged on the debt being rescheduled, and both principal and moratorium interest come to represent a new layer of future payment obligations, on top of the layer already existing at the time of negotiations. The next Paris club rescheduling exercise for the debtor country adds another new and higher layer of debt service obligations. Thus, the debt grows even without the country contracting new loans because of the compounding of interest during rescheduling.

Another problem is the resistance of the Paris club to modifying interest arrangements. The problem for the creditor countries is that making substantial cuts in moratorium interest rate would create budget difficulties for the major export credit insurance agencies. Indeed, creditor country government are not prepared to make such budgetary allocations to off set this revenue loss at the present time. Again, even without contracting new loans, the debt grows as a result of the heavy interest burden. Closely related to the above problems are the different methods of computing debt data by some creditor country governments. Some countries base their calculations using projected interest payments while others value third currency debts either on historical rates or using current rates. The lack of a uniform standard of computing debt data often result in significant differences between debtor countries data and those of the Paris club.

Nor is that all. Although it is recognized that the club grants other concessional rescheduling terms, such as Toron terms, Trinidad terms, Poland/Egypt terms and Benin/Nicaragua terms, which are designed to provide the beneficiary debtor countries with debt and debt service reduction, the efforts by some other debtor countries such as Nigeria at securing of the concessional rescheduling terms has not been successful because of the clubs exaggerated *notion of the wealth and resources of those countries as reflected in their* classification as middle income by the club. Of importance, too, in this regard has been the absence of an articulated economic programme in those countries

designed to restructure their economies over the medium-term horizon.

At the national level, the dearth of statistics, particularly total debt at a desegregated level, is a major problem. The exact dimension of private sector debt is problematic. Some countries such as Cote D'Ivoie and Malaysia have had to conduct company finance surveys from to time to time, designed to obtained comprehensive information on private sector debt. Yet an effective national debt policy needs a strong database involving a full coverage of both private and official debt.

A related problem mentioned earlier in the paper and reiterated here for emphasis has been inadequate computerization the functions of debt management. In most countries of Sub-Saharan Africa the processing of debt data is largely done manually on desk calculators. Low level of computerization is the pervasive characteristic. The introduction of the UNCTAD system or the Commonwealth Secretariat Debt Recording Management System (Cs-DRMS) in debt offices of most debtor countries is few and far between.

Of importance, too,is the inadequate level of skilled staff manning the debt offices. Too often, the staff are not skilled in debt portfolio reviews, including analysis of balance of payments, and the financing gap developments in interest rates and exchange rates; nor are they knowledgeable or versed in economic projections, statistics, public finance and financial programming.

Besides the above problem, the large and persistent macroeconomic imbalances prevalent in third world economies do not present a conductive environment for effective management of debt.

For prospects, for most debt distressed countries in Sub-Saharan Africa, the Paris club debt as indicated at some point in the study, remains perhaps the most problematic element to be adequately settled if the countries are to overcome the growing debt overhand. Moreover, it is a precondition for negotiating with the club that debtor countries must put in place an arrangement with International Monetary Fund (IMF) and the world bank. It is therefor important, as a first step, to corporate actively with these bodies so the

efforts to adopt a Medium Term Economic Programme (MTEP) are successful with minimum time lags. The programme would no doubt address macro-economic restructuring which would enhance effective debt management. When in place in a country, MTEP would qualify it to seek concessional rescheduling terms especially the Trinidad Terms with substantial debt and debt service reduction.

It has been that the Paris club often rewards debtor country governments with strong commitment to an adjustment programme especially the MTEP. The reward takes the form of lengthening of consolidation period for such countries. For example, by arranging for an Extended Structural Adjustment Facility (ESAF), Mali, Mozambique, Togo, Niger and Guyana were able to secure Paris club consolidation periods of 2-3 years. Besides, ESAF bears an interest rate of 0.5 percent per annum.

Finally, with increased computerization of functions of debt management, debtor country's central banks would achieve costs effectiveness in the management of their debt. In this regard, many such central banks are gradually planning to install the commonwealth secretariat Debt Recording Management System (Cs-DRMS) or the UNCTAD Debt Management System (DMFAS). Some countries have adopted one or the other of those systems and are now publishing up-to-date status reports on external debt, including frequent reviews of projects of existing debt with considerable improvement in flexibility and accuracy.

2.4.1 CHARACTERISTICS OF EFFICIENT DEBT MANAGEMENT

1. Debt management results in debt service ratio that is stable around 20 - 30 percent. However, it should be noted that a country's ability to sustain any particular debt service ratio depends on a number of factors including the outlook for the country's exports, reserve level, and the flexibility for the country in adjusting its policies and economic structures.

2. There exist a prevalence of stable economic and monetary system.

3. The structure of debt reflects on adequate spread of maturities and diversification for sources of debt, that is, loan maturities almost always match the pay-off period of investment, and there is no bunching of maturities almost

always match the pay-off period of investment, and there is no bunching of maturities nor rolling over of short term borrowing.

4. External borrowing to finance investment is limited to the point where the marginal product of capital is equal to the cost of borrowing. This is because borrowing to finance investment whose rate of return falls short of the cost of borrowing leads to a decline ingrowth rate of GDP, a situation in which the debt burden becomes unsustainable.

5. The debt-GDP ratio is kept at a low level. his is because a high debt-GDP ratio suggest that the debtor country is at great risk. Thus, for large values of the debt-GDP ratio, increased reliance on foreign borrowing may lower the growth rate of GDP even if the marginal efficiency of capital exceeds the world interest rate. Moreover, an excessive rise in debt-GDP ratio may increase the perceived probability of future debt servicing difficulties thus raising expectations about increased taxation, inflation, currency depreciation and capital flight. It must be recognized that in countries where external debt is efficiently managed and where debt is used productively under appropriate economic policy, the debt-GDP ratio tends to decline as the growth rat of GDP become higher.

6. The growth rate of external debt does not persistently exceed the growth rate of exports of GDP.

7. Debt management is fully computerized.

2.4.2 CAUSES OF INEFFICIENT DEBT MANAGEMENT

Anxious to achieve rapid economic growth and development in an environment characterized by wide savings and investment gaps, government of the third world countries contacted massive internal and external borrowing with little attention to the "rules of the game." This rules include board policy considerations which determine among other factors a county's sustainable level of external borrowing and its efficient utilization. Too often, such borrowings, especially the external ones, were coordinated as various arms of the government and the government owned companies independently canvassed for and acquired loans from

the international capital markets without prior approval and sometimes even without the knowledge of the central government,, thus, the "rules of the game" or national debt policy established for the debt management system by the highest levels of government are disregarded. In some cases, there were no rules at all as these countries had no policy in place regarding the accumulation of external debt.

Closely allied to the uncoordinated borrowing by various arms of government is the lack of coordination among agencies involved in debt management in most debt countries. Too often, there are "kinks" in information flows between the agencies leading to conflicting figures on national debt given by them.

Also of importance in the weak statistical base and inadequate computerization of data on debt. Thus, a major characteristics of debt management system in the third world is that while debt statistics at aggregated level are fairly available data on loan by loan basis are hardly available for any meaningful projections and/or policy analysis. The dearth of statistics, particularly on a desegregated basis is one of the most important factors hampering rapid computerization of debt management in most debtor countries especially in Sub-Saharan Africa.

The low level of computerization for debt management functions in the face of the huge volume of international loans, the magnitudes of public debt and trade transactions involved an unskilled debt mangers meant that a strong database can hardly evolved. For the same reasons, the monitoring of disbursement for purposes of control is made difficult. Weak monitoring has lead to emergency of large volumes of loans that were contracted from non-concessional sources and sometimes with bunching of maturities. The cash-flow problems inherent in such a debt structure have engendered unsustainable debt service burden in most debt distressed economies.

In the case of internal debt management, the causative factors have been the dearth of statistics on the exact total stock of internal dept contracted, not only through monetary policy instrument such as treasury securities but through debt to many individual contractors for services rendered to government.

2.4.3 EFFECT OF INEFFICIENT PUBLIC DEBT MANAGEMENT ON ECONOMIC DEVELOPMENT

The broad effect of inefficient debt management is the emergence of a debt overhand and an unsustainably high debt service burden. To service increasing interest and amortization liabilities, the state has to have the necessary foreign exchange at its disposal. The debt service payments mean that scarce resources have to be transferred aborad, and this reduces the availability of foreign exchange for use in the domestic economy. The resultant budget deficit in the wake of high debt service payment sis financed largely thorough ways and means advances from the central bank.

In the medium term, however, the resultant inflationary monetary and fiscal continues to pose difficulties for foreign debt services as it encourages capital flight, adversely affects domestic savings and lead to crowing out of private investment. Besides, an inflationary policy could reduce a debtor country's credit worthiness and thus inhibit the influx of foreign capital which it solely needs. Thus, is an effort to solve the budgetary problem of foreign debt by means of inflationary monetary and fiscal adjustment reactions, there ensures a negative net transfer of resources. Consequently, claims on the GDP are transferred abroad. These claims have the effect of taking future investment.

Of importance is the decline of domestic investment following a rise in opportunity costs of investments. The decline has adverse effects on growth and also means that due to the failure to invest in replacements par and expansion, there is an imminent danger that production plant will become technologically ever more backward in comparison to world market standards.

The debt crises emanating from inefficient debt management will eventually compel debtor nations to undertake macroeconomic restructuring as well as adopt debt strategy and market related approaches aimed at eliciting relief from the creditors in order to achieve growth for the economy.

2.4.4 DEBT CONVERSION PROGRAMME (DEBT-EQUITY SWAP)

The Nigerian Debt Conversion Programme was established in 1988 to complement government debt management strategy. The programme involves the exchange of the country's foreign debts at a discount by the holders or assignees

into Naira for investment in Nigeria. The programme is also a vehicle through which part of the secondary market discounts on Nigerian debts are appropriated to the national economy and an avenue to boost foreign investment in the country.

The main participants in the debt conversion transaction are:

1. The debtor nation redeeming its debts;
2. The Redemptory - usually foreign companies or individuals, international non-profit organizations, multinational corporations, or nationals of the debtors countries;
3. The creditor - individuals, countries and brokers who hold and trade in the secondary market; and
4. The beneficiary institutions which could be a private or public company or a non profit making organization which receive the proceeds of conversion in the debtor country.

Eligible transactions under the debt conversion schemes vary from country to country depending on the set objectives of the programmes. Conversion scheme types include debt for equity, debt for debt, debt for cash, debt for export, debt for nature, debt for privatization, debt for development etc. In most cases, however, the dividing line between these conversion types is often blurred.

All the participants under a debt conversion programme have to take the costs and benefit of the transaction into consideration before embarking on the transaction. The redemptory or the investor should analyse the complex relationships among the various creditors of the debtor country, the prospects of the debtor country generating budgetary and balance of payment surpluses to meet its debt servicing obligations, the investment code of the debtor country, the effects of debt conversion on the emerging market price of the remaining debts and other economic, accounting and regulatory variables. However, the investor makes and open-ended profits on his investment because he capitalizes on the discount on the debts in the secondary market.

The objectives of the Nigeria Debt conversion programme are to:

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

2. encourage capital inflows including repatriation for flight capital with the attendant beneficial effect on the level of economic activities and employment in the country.
3. promote the creation and development of export oriented industries thereby diversifying the export base on the Nigerian economy; and
4. increase Nigeria's access to appropriate technology, external market ad other benefits associated with foreign investment.

To implement the programme, the federal government constituted a Debt Conversion Committee (DCC) comprising the Governor of the Central Bank of Nigeria (Chairman), the Secretary to the Government, the Attorney General and Minister of Justice, the Minister of Finance and the Chairman, National Planning Commission. The secretariat is located at the Central Bank of Nigeria.

The scope of the eligible debts for conversion under the programme has been expanded over the years in line with the rescheduling agreements reached with creditor groups. As at now, all categories of Nigerian debts with the inception of debts owned to multilateral institutions are eligible for conversion. These are the promissory notes issued by the Central Bank of Nigeria and the ministry of finance, the Nigerian par bonds resulting from 1992 agreement with the commercial banks in the London club, and some agreed proportions of the Paris club debts arising from the 1991 Agreement III with official bilateral creditors in the Paris club. All eligible debts must have a maturity of over one year.

Proceeds arising from conversion of the foreign debts could be used for the acquisition of Naira - denominated debt instrument issued by the Central Bank of Nigeria, usually referred to as debt for transaction, grants to Nigeria non-profit entities and for expansion or recapitalization of existing ventures. Redemption proceeds could also be used to buy shares of privatized enterprises and for investment in new projects. However, within the stated categories, priority is given to investments in port-oriented or import-substituting industries, especially where the production process is labour intensive and is based on at least 70 percent local raw materials. Investments that will lead to the development of new products, machineries, and of Nigeria's mineral resources ar also within the priority areas.

There are give basic procedures to be followed for a successful debt conversion transaction. These are the application, conversion, cancellation, disbursement and monitoring procedures.

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

The success of a debt conversion programme depends on the level of patronage it enjoys from investors. Being profit oriented, investors must opt for the most profitable avenue of importing capital into the country. Thus, to be able to apprise how far the programme has been able to reduce the debt stock, it may be necessary t analyse investors response.

When the programme was announced in 1988, investors responded positively and embraced it. The tempo was maintained until 1991 when the programme slumped into a four year lull due primarily to the wide disparity in the official exchange rate at which debts were converted at the parallel market rate. Thus, the number of applications which was 84 in 1988 with a value of ₦1,628.25 million fell drastically to 4 in 1994 with only a value of ₦195.78 million. However, the level of activity picked up again in 1995 as debts were converted at Central Bank intervention rate. In response to this development, 108 applications with a value of ₦921.30 million were received in 1995. However, out of the total applications of 390 valued ₦6.04 billion that were submitted as at the end of December 1995 only 285 applications with a value of ₦2.79 billion were granted approval in principle. Sixty one applications amounted to 2.73 billion were rejected while the remaining 44 applications are being processed.

In total, 59 auction sessions had been held, out of which the discounted Naira equivalent of ₦16.07 billion was offered of redemption. Of this amount, debt worth $726.63 million or ₦12.55 billion were redeemed. The short fall of ₦3.62 billion in total debt canceled vis-a-vis the amount of debts put on offer was due to investors' behaviour during the period of lull. As the disparity in

the foreign exchange market widens during this period, prospective investors importing capital into the country through the programme more often than not abandoned there winnings at the auctions for a better rate of exchange in the parallel market. In addition to conversions at the auction, another $222.53 million or ₦3.74 billion worth of debts were converted outside the auction system, bring the total debts canceled through the programme to $949.46 million as at the end of December, 1995.

On the classification of debts canceled, total value of the promissory notes issued by the Central Bank of Nigerian was $670.54 million or 70.57 percent of total debts canceled. The London club debts (in their past and present forms) canceled was $236.75 million or 28.63 percent. Another, $42.17 million worth of debts classified under "others" (non bilateral loans) were redeemed. In essence of all the four categories of eligible debts for conversion, only two categories were presented for conversion. For the remaining 2 categories, that is, the promissory notes issued by the federal ministry of finance and the Paris club debts, arrangements are yet to e concluded on the modalities for their conversion.

In the period 1989 through 1995, the programme had been able to reduce the debt stock by $949.46 million on the aggregate. In essence the stock of outstanding debt recorded as $32.59 billion as at December 1995 would have been $33.54 billion without the reduction through the Debt Conversion Programme. The effect of the reduction is more significant on the categories of debt affected. For instance, the promissory notes which was $4.58 million as at the end of December 1989 has been reduced to $3.15 billion while conversion accounted for $670.04 million or about 50 percent of the reduction, the rest was due to principal repayment. With regard to the London club debt, total debts reduction was $236.25 million. The debt buyback contributed significantly to almost 50 percent of the reduction between 1989 and 1995. No conversion was affected on the Paris club and the multilateral debts.

The volume of conversion done since inception of the programme in 1988 has been limited by various factor. In fact, with the inception of 1989, the volume of conversions done each year was below the volume of conversion allowed within

the monetary and credit policies. In order words, more conversions could have been done but for the following constraints:

1. The disparity between the official exchange rate at which conversion was done and the parallel market rate made capital importation through the programme unattractive in the last two years.

2. There are difficulties associated with procurement of eligible debts. Of the four categories of debts that are eligible for conversion, only two are available in the secondary market. These are the CBN promissory notes and the par bonds. The later category is more expensive and the procedure for acquiring it is cumbersome. Thus far, no ministry of finance promissory notes and Paris club debts have been converted largely because no secondary market exists for these debts and because the modalities for their conversion are yet to be put in place. Thus, participants ********on the programme are left mainly with only the CBN issued promissory notes and the par bonds agreed with the members of the london club. Their availability and prices in the secondary market affected the volume of conversion.

3. The remittance restriction placed on repatriation of capital and dividends under the programme have proved to be too restrictive, thus discouraging investors from using the programme to import capital into the country. Now that direct importers of capital will enjoy free entry and exit of capital with the repeal of the Exchange Act of 1962, investors will be further deterred from using the programme with all the encuberances it entails.

Apart from the operational constraints, there are also some administrative problem. The Debt Conversion Committee has not been able to meet in the last three years unlike the position at the inception of the programme when the committee met regularly and its sitting gave credibility to the programme. Also apart from the budget speech of 1988 that pronounce the establishment of the programme, there is no other documents to backup its establishment.

The main constraints, however, are the changing fortunes of the Naira and the restriction surrounding the use of conversion proceeds and remittances of dividends and eventual repatriation of capital.

Like any new government programme, the debt conversion programme has recorded some case of non-compliance with the operational guidelines. Out of 127 projects that have come under the programme, only 17 cases of partial non-compliance have been recorded. In each of these cases, fund disbursed were either wrongly utilized for unapproved expenses or were completely outside the approved projects. One or a combination of the two underlisted penalties have been imposed by the defaulters:

1. Cancellation of the relevant certificate of capital importation and or,

2. Withholding of balances due to the affected companies.

Many debtor countries have benefitted immensely from the debt conversion programme. Chile was able to reduce its debt by over $8 billion through the debt conversion scheme while 60 percent of direct foreign investment between 1986 and 1987 in Mexico resulted from the implementation of a debt conversion programme. The Nigerian programmes has potentials for improved performance considering the number and value of application received as well as the value of unutilized approvals.

To increase the value of conversion and thus reduce the country's debt, the operational constraints highlighted above would need to be eliminated. Efforts are being geared towards the possibility of converting promissory notes issued by the ministry of finance and the Paris club debts, while prospective redemptors are being encouraged to liaise directly with Export Credit Agencies (ECA) to negotiate for the acquisition of Paris club debts. The built-in remittance restrictions would be reviewed with the aim of making appropriate amendment to the guidelines especially in the light of government policies on free entry and exist of foreign capital. Another way to boost the level of conversion is through the encouragement of debt for debt conversion. Debt for debt does not have an immediate inflationary impact on the economy and as such could

accommodate a substantial level of conversion. In this regard, the central Bank of Nigeria is already exploring ways of making the local debt instrument sufficiently attractive to foreign investors to hold.

However, it is apt to point out that the extent to which a debt conversion programme could significantly reduce a country's debt depends on the rules governing the determination of the applicable exchange rate of conversion and the restrictiveness of the programme. These two factors are crucial to an investor using the debt conversion programme as an investment option. In the Nigerian context, the exchange rate policy is a major determinant of the applicable rate of conversion. If the exchange rate policy is "right", the applicable rate of conversion would be attractive to investors and more debt would be canceled. On the restriction on repatriation of capital and dividends resulting from investment made through the programme, the more restrictive the rules, the more unattractive it will be for investors to come in through the programme, and the smaller the conversion, if any.

2.4.5 THE CONCEPT OF DEBT RELIEF

Debt relief is about the money owed by or guaranteed by the Federal Government of Nigeria to the external creditors and how this may be paid overtime, or even reduced. In 1995 this external amounted to 32.5 billion dollars equivalent. This is composed of amounts borrowed and not yet repaid and accumulated interest not paid. In 1995 Nigeria paid only $1.0 billion of $2.6 billion due in interest. (Because Nigeria understands the ability of the world bank to assist its members depends on third continuing to give a preferential status to loans from the bank and other multilateral institution, Nigeria has remained current with the bank). The amounts due and not paid are called "arrears" and this now amount to the external debt. There is a different between "post cut off" arrears, and others. Post cut off arrears, arrears on debts incurred since the previous debt rescheduling in 1992, are particularly troublesome for international creditors.

Nigeria actually paid about 17.6 percent of its export revenue to service debt in 1995. This is in line with the average for all developing countries who

paid 16.6 percent and somewhat above the average for sub-saharan African countries who paid 14.7%m, but many countries pay more. The difference between payments falling due land what Nigeria can reasonably be expected to pay, is what debt relief is about.

The Government of Nigeria, the private and official bilateral and multilateral creditors and the International Monetary Fund an the World Bank together known as the Bretton woods institutions, are all involved in debt relief. (The bank is both a "Multilateral creditor" and a "Bretton woods institution", the other Bretton woods institution, IMF is not a creditor to Nigeria). The parts they play are rather obvious; the government seeks debt relief on the basis of its implementation of a Medium Term Economic Strategy (MTES) aimed at stabilization, growth and poverty reduction, the multilateral institutions advice on the program's technical consistency, vouch for the seriousness of the government's commitment to the program, and monitor performance; and the creditors grant or do not grant debt relief.

The scene of debt relief action depends on who is on stage at any particular time. The government has been working on its MTES in Abuja. The major bilateral creditors when granting debt relief is being discussed. Private creditors are similarly grouped into the London club, the venue of their meeting, but Nigeria will not be seeking any additional debt relief from private creditors, so London is not on the debt relief map this time around. The Bretton woods institutions have their headquarters in Washington. So, debt relief action can be said to take place in Abuja, Paris and Washington.

Debt relief is obviously good for Nigeria even if it merely stretches out the payments. Some have argued that only debt cancellation is of benefit to Nigeria. Those who argue that way do not understand the time value of money. Every dollar not used for debt service today and effectively invested in the health, education and basic infrastructure where its return is certainly higher than the interest rate on the debt increases Nigeria ability to pay the debt when due in the future with money left to spare. Furthermore, and probably more important, becoming current with creditors is necessary in order for Nigeria to benefit from private international capital flows. So long as the debt impasse

remains, Nigeria will not be able to receive commercial bank loans, will be able to issue bonds and projects in Nigeria will not be eligible for credit backed by credit country export credit agencies. In other world, Nigeria would have cut itself off, not only from official aid but from almost all forms international private capital flows which are becoming the main vehicle of international capital flows. In this last decade of the twentieth century.

When debt occurs depends on several factors. Ultimately, we are talking about a negotiation and no one can say beforehand when a negotiation will end. The fast the government carries out its reform programme, the sooner it will be able to go to Paris. The courses that are followed include:

The first step is a set of reforms that show the government is serious about understanding a medium term economic strategy. The continued control for the budget deficit, the removal of the interest rate caps and the soon expected unification of the exchange rates constitute this initial signal.

The next step will be an agreement with the International Monetary Fund on a "Staff Monitored Program." This is a series of quarterly targets for such macroeconomic parameters as budget deficit, international reserves, money supply, taxes and revenues. Normally staff of the IMF monitor performance against this agreed target for a year or so before presenting a formal program to their Executive Directors. It is important to note that occasional visits from the IMF to examine performance without previous target setting does not constitute a staff monitored program. While the staff monitored programme is under execution, teams from the IMF will visit Nigeria quarterly to verify that the program is "on track. During this time Nigeria and both Bretton woods institutions will be discussing the kind of MTES that can be convincing to the Paris club. When these discussions are complete, the results are summarized in a "policy Framework Paper" (PFP) laying out the reforms to be carried out over the medium term with a time table and this PFP is discussed and hopefully endorsed by the executive directors of both the bank and the Fund.

How much debt relief a country can obtain depends basically on how bad its situation is and how much effort it has made to remain current. In the fist 2

rescheduling, 1986 and 1989, Nigeria was treated as an upper middle income country (greater than $2900 in 1994) and in the third rescheduling in 1992, it was considered for lower middle income terms (greater than $750 percent per capita in 1994), without concessionality. In this cases, however, debt service due for a period of around 18 months were rescheduled for 10 to 20 years.

Since then, it has become clear just how low Nigerian's income is (US$280 per capital in 1994). Because this is below the $500 p.a. cut off, speculation had arisen that Nigeria could be eligible for the so called "Naples Terms", 67 percent reduction of the present value of the debt. Besides per capita income, there are 2 other criteria that Paris club looks at, however a debt/export ratio of more than 350% (Nigeria's was less than 300% in 1994) and the informal rule that the country should be judged by the Bank as not credit worthy for anything but IDA resources. As one of the world's major oil producers, Nigeria is unlikely to become an "IDA only" country. Finally, the amount of the Paris club debt and the efforts the country has made to service its debt can also have an influence. The Paris club can on a case by case basis, however, decide to grant other forms of debt relief if they see Nigeria rigorously implementing the PFP. In this regard, a more expeditious strategy for Nigeria would possibly have been not to have arbitrarily capped its debt service at a relatively comfortable level of around 20 percent of exports \(with nothing going to the Paris club creditors and rumours that some non-Paris club creditors have been paid), when many other low income countries are devoting a high proportion of exports to servicing debt and when 31 of 51 low income countries had a higher debt to export ration in 1994 than Nigeria. With oil prices higher in 1996, creditors are likely to understand the arbitrary cap even less. In any case it is important to note that debt relief is always the result of a case by case negotiation. The various parameters mentioned are just guidelines.

Very recently, a new initiative has been put forward by the world bank and International Monetary Fund for dealing for the first time with debts to multilateral institutions and this had been accepted by most creditors. This could result in even greater debt reduction, up to 80% for countries whose debt would still be unsustainable even after application of Naples terms. Since Nigeria's problem does not lie with its multilateral debt, it is even less likely

ever to fall into this category.

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CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter is concerned with the methods and procedures used in conducting this research.

Research methodology is the procedures and methods sue din conducting a research. A research methodology as defined by Gilbert (1979), "is a systematic procedure that involves the investigating of activities, gathering, recording, and analyzing data about a problem in order to find ways of solving that problem". A research is also defined as a process of arriving at independent solutions to problems through planned and systematic collection, analysis and interpretation of data. It is oriented towards the discovery of relationship that exist among the phenomena of the world in which we live. (Aderemi 1995).

Research can be classified on the basis of investigation, which involves evaluative and non-evaluative research (Edward Suchman, 1968). Evaluative research is a form of applied research whose primary goal is not the discovery of knowledge but rather the testing of application of knowledge. Non-evaluative research on the other hand, is what is regarded as basic or pure research aimed at formulation of theoretical generation of abstract prediction.

This research work however, took the form of evaluative research because it is not based on the discovery of knowledge, but rather looks into an issue which is already in existence. Particularly, the objective of the research which is to find out the effectiveness in the management of public debts in the Nigerian economy.

3.2 METHODS OF DATA COLLECTION

Data collection is the ways and methods in which data is being collected for a research, after the research problem is defined and clearly specified.

Methods of data collection is divided into: primary and secondary methods.

Primary methods of data collection involves the collection of data specifically for the research needs at hand. They are those data that have been observed by the researcher for the first time. It involves the employee of observation or communication techniques of providing data.

The secondary method of data collection are already published data collected for purposes other than the specific research needs at hand. This involves the use of textbooks, published and unpublished materials. This is further classified into internal data; which are found within the organization in which the research is conducted, and external data, which comes from outside the organization.

For the purpose of this research secondary source of data collection was used. A source is simply a place where something is found or where it is taken or derived (Funk and Wagnalls, 1974). A secondary data involves looking at past reports or books written by various individuals. According to Beker (1981, p. 240), a secondary data is defined as the use of social science data after they have been put aside by the researcher who gathered them. The re-use of the data can be by the original researcher or by someone involved in anyway in the initial research project. The research question examined in the secondary analysis can be related to the original research project. The research question examined in the secondary analysis can be related to the original research endeavour or quite distinct from it. Arguments for secondary analysis come from a variety of researchers (Glenn, 1972, Hyman 1972, Tukey, 1969). It is clear that the research method provide excellent opportunities to produce valuable knowledge (Wimmer and Dominik, 1987).

The use of journals, various publications, articles, economic and financial reviews of the Central Bank of Nigeria, served as the secondary source of data used in this project.

3.2.1 POPULATION OF THE STUDY

A population is any group of individuals that have one or more

characteristics in common that are of interest of the researcher (Ogbazi and Okpal, 1994). Population is a group of class of subjects, variables, concepts or phenomena (Walizer and Wiener, 1978).

Population of a study addresses the question: who will be or who were the subject of the study that will provide accurate and reliable information for the study?

According to Robert Johnson, a population is a set of individuals, objects, measurements who properties are analyzed. The population of this study is restricted to mostly C.B.N print outs.

A sample is a selected proportion of such an entity of such a population. There are basically two types of samples that may be selected in the process of research. These are random and non-random samples. The farmer has to do with a selection of available population elements based purely on change of occurrence while the latter involves a selection on the basis of particular criteria other than chance.

For the purpose of this research, non-random sample was used.

Taking a sample from the population makes the analysis of the data more accurate and allows for precision in estimating the result.

3.3 METHOD OF DATA ANALYSIS

Data analysis refers to the strategies and procedures for summarizing and exploring relationships among the variables on which data have been collected. Data analysis decisions are rarely made solely after the data have been-collected.

The analysis of data have been approached mainly by the use of theories. These theories in the form of articles were gotten and put together so as to assess the current situation of the public debt management in the Nigerian economy.

3.4 RESEARCH PROBLEMS AND LIMITATIONS

A project of this nature cannot be done without problems.

There was a problem of getting relevant information from the Ministry of Finance in Abuja, and the Central Bank of Nigeria. They always never gave anything worthwhile, as they kept on saying that the topic is a very sensitive one, which they could not comfortably give much and relevant information about.

I will be forever grateful to my supervisor who helped me with all the information I needed.

With one working within a time constraint, and limited resources, I could not write as much as I would have loved to.

And also, lack of current books and journals based on my study were not available in the library, was a limiting factor.

CHAPTER FOUR

4.1 INTRODUCTION

Every country in the world strives towards maintaining a sustainable level of economic growth and development. Rapid economic development could only be realized where the economy is adequately financed through foreign exchange earnings, direct foreign investment, receipts of grants and investment of local savings. However in developing countries, like Nigeria, the resources to finance the required level of economic growth and development are hardly available. This is because the economies of this countries are plagued with problems associated with low capital formation such as low level of domestic savings, poor tax effort and meager foreign exchange earnings from exports of goods and services. As indicate din a report on Sub-Saharan Africa published by the World bank in November, 1995, most countries in this region had, on average, gross domestic savings rates below 10 percent in the period 1988 through 1993. Some even had negative rates like Burkina Faso, Central African Republic, Chad, Cameroon, Equatorial Guinea, Guinea Bissau, Lesotho, Mozambique, Tanzania and Uganda. Only a few countries had substantially increased their savings between 1981 - 87 and 1988 - 93. From the region as a whole, with savings to Gross Domestic Product at less than 10 percent, there exist a wide gap between investments and savings which had to be filled through external financing.

Basically, for those reasons, many third world countries, even after obtaining political independence, have depended on the use of external sources of funds to bridge the gap between the grossly insufficient locally generated funds and the investments required for economic growth. These capital inflows have been from four major sources namely: direct foreign investment, loans from the international capital market, bilateral official sources and multilateral organizations.

During the 1980's, multilateral lending played prominent roles in the external financing of Sub-Saharan Africa. With decline in official and Official-Development Assistance (ODA) during a period in which prices of primary commodities collapsed to the lowest levels coupled with the inability to access the capital market, many African countries south of the Sahara resulted to

borrowing from multilateral organizations. Sub-Saharan African subsequently became the world's most indebted region to the multilateral organizations, the repayment of the which crippled the economies of this region. Inspite of this, the external debt of Sub-Saharan countries has received less attention than that of middle-income countries essentially because it posses less of a treat to the international financial system.

By the late 1980's only 21 percent of the total external debt of external debt of Sub=Saharan countries was owed to commercial banks, the bulk of that represented loans to a few countries, such as Cote D'Ivoire and Nigeria, that have had significant access to international financial markets, while significant proportion was owed to multilateral institutions and bilateral sources. Consequently, the debt service problems of the Sub-Saharan countries became a concern of donor governments and principally multilateral institutions.

4.2 ORIGIN OF NIGERIA'S DEBT

Nigeria like any their third world country, had cause to resort to external borrowing for development purpose. The loans procured prior to 1978 were mainly long-term loans from official sources and were on highly concessional terms, i.e. with low interest rate and long period of grace. The loans did not exert much burden on the economy as the country had adequate revenue receipts from oil, especially during the oil boom era of 1973 - 1976.

However, a temporary decline in oil receipt in 1977/78 forced the country to borrow the first jumbo loan of US$1 billion from the international capital market (ICM) which was used to finance various projects that did not yield any revenue before the repayment of the loan commenced. Following temporary recovery of the oil market in 1979, the Nigerian Government relax the measures that were put in place to correct that imbalances in the system. Soon, a consumption pattern that favoured imported goods emerged leading to indiscriminate and excessive importation of all sorts of goods into the country. The collapse of the oil boom in the early 1980's resulted din drastic reduction in foreign exchange earnings thereby causing considerable strains on the economy. Rather than address the problem of foreign exchange revenue, both the federal and state

governments responded by embarking on imprudent and massive external borrowing to finance all sorts of projects with doubtful viability. This mounted great pressure on the various sectors of the economy resulting gin huge deficit imbalances in government finances, low external resources and current account deficits in the balance of payments. All these factors led to the accumulation of trade arrears and other debts service obligations. Thereafter, the debt problem escalated.

4.3. STRUCTURE OF NIGERIA'S DEPT PROBLEM

The external debt can be broadly classified into private and official debts. The private debt consists of uninsured short term-trade arrears that were contracted through the medium of bills for collection, open account etc and commercial banks debt's contracted through loans and or letters of credit which are often referred to as the London club debts. On the other hand, the official debt component consists of the Paris club debts (i.e. debts insured by export credit agencies of Paris club members, multilateral debts (that is, debt owed to the World bank, ADB, EIB, etc) and other non-Paris club bilateral debts.

As at end of December 1992, the private debts outstanding amounted to US$5.37 billion or 19.47 percent of the total debt stock of $27.6 billion. The debt is broken down into US$2.12 billion London Club debt and US$3.25 billion uninsured short term trade arrears. In the same period, the official debts, at US$22.20 billion, accounted for 80.53 percent of the total debt stock. The Paris club debt alone totalled US$16.5 billion an represented 59.7 percent of the country total debt. The multilateral debts accounted for US$4.5 billion or 16.4 percent while Non-Paris club bilateral debts amounted to US$1.23 billion or 4.4 percent.

Of the $28.7 billion total external debt as at December, 1993, private debts component accounted for $5.2 billion or 18.3 percent while official debt absorbed $23.5 billion or 81.8 percent. The corresponding figures for 1994 were $29.4 billion for total debt absorbed $25.3 billion or 81.8 percents. The corresponding figures for 1994 were $29.4 billion for total debt, $5.2 billion (17.8 percent) and $24.2 billion (82.2 percent) for private and official debts.

respectively. At end of December 1995 a similar pattern was observed with private debt absorbing $5.2 billion or 15.9 percent of the total debt of $22.6 billion and official debt accounting for $27.4 billion or 84.1 percent. As in previous years the Paris club debt accounted for the bulk of the total debt, amounting to 623 and 66,5 percent in 1994 and 1995, respectively.

The estimate debt service due in 1992 was US%$4.02 billion. The sum of US$2.73 billion was paid while US$1.29 billion could not be paid. In 1993, the debt service due was US $4.17 billion of which US$1.29 billion could not be paid. In 1993, the debt service due was US$4.17 billion of which US$1.72 billion was paid leaving a balance of US$2.45 billion as unpaid arrears for 1994 and 1995 were as follows: US$4.01, US$1.73 and US$2.28 billion and US$4.39, US$1.83 And US$2.56. The build up of arrears reflected debt service due but unpaid, penalty interest on outstanding payments and exchange rate changes in respect of US dollar vis-a-vis other currencies. Arrears become commutative from previous years. Thus arrears rose from US$4.54 billion in 1992 through US$8.55 in 1993 to US$11.28 billion a end of December, 1995.

The estimated debt service due in the period 1992 through 1995 as well as the debt service paid in the period is indicative of the persistent constraints in the nation cash flow position. The resultant arrears had to be carried forward into subsequent years.

In terms of the debt burden and the debt service capacity, the trend in some external debts indicators for the period 1992 to 1995 is indicative. The debt service paid/exposers ratio at 25.9 percent in 1992 declined to 16.4, 17.2 and 16.4 percent in 1993, 1994 and 1995 respectively. Even, in terms of debt service due/exports, the ratio rose marginally from 38.2 percent in 1992 to 39.7, 39.8 and 39.3 percent respectively in 1993, 1994 and 1995, as against the critical level of 30 percent set by the world bank. Similarly, the interest service ratio defined as interest paid/export declined from 12.7 percent tin 1992 to 6.2, 7.5 and 7.5 percent, respectively in 1993, 1994 and 1995, compared with the critical level of 120 percent.

However, interest payments due/exports ratio averaged 17.9 percent tin the

period. Also, debt stock/exports ratio rose from 261.6 percent at nd of 1992 to 273.3, 292.1, 290.5 percent in 1993, 1994 and 1995 respectively, as against the critical level of 200 percent. The debt stock/GDP ratio, for most of the period, also exceeded the critical level of 50 percent. The debt situation thus remain problematic. The comparison is as set out below:

The apparently low debt service ratio needs to be interpreted with caution for two reasons. Not only is the closing of the London Club deal excluded form the debt service figure, about $2 billion, $4.5 billion, $8.5 billion and $11.3 billion of external debt service obligations stood as arrears as at end December 1992, 1993, 1994 and 1995 respectively.

With regard to internal debt, the total internal debt outstanding rose from ₦84.1 billion in 1990 through ₦161.9 billion in 1992 to ₦415.9 billion in 1995, reflecting a five fold increase over the six year period. The increase reflected new issues of treasury bills and treasury bonds. The ownership structure of government securities continued to be dominated by the banking system with the Central bank holding accounting for an average of 74.7 percent in the 1990 - 95 period. Short-term instruments remain dominant in the portfolio of government securities.

Ratio	CRITICAL LEVEL (%)	NIGERIA'S POSITION (%)			
		1992	1993	1994	1995
Debt Stock/Exports	200	261.6	273.3	292.1	290.5
Debt Stock/GDP	50	99.0	79.0	69.2	50.1
Debt service paid/exports	30	25.9	16.4	17.2	16.4
Debt service due/exports	3200	38.2	39.7	39.8	39.3
Interest paid/exports	20	12.7	6.2	7.5	7.5
Interest Payments Due/Exports		20.1	19.1	16.5	16.0

4.4 PUBLIC DEBT MANAGEMENT: THE NIGERIAN EXPERIENCE

Having discussed in the proceeding sections the causative factors and effects of inefficient debt management as well as articulated the chronology of debt relief initiates, this section seeks to focus on the debt profile in Nigeria as well as the country' macroeconomic developments. The impact of the high debt burden on economic and monetary stability would be easily gleaned form the following descriptive analysis even without the rigours of econometric analysis liniin debt burden to macroeconomic variables. The time profile for the analysis is 1990 through 1995.

MACROECONOMIC DEVELOPMENTS

The Nigerian economy grow in real terms by 3.0 percent in 1992 compared with the real growth rate of 4.6 percent in 1991. The growth rate averaged 1.98 percent in the year 1993 through 1995. Although the stance of monetary policy had been moderately restrictive since 1989, the actual outcome had been expansionary. The narrow money stock grew by 52.8 percent in 1992, compared with its annual target of 24.3 percent. In 1991 and 1990, the narrow money stock grew by 32.6 and 44.9 percent respectively as against the prescribed ceilings of 14.6 and 13.0 percent . The dominant factor in the expansion of narrow money sock was the unprecedented 69.1 percent growth in aggregate domestic credit compared with a target credit growth of 13.2 percent of fiscal 1992. A significant proportion (88.3 percent) of the increase in aggregate bank credit went to government. For largely the same reason, the narrow money stock grew by 54.4 percent in 1993. However, in 1994 and 1995, there was considerable deceleration int eh growth rat of narrow money stock which recorded 47.,8 and 5.6 percent respectively, in those years. The decline in the rate of growth, reflected a dramatic decline in the growth of the aggregated credit to the domestic economy which stabilized at 29 percent. Nominal interest rates rose rapidly but real rates were negative.

The large and growing overall deficits in the fiscal operations of the Federal Government Financed largely through fiduciary issues have increased aggregate demand far beyond the economy productive capacity. As against a norm of 3.4 percent GDP, the overall fiscal deficit grew to 8.5 percent tin 1988, 7.9 percent in 1989, 10.1 in 1990, 11.2 percent in 1991 and 7.3 percent in 1992. The deficit in 1992 as in previous years was attributable largely to excessive debt

service obligations, both domestic and external. It is instructive to note that the bulk of Federal Government expenditure has been on debt service payments, accounting for instance in 1992 for 61.1 percent of the total. The deficit GDP ratio, however, rose to 15.5 and 8.9 percent in 1993 and 1994, respectively. An overall surplus position was achieved in 1995.

Thus except in 1995 when an overall surplus was recorded, the major source of macroeconomic instability has been the increasing magnitude of deficit fiscal imbalance, the financing of which had induced rapid monetary growth, inflationary pressures and exchange rate depreciation.

4.5 CONCLUSION AND FINDINGS

The study reviewed, as a case study, the debt situation in Nigeria, outlining the macro economic imbalances arising largely from the government fiscal and monetary policy responses to the heavy dept service burden. In the quinquennuim 1991 - 1995, the debt service burden average 52% of the total federal government outlay on recurrent and capital effects. The narrow measure of money stock grew by an average of 38.6 percent in that period, compared with its annual target of 24.3 percent, while inflation rate averaged 42.9 percent in the 1991 of their economies over the medium term. The way forward is difficult and there seems to be no primrose path to getting out of the debt problem.

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CHAPTER FIVE

5.1. SUMMARY

This study has discussed in detail, the present situation with regard to public debt management and control in Nigeria and future prospects. The study has also highlighted the increasing trends in internal and external debt outstanding as well as debt service payments currently. The changes in composition, holdings and maturity structure of internal debt were examined the changing structure of external loans was also reviewed. Effort was made to explain the observed trends.

It also articulated debt control instruments which are largely laws and administrative regulations. It was observed that not only were some of the laws ineffective,t hey remained unrevised for a long time. The debt management tools employed so far were also highlighted and include in the case of internal debt, determining the size prince and timing of issues, preparation of sinking funds and other accounting schedules for receipts and disbursements and conversion of securities to bonds etc. In the case of external debt management, the tools have been debt rescheduling/restructuring debt buy back, debt collateralization and debt conversion programme. Such observations were made on their effectiveness.

The problems which beset debt management in Nigeria were discussed and prospects for more effective debt management were examined. The problems include inadequate statistical data, heavy debt service burden, low interest rate for internal debt, capitalization of unpaid interest due in scheduling, persistent macro-economic imbalances etc.

5.2 CONCLUSION

The need to get the Paris club to recognize the country as one of the low income, severely-indebted countries that deserve a highly concessionary rescheduling package cannot be over-emphasized. Unless the country is so classified, it would be very difficult to get the type of relief package that would get it out of the debt trap. This has become absolutely necessary as the country requires more than two and half years' exports to pay off its debt. Countries in such a situation, Prof. Jean-Claude Berthelemy firmly believes, cannot resolve their debt problems through traditional rescheduling package. The solution, he concludes, is in granting relief packages that include debt forgiveness or cancellation. This type of package, he succinctly summarised as "unnatural: solution. This study completely agrees with him and also believes that the solution to Nigeria's debt problem lies solely in such an "unnatural" solution.

In conclusion, it has to be emphasized that Nigeria has to strain every nerve to adopt and implement the medium-term economic programme with greater commitment than ever before. The adoption of such programme by a number of third world countries has enabled them to achieve a break-through in the resolution of their dept problem.

The debt conversion programme is the only debt management strategy adopted that has reduced the debt stock, albeit insignificantly, without he us of the countries scarce foreign exchange. Also it is a debt management initiative that

has so far led to unconditional inflow of low capital, especially in a situation where new money inflow has virtually dried up.

5.3 RECOMMENDATIONS

The problems and constraints of internal debt management in Nigeria were examined. Some of the leading issues that require urgent attention are mentioned below:

1. Laws regulating public borrowing in Nigeria should be reviewed. Statutory limits on total issues and outstanding must be related to the size of the budget and GDP. This take due cognisance of the absorptive capacity of the market and the ability of the government to meet debt service obligations.

2. Development and appointment of private sector underwriters to relieve the CBN of the burden and remove the inherent constraint to monetary policy execution.

3. Effective co-ordination between fiscal and monetary polices. This can be institutional framework where the objective of fiscal and monetary policies are examined and solutions which will remove the conflicts are agreed.

4. Improvement in computerization and information technology in the CBN and the money market generally to enhance information flow for monetary management purposes.

5. Development of a reliable database for all internal debt sin the Nigerian financial markets.

6. In order to remove the administrative bottlenecks currently experience, the idea of establishing a National Debt Office which will be the sole agent to manage all categories of debt should be considered.

7. And rating agency to give guidance eon the quality and risk element inherent in all debt instruments.

8. Finally, the paper strongly recommends that the only way of getting out of the debt rap is to obtain a relief package that is capable of significantly reducing the debt stock.

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APPENDIX
DEBT STRATEGY AND MARKET RELATED APPROACHES TO SOLVING THE DEBT PROBLEM

Debt rescheduling has been the principal tool for the alleviation of debt burden prior to the debt crises of the 1980's. In the period 1986 through September, 1990, there was 204 multilateral debt relief agreements with official creditors restructuring US$132.6 billion of the maturities. In the period 1981 - 1990, Paris club negotiated 96 agreements with Sub-Saharan and 40 with Latin America and Caribbean countries. The debt initiatives have been designed to solve the debt problem of a group of countries that are deemed to be in the same category - usually the same income bracket. The grouping of the debt distressed countries presented below in chronological order.

LOW-INCOME COUNTRIES	MIDDLE-INCOME COUNTRIES	SPECIAL CASES
Venice terms (1987)	Baker Plan (185) (Commercial debts)	Geo-political considerations
Toronto terms (1990)	Brady Plan (1987) (Commercial debts)	
Trinidad Toronto terms (1991)	Houston terms (1990) (Official debts)	
Enhanced Toronto terms (1991)		
Naples terms (1994)		

The various initiatives adopted since 1985 were directed at either the severely indebted low-income countries (SILICS) or the severely indebted middle income countries (SIMICS). Similar initiatives were designed to tackle specific debt categories. There have also been a few cases were special terms were granted to some countries for non-economic, geo-political considerations.

So far, five initiatives have been adopted to address the debt problems of the severely indebted low-income countries (SILICs)., All the terms were under the Paris club protocol. These are the Venice terms, Toronto terms, Trinidad terms, Enhanced Toronto terms, and the Naples terms.

Venice Terms: The salient features of the Venice terms are low interest rates and longer repayment (20 years) and grace periods (10 years) on existing debts to ease the debt burden. Beneficiaries include, Mozambique, Somalia, Guinea Bissau, Niger and Malawi.

Toronto Terms: These involved a menu options for countries with very low per capita income, chronic balance of payment problems and structural adjustment programmes under implementation. Its features include partial debt write-off, low interest rates, and a further lengthening of repayment period to exceptional long maturities of 25 years for rescheduled confessional debt including 14 years grace with moratorium interest at confessional rates. An additional feature for non-confessional debt was the introduction of confessional interest rates. This involves allowing moratorium interest to be at market rates but reduced by 3.5

percentage points or 50 percent, whichever is low: Beneficiaries include Mali, Central African Republic, Madagascar, Niger and Tanzania.

Trinidad Terms: Eligible countries for Trinidad terms could have Two-Third of their debt stock canceled while the remaining one-third is rescheduled with 25 year maturity and five year grace period with interest payment capitalized for the five years. Repayment schedule would be flexible depending on debtor country's port capacity.

Enhanced Toronto (London) Terms: this was adopted to replace the Toronto terms. Eligible debtors are the highly indebted IDA only countries and some severely indebted low-income countries with IDA/IBRD credits. The terms provide additional debt relief of up to 50 percen tof th eeligible debt in net presen tvalue terms. Under th eterms, the maturity of rescheduled ODA debts (concessional debts) increased form 25 to 30 years but the grace period fell from 14 to 12 years while moratorium interest rmained at origijal concessional rates. For non-OD debt, the amount of partial write off of debt service due during consolidtion period was increased from one-third to half, while maturities of the remaining rescheduled half was also increased from 14 years with 8 yearsa of grace to 23 yers with 6 years of grace. Maturities of concessional interest rates increased from 14 years (plus 8 years grace period) to 23 years with no grace period but at moratorium interst rate low enough to reduce the net present gvalue f debt service falling due by 50 percent.

A special lfeatur eof th eEnhanced Toronto Terms (ETT) is th ecombination of interest reducation adn partial inerest capitalization. Undr this, no interest is to be charfge don capitalized interest. Repayment period would eb 3 years including 5 years of grace. The terms provided further for th econversion of non-concessional debt subject to a limit of 10 percent or $10 to $20 million land no limit for ODA loan, and a "goodwil" clause for reduction of debt stock after 3 to 4 years provided debtor countries maintained satisfactory relationshiop with crediors and had an IMF - supported adjustemen tprogramme in pace. By July 1994, 23 creditors (18 of them in Africa) had benefitted from the terms.d

The Naples Terms: The terms wer designd to achieve a hih degree of concesionality in rescheduling a a fundamental reestuctur eof the entire stock of Paris club debt. Countries eligible for th eterms would eb those receiving the Enahcne Toronto Terms with term capital incoem of US$500 or less, totaldebt to export of 350 percent or more and satisfactory track record with the Paris club and IMF. The Naples terms known as "exit rescheduling": would be granted on a case by case basis. Menu options incude a rduction by Two-thirds in net present value of the debt stock; repayents and grace periods will be lengthened to 33 years under debt service reduction option and 40 years for rescheduled ODA dept. Prevsiously rescheduled debt under concessional terms can be considered forreduction or reschedulin gbut post cut off date debts will not be considred.

For the severely indebted middle income countries (SIMICs) three initiatigves hav so far ebeen adopted, namely, the Baker initiative and th eBrady plan to address comercial debts in 1985 and 1989, and the third Houston terms in 1990 for official debts.

The Baker Initiative: The major elements of th estrategy were th eimplementation f the adjustment programmes of debtor countries, increased lending by commercial banks to support the adjustment efforts and continued monitoring by IMF plus enhanced lending by multilateral development banks. The Paris club could not ennter into any debt relief negotiation (with rare exceptions) unless an appropriate adjustment programme is under implemention.

The Brady Plan: The plan allow for debtor counries either to buy back outstanding loan at a discount or exchange them for securites that would result in reducing their principal repayments or the total debt service obligations. The IMF and th eworld bank wer eto provide funding, while th ecommercial bans would provide debt reduction and new mone to the eligible counries. A precondition for any benefiting debtor counry would eb a grwoth oriented adjustment programme put in place.

Houston Terms: Under the terms, official Development Assistance (ODA) loans were to be rescheduled with a w0 year maturity, including up to 10 years of grace. Exports credit adn non - ODA official loans were to be rescheduled with a 15 year maturity includin gup to 8 year grace period. Creditor counries could swell or swap the entire ODA loan and a limited amount ofof non-concessional credits (usually 10 percen to th eouststanding claims or US$10 million, whchever is higher) thorugh debt conversion programmes. Countries which have benefitted from theterms include igeria, Morocco, Honduras, El Salvador and Congo.

Special Cases: While most debt relief cases had been anchored or predicted on considerations of macroeconomic performance and/r expectations over the medium-term horizon, a sizeable amount of debt relief had been to
debt - distressed countries largely on geo-political considerations. Notable examples are Egypt and Poland.