EXTERNAL DEBT MANAGEMENT IN NIGERIA

BY

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DECLARATION

I hereby declare that this thesis report has been written by me, and that it is a record of my own research work. All sources of information and where applicable other writer's views have been duly acknowledged in forms of list of references.

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CERTIFICATION

THIS THESIS ENTITLED: **EXTERNAL DEBT MANAGEMENT IN NIGERIA**, by **SANI ABDULLAHI DANGAJI,** meets the regulations governing the award of the degree of Masters in International Affairs and Diplomacy (M..I.A.D) of Ahmadu Bello University, and is approved for its contribution to knowledge and literacy presentation.

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DEDICATION

This Thesis is dedicated to my Dearest wife - Hauwa and my lovely Daughter Halimatu Sa'adia for their Love and Tolerance through out my Years of Study.

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I thank Almighty Allah for giving me the opportunity, strength and the grace to complete this course, making me a proud holder of this noble degree - the M.I.A.D.

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ABSTRACT

Nigeria External debt's rising profile has been one of the disturbing factors affecting the overall development of the country. Though it was a belief within the government and well informed circle, that, Borrowing from Foreign Creditors will aid the development of the Nigeria economy. But instead of ameliorating the macro-economic problems and general under developments of the country, it tend to underdeveloped it the more, due to the rising debt profiles as a result of mis-management of the debts among other factors.

Thus, after making use of available secondary data at our disposal, with the aim of looking into the causes, effects and solutions to the problems of the Nigeria debt and its management; the study revealed that the Nigeria's external debt has seriously hinders the overall developments of the economy vis-a-vis the country's balance of payment, despite all efforts of successive governments in Nigeria at managing it.

Hence, with the above in view, it is believed that with proper institution of a dynamic debt management programmes, and general discipline on behalf of the government and the citizens, the problems of Nigerian external debt burden will be of the past.

TABLE OF CONTENTS

Title Page		i
Declaration		ii
Certification		iii
Dedication		iv
Acknowledgment		v
Abstract		vi
Table of Contents		viii
CHAPTER ONE: INTRODUCTION		
1.1	External Debt and Management in Nigeria	2
1.2	Statement of the Problem	6
1.3	Objective of the Study	6
1.4	Justification of the Study	7
1.5	Propositions of the Study	8
1.6	Methodology	8
1.7	Scope and Limitation of the Study	9
1.8	Definition of Terms and Concepts	9
1.9	Outline of Chapters	12
1.10	Conceptual Framework	14
	References	17

CHAPTER TWO: LITERATURE REVIEW

2.1	What is External Debt?	18
2.2	Nigerian Economy before Debt Crisis	19
2.3	Reason for External Loan	23
2.4	The Growth of the Nigeria External Debt	23
2.5	The Impact of External Debt on Nigerian Economy	24
2.6	External Debt Management in Nigeria	25
2.7	Symptoms of External Debt in Nigeria	26
	Foot notes	28

CHAPTER THREE

3.1	The Origin of External Debt in Nigeria	29
3.2	Causes of External Debt Crisis	31
3.3	External Debt owned and Creditors	37
3.4	Classes of Nigerian External Debt	40
3.5	Structure of the Nigerian External Debt	42
3.6	Trends in the Nigerian External Debt	43
3.7	Impacts of External debt	46
3.7.1	A Special Focus on Balance of Payment (BOP)	46
3.7.2	In relation to the balance of Payment (A theoretical Overview)	47
3.7.3	External Debt burden and the balance of Payment	50

3.8 Efforts at Resolving External Debt Problems 51

3.9 The need for managing Nigerian External Debt 53

CHAPTER FOUR

EXTERNAL DEBT MANAGEMENT IN NIGERIA

4.1 The Concept of External Debt Management 56

4.2 Statutory Managers of Nigerian External Debt 59

4.3 Nigerian External Debt Management Procedures 60

4.4 Debt Management Planning in Nigeria 62

4.5 Trends in External Debt Management 64

4.6 Debt Management Strategies (A Global overview) 67

4.6.1 Debt Strategies: The Nigerian Experience 70

4.7 Securitisation as Debt Management Strategy 72

4.7.1 Size, Depth and effects of Debt Securitisation 75

4.8 What are the prospects for Securitisation 81

4.9 Problems and Prospects of Debt Management in Nigeria 84

4.9.1 Problems of Debt Management 84

4.10 Prospects of Effective Debt Management 88

References 90

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1	Summary of the Study	92
5.2	Conclusion	97
5.3	Recommendation	99
5.4	Suggestion for Further Study	103
	Bibliography	105

CHAPTER ONE

1.1 EXTERNAL DEBT CRISIS AND MANAGEMENT IN NIGERIA

Nations and nationalities have been formed to provide basic plat form for a better society. Constituted government and authorities, therefore have been established to govern and in the course, provide basic essentials of life i.e. guarantee good standard of living. while respective governments must have to contain with the numerous demands of her citizenry i.e. food, shelter, security, employment, health etc. they are constraint by the resource base. In this regards they are either consciously or unconsciously get committed by greater magnitude than their means of meeting these basic demands. Thus, the recourse to external borrowing which later resulted in external debts.

The Size, impact and management of external debt had become one of the most macro-economic issue for most African countries for the past three decade or so. Of particular concern is the worsening of the debt burden whereby the rule of debt accumulation for exceeds the rate of growth of debt-service capability such as the rate of growth of gross domestic product (GDP) and of export. And this is attributed mostly to the low ability of these countries to effectively manage their external Debt.

Given the above scenario, and the persistence of this undesirable trend, as applied to the Nigerian debt profile its implication for the economy have been of concern within the well informed circle and interest observer. While successive governments in Nigeria, over the years had undertaken vigorous exercises aimed at effective management of the Nigerian external debt, the issue of research with a new of finding a permanent solution to the

477189

problem. If it is opined that, national government vis-a-vis the Nigerian government contracts external debt in order to aid economic, social, industrial, technological and political development of the economy, then why the disturbing issue of the Nigerian external debt rising profile?

It was to this end that this research work is undertaking to generally look into the Nigerian external debt crisis and its management. This is taken in line with two focus in mind. First to look at the Nigerian External debts rising profile and the reasons for this development. Secondly to look at the effort at managing this external debt and the accompany problem recorded. These gaps which this research thesis intends to fill. One must note that this is important given the fact that the literature has prescribed for developing countries (like Nigeria) the desirable pattern of development financing (which after adhering to it; has if they are to attain the growth path achieved by the developed economies. This literatures doctrines which we had followed in the past that has landed us in the deep sea of external debt burden.

In view f the foregoing, this research work shall be organized as follows. The second chapter shall review some literatures placing in perspective the Nigerian economy before debt crisis: Reasons for taking foreign debts; the growth of external debt in Nigeria; the impact of external debt; and the need for an effective management of the Nigerian external debt. The next chapter shall then discuss the origin causes, structure, trends in Nigerian external debt and impact of external debt crisis. This shall be followed by the chapter four,

which discuss and analysis the need for Nigerian external debt management. The various strategies for managing Nigerian external debt, the statutory manager(s) of the Nigerian external debt; The Rudiments of Nigerian external debt managements, and the evaluation of the Nigerian external debts management exercises. While the last chapter shall contain a summary, concluding, remarks and recommendations.

Peradventurally, with a meager loan of $1 billion contracted by the Obasanjo's regime in 1978, three years later it rose to a remarkable $8 billion, and by 1985 it ha stood at $18 billion, at the present position, the Nigeria debt now stood at over US $30 million.

A delicate aspect of the Nigeria's economic Problem presently, as enumerated above is Debt crisis: This external debt crisis does not only touch on the net transfer of financial resources between Nigeria and her creditors, more importantly, it has far reaching implication for the stability of the international monetary system, our diplomatic relations and image enhancements between Nigeria (being a debtor nation) and our international creditors. This international debt issue also has crucial implications on political stability of Nigeria, where local policy makers placed greater importance on foreign debt servicing, than meeting the basic needs of the Nigeria's populace. Also, she tends to look at how to satisfy her London and Paris club friends instead of caring for the masses. Hence should we open over scholarly eyes, and allow debt to erode our national integrity and renders us as backwards underdeveloped and retrogressive as ever?

Since it is generally believed within the socio - political, economic, civil and

diplomatic circle that debt problem, though inevitable is a fundamental factor militating against the development of Nigeria and third world's economies in general what justification have we then, if we allow this problem to persist without being curbed?. And as a remark, the past present and future generations of Nigeria and third world, and policy makers by and large will not forgive us, if we sit down and allow debt to hinders our development in the next millennium and for ever.

As a trend in social science research, This research thesis shall project a period of 15 years 1984 to 1999. This period is chosen as our scope because of the monumental increase in the Nigeria external debt during this period. It is our general relief to present an empirical and comprehensive research work, but need to be iterates is that due to some constraints envisaged by the researcher, the conclusion and packages of this study might be inadequate and fall short of our expectation.

Conclusively, the issue of external debt in Nigeria had been a general issue within all the segment of Nigeria and the International system, for it has, confidentially said, hinders our process of development. Thus a general scientific research analysis shall be presented in this thesis, with the aims of bringing to our cognition the causes, effects and remedies management of the Nigeria debt crisis between 1984 and 1999. And to ameliorates or completely eradicates future debt burden, we intends to project some recommendation and suggestion for future research on this issue. Thus making the issue of external debt crisis a thing of history within the geo-political and economic entity called **"NIGERIA". AND**

THE LESS DEVELOPED ECONOMIES IN GENERAL

1.2 STATEMENT OF THE PROBLEM

In the late 1970s when Nigeria first contracted the $1 billion foreign loan, it was thought that, this would be repaid immediately if the oil revenue appreciates, But alas, it was the beginning of an unprecedent Debt Crisis that characterized the Nigeria economy, infiltrating Both socio-economic political industrial etc development of the Nation. Likewise other third world economies, there by impeding their developments.

Since the early 1980s Nigeria has being witnessing a formidable economic crisis therein, And Despite high degrees of measures aimed at ameliorating the Debt problem the problem still persist. The questions, then to answer is, what is the origin and causes of this debts crisis? what are the effect on the nation? and show will open our eyes and allow this debt and its problems be part of us forever and made our development retarded?.

1.3 OBJECTIVES AND AIMS OF THE STUDY

This study is aimed at achieving two distinct objectives - The general and specific objectives.

The General objectives of this study is designed to look at the cause, effect and remedies of the Third World's debt crisis between 1984 and 1999, with special reference to the Nigeria experience.

While the specific objectives are, to:

(a) Review some literatures in relation to the Nigeria and the third world external debt

crisis;

(b) Trace the origin of Nigerian external debt crisis;

(c) Look at the basis for third world's debt crisis;

(d) Analyse the Nigeria Debt crisis from 1984 to date,

(e) Make a general conclusion on the cause, and effect of the Nigeria debt crisis in particular and third world in general;

(g) Make some recommendations aimed at Remedying the third worlds debt crisis; and

(h) Develop another areas of research into the third world's external debts and its problems.

1.4 JUSTIFICATION OF THE STUDY

This study, amongst others is justified, for it will help us as a future diplomats to:

(a) Know that a concept /theory could be used to explain the problem of third world's debt burden and Nigeria external debt in particular.

(b) Know that the Nigeria debt crisis is of both Dialectical and Historical background.

(c) Know the origin and causes and the position of the third world's and Nigeria's external debt crisis.

(d) Outline the socio-economic, political, industrial and diplomatic effect of the debt crisis. in the less Developed Economies most especially Nigeria.

(e) Assess the impact of external debt crisis on Nigeria and third world countries

(f) Know that LDC's external debt crisis can be corrected; and know that the issue of

external Debt and its management can be generalized to all LDC's

(g) Add to our knowledge of scientific method of enquiries, and break another ground in social science research and third world's external Debt crisis.

1.5 PROPOSITIONS OF THE STUDY

This study was highly influenced by a great concerns for the performance of the Nigerian economy, due to the problems of external debt crisis and the need to find a lasting solution to it. Thus for This purpose, it is proposed that;

(a) The problems of external debt is a general feature of the third world's economy

(b) Nigerian debt crisis is of both internally and externally induced

(c) The debt crisis is a factor of under-development of the Nigerian economy.

1.6 METHODOLOGY

The research wishes to make use of the secondary data.

The secondary data that the researcher intends to make use of shall then be source from the secondary sources like print media like textbooks, journals, newspapers and magazines, C.B.N. reports and other publications, world banks and other international finance organization publication, the internet websites, and other related materials, shall then be read through, diagnosed and processed and the best information extracted.

Thus these data shall be presented on pure scientific basis, then it shall be analysed using a content analytical method of data analysis.

1.7 SCOPE AND LIMITATION OF THE STUDY

The early 1980s was seen as the genesis of the general crisis in our external economic relations with the disturbing economic recession which culminated into a general external debt burden up to date. Hence this study is then chosen to cover this period of 15 years (1984 - 1999). And due to financial time, diplomatic and bureaucratic bottlenecks envisaged by the research, This research thesis shall then be limited by this factor and the general conclusions of this finding be jeopardized and thus render this work not comprehensive enough and short of expectations. Though efforts shall be made to make it more updated, standardized and resources, as our own contribution to the third world's debt crisis solution and social science research in general.

1.8 DEFINITION OF TERMS AND CONCEPTS

1. DEBT: This is a contractual financial obligation which one party owes to the other.
2. EXTERNAL DEBT: It is the debt raised and owned to external creditor(s). It is a situation at which the inflow of capital is more than the outflow of capital interms of payments and receipts on foreign trade.
3. DEBT CONVERSION: It is the exchange of monetary instruments (e.g. Promissory note for tangible assets or other financial instruments). It is a mechanism for reducing a country's external debt burden by changing the character of the debt.
4. EXCHANGE RATE: This is the price of one currency in terms of another.
5. FOREIGN EXCHANGE: This is the means of international payments. It includes

Currencies of other countries of International payments. It includes Currencies of other countries that are freely acceptable in effecting international transactions.

6. OFFICIAL CREDITORS: These are creditors whose loans are provided or guaranteed by government or official agencies.

7. LONG-TERM DEBT: Long term debt is public or publicly guaranteed, which its terms of maturation takes longer period.

8. MEDIUM TERM DEBT: It is a public or publicly guaranteed debt which take a maturation date shorter than the long-term debt.

9. SHORT-TERM DEBT: It is a public or publicly guaranteed debt which take a maturation date of short term notice usually 90 days.

10. PARIS CLUB: The Paris Club of creditors represents the official governments creditors in respect of insured debts. This Paris Club has an umbrella body called, the Organization of Economic Co-operation and Development (OECD) established in 1965 to assist debtor countries with official debt problems.

11. LONDON CLUB: These are creditors that represents claimant in respect of Uninsured debts owed to the Commercial banks. The commercial banks are commercial creditors from the western Europe and North America.

12. PROMISSORY NOTES HOLDERS: These are the creditors in respect of the refinanced debts for which promissory notes were issued.

13. MULTILATERAL CREDITORS: These are the World bank, the International

monetary Fund (IMF), the International Finance Corporations (IFC). International Capital Market (ICM), The International Development Association (IDA). They assist countries with financial problems for loans both on short and long term basis. for development projects. And also finance and insured debtor countries loans.

14. DEBT MANAGEMENT: It is a conscious and carefully planned schedule of the acquisition, development, and retirement of external loans contracted either for developmental purposes or to support the balance of payment. It involves the establishment of the conditions of issue of, and redemption of public Securities (loans).

15. LESS DEVELOPED COUNTRIES (LDC): These are the Under developed countries of the South which are generally found in Africa, Asia and the Latin America.

16. THE OIL BOOM PERIOD: This is a period in the Nigerian Contemporary Political-economic history between 1970 and 1977, when the receipt from oil from the international oil market to the Nigerian government is increase sky-rocketry, that caused tremendous balance of payment surpluses for Nigeria.

17. BALANCE OF PAYMENT: This is the total summary of a countries external economic dealings or activities in relation to the other nations economies.

18. DEBT BURDEN: This is the increased difficulties in servicing a debt. Externally, External debt burden is seen as the reflecting increase difficulties in honouring ones

- 477189

countries debt service obligation.

19. GROSS DOMESTIC PRODUCT (GDP): This is the total value of goods and services produced in the country over a period of time, usually monthly, quarterly or yearly.

20. DEBT SECURITIZATION: This is a debt management options which involves a process of exchanging (economic) assets between the borrower and the lender or the supplier and the buyer. Put in another realms - It is a trading in debt instrument.

1.8 OUTLINE OF CHAPTERS

CHAPTER ONE: Introduction

Being an introductory chapter, this chapter shall enclave the background of the study. Also inherent therein are the statements of the Problems, Objectives, justifications, propositions, methodology and the scope and limitations, of the study. Also exhibited are the outlining of chapters and the conceptual frame work or orientation of the study.

CHAPTER TWO Literature Review

In an attempt to establish a dialectical and historical background for this study, literature shall then be reviewed spelling out what is external debt, the reason for foreign debt, the origin of Nigerian foreign debt and causes. Third world's debt burden, and its management, Also the effects and remedies of Nigerian external debts, and the implications of external debt on a developing economy shall be reviewed. As a way, we shall also present some conceptual classifications of some terms in the research.

CHAPTER THREE: Origin, and causes of Nigerian external debt crisis

This chapter shall trace the historical background of the Nigerian external debt crisis look at the issue present to us, issue in third world's debt and it management and present to us, the causes of the Nigerian external debt.

CHAPTER FOUR: Structures, effect and Management of Nigeria external debts crisis

This chapter shall present to us the structures of the Nigeria's foreign debts since 1984 to date, make comparative analysis with some African countries OUTLINE and discuss the effect of, and the effort at managing Nigeria external debt crisis.

CHAPTER FIVE - Summary, conclusion and recommendations

This is the concluding aspect of our research work, and in this dispensation, effort shall be made to summarize the whole Thesis, bring out our findings and conclusion, based on our findings. More over, based on our content adherence, the result of our finding and our conclusion, effort shall be made to project some solution aimed at providing a remedy to the problems of external debt crisis in Nigeria. Likewise, because social science research is continuous and as a result of some problems explored in the course of our research, effort shall be made outline some suggestion for further study into the problem of external debt crisis in Nigeria and within the international system. As diplomats and social scientist, we shall draw up some implication of the study embarked upon.

CONCEPTUAL FRAMEWORK: THE DECISION MAKING ANALYSIS

The Nigerian economic crisis which began in the early 1980s has generated intense debates among scholars about the exact role of various actors (locally and foreign) in the Country's affairs. External debt crisis as one of the feature of the economic crisis has been of concerned to us, and its causes being attributed to lapses in the governmental functions of our policy makers. Since our decision makers are not capable of initiating executing and mange and coherent public economic policy at the national levy beyond the ones imposed on them by the superior advanced economies.

If one should go into history. The decision taken by the Obasanjo regime in 1978 was to sustain the economy but years later it was problem for the economy. This is because our decision maker lacks the ability to deliver the goods and creates a sustainable economic development plans and instead were able to pressures from the external forces like the International Finance Corporations like the IMFs, and the World Bank, the External Creditors like the Paris Club, London Club, The Promissory notes holders etc.

Also the Nigeria budget for the provision of viable economic back ground for the nation is most negligible as can be seen on the people's welfare, education, health, shelter, water, food security and poverty allevating programmes like the economic stabilization programmes of Shagari's regime (Austerity Measures), The War Against Indicipline of Buhari/Idiagbon's regime, the structural adjustment programmes (SAP) of Babangida's administration and its economic diplomacy in its international relation and, the War against

indiscipline and corruption (WAIC) of Abacha's regime. It is ironic therefore that the Nigeria state and the Policy makers suffering from over loaded deliver resources, are expended on paying up accumulated foreign debt and servicing it. The remains go to an over bloated parasitic civilian and military bureaucracies which work to hinder national socio - economic, political and industrial developments.

For orthodox economic theorists, one of the major problems suffered by developing countries like Nigeria, is the lack capital in sufficient quantity to aid their economic "take off" No matter how good the policies of our economic decision makers may sound of paper, they collapse even before take off. They therefore argued that "what "Third world" state (Nigeria) need to do, if they are to develop, is to attract as much foreign capital as possible." Underlying this argument is the belief that only foreign capital can be mobilise the desire development and the kind of know - how which third economies need in order to be developed. Third world states are thus encouraged to devise all manners of negotiation and incentives to attract foreign creditors in their economy.

But against the orthodoxy, scholars working within the underdeveloped/dependency school have argue that the real problem faced by developing economies is not the shortage of capital as such, but the drawing away of their meager resources to the west by foreign in debtors, which then needs to be replaced and the only way of doing this was through measure and extensive borrowing from international creditors. Far from the factors necessary for the development of the third world debt for external borrowing and the

international finance corporation, they had in fact, being a burden on the overall effort of third world, which is to reinforce the undeveloped state of these countries. In evidence, many dependenlistals have conducted studies showing the negative balance of payment on the foreign investor and in comprehensiveness of policies made by policy makers.

The point should however be made that the evidence from many studies that have been conducted on the subject thus tend to buttress the argument of the under developed dependency school, namely that the foreign Debt Repayment and it servicing almost invariably take away much more than they gave as loan to the developed nation ala Nigeria. Thus constituting a profile of debt problems and under development in Nigeria.

It is against this conceptual and theoretical orientations that this thesis shall be undertaking.

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CHAPTER TWO

LITERATURE REVIEW

2.1 WHAT IS EXTERNAL DEBT?

In Accordance to sand brook's (1991 125) assertion "Sub - sahara African is heading for 'an unrelenting crisis of tragic proportion" and this is as a result that Africa had suffered a protracted and calamitous economic crisis that conventional adjustment policies had stemmed only in rare cases "An as a way of getting out of this calamitous crisis, crisis was seeing, as he put it - as a result of questing for a long term growth and development, the questioning social cost adjustment only resulted in indebtedness and dependency. This then call for the question what is external Debt.

External Debt generally, to economist like Lambo (1987:125) is nothing but a deficit balance of payment. It means a situation where the inflow of capital is more than its outflow, in terms of payments and receipt on import and export on goods and services. In Financial management as opined by Inanga (1987:55) it may be defined generally as a contractual financial obligation which one party owes to the other. The party owing the obligation is technically referred to as the debtor, and the party to whom the obligation is owned is the creditor. Such obligation may be short-term (e.g. not exceeding one year), medium term (e.g. five years). He went further to said that in relation to external Debt, it is the obligation which a country, its structure or agent owes to the other. Which the party that failed in its obligation is referred to as Debtor nation and the country who gives out the

477189

obligation is the creditor nation.

2.2 THE NIGERIA ECONOMY BEFORE DEBT CRISIS

The Nigerian economy is indeed blessed and promising one, with potentials unraveled by any of its counterparts in the continent of Africa, maintained Olashore (1988:14) and with a strength on which any prosperous Socio-Political setting could be established. This was in line with the fact that, with a population of over 100million, it is the largest in Africa. This population does not thrive on number alone but contain enormous economically important human resources including a well grinned skilled labour cadre. Other factors of production like vast and fertile land are also available in Nigeria as well as enormous capital and entrepreneur abilities.

The above assertion, Olukoshi (1987:22) was able to take us back to the memory lane, when he maintained that: in the first four decade of British Colonial rule in Nigeria, Nigeria was a large development of the import-export trade in accordance with its position in the international capitalist division of labour. This was based on the fact that as far as back as 1945 Nigeria has remained one of an externally oriented economy dominated by foreign investors who did not invest only in domestic production but also export Nigeria commodities to the International market and in return import's Nigeria consumer goods needs. Thus at independence Nigerian remains a promising economy with lot of potentials and investment opportunities in all the sector of the economy. This was manifested in the growth of the GDP as a result of the development in Agriculture, mining, industries,

manpower in the service industry and lots more.

For Lambo (1987:2-6), summary changes have occurred in the Nigeria economy since independence that to simply catalogue them without relevance will be useless. Thus before independence the economy was to serve as a constant raw material supply base for the finished goods of the Colonial industrial development". And it was not surprise that at independence Nigeria was suffering for colonial hang over. He then summarized by characterising the economy as follows - little industrial development; predominance of the agricultural sector not only as a source of foreign exchange earner but also in term of employment; slow rate of economic growth; and high reliance on foreign investment. This character does not last long as we thought, for as shown by Akindele: (1988: 54) because of the challenges that independence posed, the economy, which had started from a low base, developed rapidly and as a result the per capita income rose by an annual rate of 2% between 1960 and 1965 and the real national output increased annually at a rate of about 5%.

Thus to conclude the developmental analysis of the economy at independence, Hellemer (1966:62) summed that "The Nigeria economic development has been based primarily upon expansion of peasant agricultural production for export". But if the above represents the structure of the economy at independence what, it need be asked, Does this trend continue as ever or changes?

To provide adequate reply, Aluko, maintained that, however the fast growing sector at the period after 1965 were manufacturing, oil and mining, during these period agricultural

65% to about 55% with other sectors most especially the oil appreciating. The above alone can not be the only blames of the resultant economic woes that results later. In the of Lambo. "As a result of deficit financing by government, money supply increased annually at about 6%. The general price level based on the available Urban consumer price index increased by 3% per annum. Although there was inflation at that time, the rate was mild, when compared to what happen in the subsequent year". The above does not stretch the cause further than what Ekundare (1983 :10) exhibits that the civil war experience and its finance, resulted in greater budget deficits. But in relation to trade, the trade balance improved and a trade surplus of ₦62 million was recorded in 1966, rose to ₦167 in 1969 primarily because of the development of Oil sub-sector". I need to add at this juncture, that despite the favourable balance of trade, there were deficits in balance of payment account throughout the war years and I believe this is the beginning of the Nigeria balance of payment disequilibrium experiences that later submerges in the economy.

With the coming of the Mohammed/Obasanjo's regime, there was a quick recovery from the effect of the war and real national output increase by 8% per annum from 1970-1975 maintained Lambo (1988:4). The oil brought about increased in investment due to rapid development in the oil sector and the huge government activities in the 2nd and 3rd plan period, thus increase in government financial resources. Hence the Uhurus of agricultural sector declined rather than grew. The rate of decline was about 1% annually, a trend that has been impossible to reverse till this day, concluded (West 1987:16). He exposed further

that since 1970, agriculture has become the *"neglected"* and consequently *"dying sector"* and oil had become the *"Sector"* in the economy. Not only had it becomes the greatest source of government revenue, it has also become the greatest export item in the country. As described by Lukman (1986:11) that, "Nigeria can aptly be described as an oil-related economy with a weak and neglected agricultural sector and a manufacturing sector dependent on imported raw materials". This was not the only sources of the economic misadventures that "The naked exposure of the country's agriculture to the vagaries of the imperialists market may well be one of the most permanent damages of British colonialism to Nigerian development.

But is oil a blessing or a curse? The answer to this is dysfunctional depending on the angel one takes to look at it, for Lambo (1988:55) From 1970 to 1974, the country had a growing Balance of payment surplus de to petroleum. The peak was on 1974 when the Surplus was about ₦3 billion. However, by 1977, the Surplus has been converted to a deficit of about ₦422 million, thanks to the glut on the oil market and huge imports. And this signalled the end of the oil boom in Nigeria (1975).

As a result of the above, money supply rose from about ₦610 million 1970 to some ₦4.8 billion in 1977 presenting an annual increase of about 34%. Thus due the factor emurated earlier, the government experienced high a high inflation rate since 1970, As expressed by Iwayemi (1981:7) it was in view of the general crisis in the Nigerian economy that the government in 1978 approached the world bank for a soft loan of ₦3 billion in order

to provide a shock absorber for the dwindling economy". And the result of this development was the varying degrees of contracted loan that was contracted between 1979 and 1983, by both the Federal and State government, which on maturity they failed to honour its repayment obligations and consequently the Debt crisis that surface, which up till today, the end is not in sight.

2.3 REASONS FOR EXTERNAL LOAN

The justification of external debt maintained, Diaku (1988:87)[5]. Generally rested on two main grounds, in developing countries. First external loans may reasonably be contracted, subject to suitable safeguards for sovereignty by government having large underdeveloped natural resources the rapid development of which can only be accompanied with the aid of borrowed funds. Secondly, external loan may be contracted by developing countries wishing to achieve rapid economic advancement especially when they had undergone the process of under development through sustained economic exploitation and political domination by the colonial masters.

2.4 THE GROWTH OF THE NIGERIA EXTERNAL DEBT

Stating the History of Nigeria Debt; Kwanashie (1987:6)[6] retraced that, Nigeria's debt problems as they appear today seemed to have started about two decade ago when Nigeria ventured into the Eurodollar market for the first time to secure commercial loans as opposed to the traditional world bank project tied loans. At the height of the recovery of the petroleum market between 1979 and 1981, when Nigeria's credit rating naturally rose to a

crescendo the civilian administration in an attempt to exhaust to its fullest, the Nigerian loan credit rating (which was supposedly under-utilized up till then), acquired loans without due regards to effective utilization. The result was an unbridled debt, that follows.

2.5 THE IMPACT OF EXTERNAL DEBT ON NIGERIAN ECONOMY

The features of the Nigerian loan externally are posited by Attah (1987:7)[8]. A prominent feature of these external commercial loans is that the credit is tied to the exports of the creditor country with a small friction assigned to local content. Another feature of these loans is that of servicing of debt and of which the eventual amortization of the principal amount were strictly tied to the independent revenue source of the country, namely revenue accruing to Nigeria from the export sector. Also the federal government who stood as guarantor for these loan is to deduct at source from the share of the borrowers' federation account the amount required each month for servicing of the loans.

Lamenting on the accumulation of Nigeria debt, Akinnifesi (1987:73)[1] was of the opinion that the reason for debt accumulation by Nigeria and the LDC's are easily summarized. They include large fiscal deficits through expansionary monetary and fiscal policies in the LDC 's. He pointed out that the additional sources of worry concerned the fact that limited multilateral flows necessitated a recourse to credit from the international capital market (ICM) with short term maturity and grace period as well as floating interest rates.

In view of the observed debt overhang and the reluctance by the creditor to grant further lending, Olashore (1987: 77)[9] was of the opinion that "various strategies have been

recommended and, in some cases which tried to deal with the debt situation. This assertion was backed up by Kwanashie when he pointed that it is not therefore surprising that with the sudden collapse of the oil market, panic arose from both quarters (creditor and debtors). The struggle to resolve the obvious conflict between the debtor and creditor had in a large measure called for a directional approach to Nigeria debt management.

2.6 EXTERNAL DEBT MANAGEMENT IN NIGERIA

External debt management "According to Akinifesi 1987:86)[1] in deciding on the optimal level of commitments it is expected that a carefully planned schedule of acquisition, utilization and retirement of such loan be prepared. Hence a more realistic estimates of foreign exchange earnings as well as projected returns from investments financed with the loans would be required. He went further to say that this will help in determining the country's ability to services without undue strain, the existing loans Maturity or otherwise of contracting new loans.

But Hicks (1991: 29-35)[2] assessed that, if cuts have to be made in relation to equilibrating revenue and expenditures as a way, manager are more likely to prone capital and maintain cost than other items. This probed him to assert that, External Debt being a problem in the Nigeria economy, its service has grown - usually to a third or more of current public revenue but this expenditure is unavoidable, barring a unilateral moratorium on debt payment or a multilateral agreement on debt relief.

The question that struck our mind at this period now is that, if Debt is incurred in the

process of acquiring capital in order to finance growth and developmental project, why is it then it resulted in to a burden to the extent that it need to be serviced or managed. Then if Burdened, what then is the problem of the Debt burden on the Nigerian economy?

2.7 SYMPTOMS OF EXTERNAL DEBT IN NIGERIA

Mailafia (1987:152)[10] highlighted that", That Nigeria economy has continued to manifest all the symptoms of deep seated malaise. These malaise which as pointed by him, was an indirect manifestation of External Debt Burden. They include industrial stagnation and capacity under utilization, hyper inflation, serious unemployment and under employment these problems had been compounded with external debt presence in the economy and the resultant planning and management of Public Debt and Policies. The above compressed Osagie (1983:10)[4] to say that "management of external debts necessarily implies more rational utilization of earned foreign exchange. But he cautioned that there is an important trade off that is supposed to be existing within the economy. That, if we employed sizeable proportions of foreign exchange earnings to reduce foreign debt outstanding, other important national requirement in industry, agriculture, education, health and infra structural development may suffer. He went further to say that if we satisfy these basic domestic need with foreign exchange earning while disregarding debt servicing, total value of outstanding foreign debts increases as well as the proportion of future income stream that has to be paid abroad as interest. To this end, he concluded that an appropriate strategy to manage foreign debt should first pay attention to domestic needs after which residual foreign exchange may

be employed to service foreign debts.

Conclusively, Aluko (1991:3)[12] conclude that, An effective management of foreign debt seek to share the burden of the crisis between Debtor and Creditor countries. To this level, management of foreign debt of the Nigerian government need to tackle the question of whether or not it is necessary to borrow more in order to service outstanding loan as the Brazilian and Argentines has been doing. Base on this, the question now is, if a growing number of observers are beginning to think one of the South American big debtors are going to default in the future, and in the process bring down the now fragile edifice of the international financial system, what is the sense in straining ourselves to the breaking point of service foreign debts, the significance of which may be spurious? This is an unsettled issue.

FOOT NOTE

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CHAPTER THREE

3.1 THE ORIGIN OF EXTERNAL DEBTS IN NIGERIA

Since 1978, outstanding external debt in Nigeria has grown rapidly, attaining a crisis point towards the tail end of the second Republic. In fact, the debt burden of Nigeria is now recorded in billion of dollars. The situation is so serious that a remote and local U.S. paper, the Minneapolis star and Tribune of Sunday April 5th 1987, decided to devote a full page to the debt burden of Nigeria and concluded that Nigeria was saddled with an estimated ₦72 billion, at FEM rates. However, it is noteworthy that the preview edition of the Nigeria Economist of August 1987 comment thus "The USA by far the world's greater debtor with $111 billion in 1985 and $264.3 billion in 1986 is considered a risk-free nation, because of her economy and political stability. Nigeria with less than 10% of US debt has a risk rating that is 10 times that of the USA". This factor should be a food for thought in our socio-economic, political and foreign loan intake policies. As a way out in this chapter, we shall look at the Reason why Nigeria contracted external loan, origin of debt crisis. The cause and its impacts on the Nigeria Socio-economic, political, diplomatic, industrial etc sectors of the Economy.

A solution to a problem has a good chance of being successful, it is preceded by a careful analysis of the true nature of, and origin of the problem. Unless this is done, we might be engaged in a fruitless effort of treating the symptom instead of the disease itself. The current Nigeria Foreign debt crisis, as well as its domestic counterpart, did not emerged

on its own, but is really the symptom of a serious disease arising from the nature of the Nigerian Socio-Political economy which pre-disposes important actors in the economy to behave in a particular way to the detriment of the national economy and international balance of payments.

The origin of Nigeria's external debt dates back to independence period Records from the Federal Ministry of finance indicates that Nigeria contracted her first international loan from the world bank of about $28 million in 1958 for the construction of railway extension in the country.

External debt remained relatively low during the oil boom era (1970-1977). Infact during this period, the country's foreign exchange position was so healthy that Nigeria had to lend money to some institutions such as the IMF under the "Oil facility" in 1974. It was the general perception then that Nigeria was relatively under borrowed.

Following the emergence of the oil glut in the international crude oil market in 1978, with the attendant strains on balance of payments, external reserves and government finances, Nigeria had to recourse to borrowing in large chunks and shorter maturities from the International capital Market (ICM) at higher and variable interest rate at which most of earlier loans were contracted etc. These and others which had earlier on been discussed.

3.2 CAUSES OF NIGERIA DEBT CRISIS

As earlier mentioned, the current debt crisis in Nigeria was of dialectic and historical bases, like wise, it did not emerged. On its own but, its really the symptom of a serious diseases arising from different economic ailments which was not properly diagnosed. some of these ailment were:

(a) The rapid growth in imports and of public expenditure, particularly for capital projects;

(b) Borrowing from the international capital market at non-concessional interest rates;

(c) Decline in oil earning from the late 1970s;

(d) The emergence of trade areas, and

(e) Extra - budgetary expenditures arising from lack of prudential management of resources and of accountability.

In the following paragraphs of this section attempt shall be made to discuss the causes of Nigeria external debt in detail.

Declining in official Development Assistance (ODA). In the 1980s Nigeria witnessed a significant reduction in the flow of official development assistance from the major donor countries of the organization for economic co-operation and Development (OECD) and organization of petroleum Exporting countries (OPEC). The official development assistance receipts by Nigeria started declining in 1978, from $59.36 million in 1973 to $43.0 million in 1978, to $33.0 million 1984. (World Bank Development report 1986, P. 220). A

significant contributory factor is the perception of Nigeria by the major Donor countries as an oil rich member of OPEC which does not need development assistance finance. The decline of this type of foreign finance in the face of rising demand for foreign currency then forced Nigeria to explore other more expensive sources of foreign finance such as the Eurodollar money market distinguished by relatively high interest rate and earlier maturing obligation. Borrowing on the Eurodollar market and increasing dependence on short-term trade credit then led to binding of repayment around particular period, and high interest payment. The inability then to honour this obligation then resulted into an increased portfolio of Debt. Hence the crisis.

Secondly, the second cause can be termed, **pro-cyclical lending patterns:** During the export commodity booms, countries always assume that the boom would last indefinitely and make ambitious development plans. The major international banks with large dollar deposits deposited with them by the booming countries economies, then goes out of their way to seek prospective borrowers whom they lure into borrowing. However after the collapse of commodity boom, debtors find it difficult to service their outstanding loans and the major international banks are reluctant to extend additional loans to them. In the Nigeria situation, as experienced in the 1970s and 1980s. Initially, Nigeria reluctantly succumb to borrowing. Thus Nigeria was a reluctant borrower, but she ventured in a big way into the curodollar market in 1978, and after 1979, the state government were allowed to incur foreign debt to finance project incapable of financing serving obligations. The collapse of

crude product prices in the 1980s then compounded Nigeria debts servicing problems, because the fall back capital was not there, which could be used in financing the servicing obligation. What then resulted was the increasing profiles of debt obligation to the external creditor.

Thirdly, **the foreign exchange leakages:** A major weakness in the Nigeria economy and its external economic relations, is its excessive external orientation which predisposes producers and consumers to import what can be easily produced with local materials. The situation is compounded by wide spread over invoicing of imports and contracts denominated in foreign exchange during the period of import licensing and foreign exchange control regulations in order to build up private stock of foreign currency balances aborad. There were instances of transfer abroad of large sum of foreign exchange outstanding to pay for imports of non-existent imports. Bank fraud and overspending of foreign services (Patients, consultancies, royalties etc) Put up upward pressures on Nigerian expenditures of foreign exchange beyond her earnings and contributed to creating the current debt servicing crisis. The introduction of the domiciliary account system as well as the second tier foreign exchange market (SFEM and later FEM) was expected to facilitates the repatriation of foreign exchange expatriated by Nigerian elites during the 1970s and the early 1980s. But alas, all these measure instead of ameliorating Nigerian debts crisis, it compounds it. Though there are still possible work abilities of these measures, with the right change of attitude, and this can help the Nigeria government to weather the current foreign

427180

debt crisis.

Fourthly, is **borrowing to finance non-tradable project** - The instance is that when foreign borrowing pays for projects whose products are neither foreign exchange earning or saving, the borrowing country eventually run into debt servicing problems. The case was very relevant to Nigeria. In Nigeria, Foreign loans were, and are still being used to finance urban renewal, social infrastructures and the development of purely administrative facilities which, far from saving foreign exchange actually encourages further spending of foreign exchange for maintenance and repairs. Also these are indirect incentives, aimed at attracting foreign investment and boast government foreign revenue and reserves. But, these use in the long term, loans mostly contracted for these projects are always on short term basis and at the time when the payment is due the resources to argument this payment are not available hence the flamboyant excursion into debt problems.

Fifthly ill advices in form of **encouragement by the IMF and world bank.** Experienced and records had shown that, Debtor countries are always encouraged by the world bank and the IMF to borrow abroad to support implementation of structural Adjustment programmes. The IMF itself provides credits under one of its numerous facilities to borrowing members country that agree with her conditionality required. These international financial institutions also encourages countries to borrow from private financial markets which in turn require an IMF - issue in term of clean bill of health certificate from the borrowing countries. This catalyst role of the international financial institutions and

Seventy, general **indiscipline in external debt management:** External loans are normally acquired for development purpose or for Balance of payment support, in deciding on the optimal level of commitment, it is expected that a carefully planned schedule of acquisition, utilization and retirement of such loans be prepared. Moreover realist estimates of foreign exchange earning as well as projected returns from investment financed with which the loans would be required. These will help in determining the country's ability to services without undue strain, the existing loans and the desirability or other wise, of contracting new loans.

Between 1980 and 1983, there was a general lack of consideration of these factors. Despite Decree 30 of 1978, which imposed a ceiling of ₦5.00billion on outstanding debt at any point in time, both federal and state governments allowed political and social considerations rather that economic reasoning and national interests to prevails in determining which project to finance with loans. Some of the projects so financed with such loans were either unproductive or lack adequate cost control measures, some were abandoned before completions. This then added to the existing loan structure and culminated into Debt burden.

Eighthly, **budgetary gaps** - The increase in stock of public debt was largely attributable by the need to provide finance for the budgetary gaps of the federal government. In the earlier 1960s, there was strict compliance with the statutory limit on the growth of international debt but the limit was raised between 1963 and 1969 to 150% in 1970.

Eventually as government revenue came under increasing pressures, the limit on public sector borrowing was not enforced. The pressure on government finance resulted from the slack in the world market of crude oil. The fall in the price of the oil was translated to the foreign exchange earnings and government revenue. The size of budget deficits over the years reflected this development as decline in government revenue were met by borrowing from the Central bank through ways and mean advances. These advances were not defrayed by the federal government but financed by the floating of treasury bills and treasury certificates. In addition, the practice whereby matured treasury bill and treasury certificate are rolled over by issuing new ones to pay the holders of maturing debt management instrument contributed to the growth in the external debt stock.

All these factors enumerate and discuss, by no means stands as the contributing factors in the growing and disturbing crisis that characterized the Nigeria foreign exchange and trade relation the question that probe our imagination in this discourse is that if Debt is inevitable in the Nigerian economy, and its origin and cause highlighted, what then is the structure of the NIGERIA external debt. This shall be elaborated below.

3.3 EXTERNAL DEBT OWNED AND CREDITORS.

Before going into details, it need be said that most of the debts contracted by the Nigerian government are generally from the OFFICIAL CREDITORS. These are creditors whose loans are provided or guaranteed by governments or their official agencies. And they are generally on long and snort term basis while the long term debts are public or publicly

guaranteed, the short term debts on their own are mostly private and more offer the disastrous decline of agriculture as a contributor to total non-oil export receipt was a remarkably contributor to the debt crisis in the Nigerian economy. Thus agriculture which was the country's mainstay before the discover of oil been neglected is a major factor experienced in the crisis.

The real economic collapse came in 1980, when oil revenue dropped from ₦10,990.2 million to ₦9,193.6 million in 1981 and plummeted to ₦7,253.0miilion in 1983. At the same time external debt moved in the opposite direction and escalated to $19 billion in 1984 and to $21.2billion in 1985. Foreign creditor refused to give Nigeria any further loan facilities in the face of rapidly declining oil revenue which soared astromically at the earlier stage of the OPEC cartel. The balance of payment situation had become desperate.

In a more precise report, external debt remain relatively low during the oil boom year (1970 - 1977) infact, during the period, the country's foreign exchange position was so healthy that Nigeria had to lend money to such institutions as the IMF under the "oil facilities" in 1974. It was in the general perception that Nigeria was relatively "under borrowed".

Following the emergence of the oil glut in the international Crude oil market in 1978 with the attendant strains on the balance of payments, external reserves and government finances, Nigeria had recourse, therefore to borrowing in large Chunks and shorter maturity from the international finance capital market (ICM) at higher and variable interest rate.

Consequently, the first major borrowing of $1.0 billion from the (ICM) was contracted in 1978, proportionally increase the total external debt stock to $2.2billion. Many more ICM loans were raised especially as fund from bilateral and multilateral institution became increasingly inadequate to meet the governmental non guarantee Debts. The SHORT TERM Debts are expected to be settled at most within 18 months; the MEDIUM TERM debts settlement ranges from 3 - 7 years; and the LONG-TERM debts are to be settled or may be extended up to 15 years and beyond.

The long term debts consists mainly of loans borrowed for the purpose of setting up projects which requires high capital out lay and with long amortization period. By practice a debtor country is obliged to settle her international debts, be it private or sovereign debts.

Basically Nigerian creditor consists of both multilateral and bilateral international financial institutions, and countries. These creditors are mentioned below.

THE PARIS CLUB: The Paris club of creditors represents the official government creditors in respect of insured debts. The Paris club has an umbrella body called; The organization of Economic co-operations and Development (OECD) established in 1965 to assist debtor country with official debt problems. The members that formed the club include U.S.A., U.K., Geneva, France etc) The Paris club constitutes the highest credit source to the Nigerian government with a share of more than half of the Nigerian external debt stock. For example, out of the total external debt stock of ₦544,672.37 billion in 1992, The Paris club had about ₦325.94billion. They initiates the Houston Terms, Venice Terms, Toronto Terms,

Enhanced Toronto Terms and Trinidad Terms.

- THE LONDON CLUB - They are claimants in respect to uninsured debts owned to the commercial banks, and are spread all over the world. These commercial banks in questions are commercial creditors from western Europe and North America. They initiates Multilateral Debt e.g HIPC initiative; Debt for Equity; Nature e.t.c.

- The PROMISSORY NOTE HOLDERS - These are the creditors in respect of the refinanced debt for which promissory notes were issued.

- OTHERS - These include the bilateral creditor, suppliers credit and the private sector creditors.

- THE MULTILATERAL CREDITORS - These are the world bank, the international monetary funds (IMF), The African Development Bank (ADB), The International Finance Corporation (IFC) and the International Development Association (IDA) As at 31st December 1992, Nigerian indebtedness to these group of creditors stand at ₦89.32billion (₦4,518.0million).

3.4 CLASSES OF NIGERIAN EXTERNAL DEBT

It is important at this juncture in our analysis to look at the class at which the Nigerian debt is placed. Noteworthy is that the total outstanding external debt accrued to Nigeria is classified under these classes. - A.B and C.

(a) The FEDERAL GOVERNMENT DEBT OBLIGATION

(i) ICM loans

(ii) World Bank loans

(iii) Bilateral loans

(iv) Capital interest on Rescheduled loans

(v) Promissory Notes

(vi) Accrued interest on letter of credit

(vii) Letters of credit

(viii) Un-refinanced trade arrears

(ix) Guaranteed trade arrears.

(b) State Government Obligations

(i) ICM Loans

(ii) World Bank loans

(iii) Bilateral loans

(iv) Unguaranteed state government loans

(c) UNGUARANTEED PRIVATE SECTOR LOANS

Nigeria's external debt could be further classified on the basis of debt maturity profiles, short, medium and long term. By way of generalisation, the short term as earlier mentioned is the debt having an original maturity of not more than one year while the maturity of long term debt spans over five years.

3.5 STRUCTURE OF THE NIGERIA EXTERNAL DEBTS

The History of the Nigeria's external indebtedness can be considered in three phases. The first of these are the early post independence years of the 1960s, during which contractors finance was the major sources of external loans. For example the federal government external debt outstanding under the head "contractor finance" was 25.5%of the total, in 1968, 20.5% in 1970 and 12.6% in 1974 (Obadan 1987) p.71.

The problems associated with contractor finance borrowing were relatively very short period of repayment, high interest rates, insufficient interests shown by foreign suppliers after commissioning of project financed, and the financial abuses to which this sources of external finance was subjected (Ndekwu 1983 P. 73).

The second period was the period following the first, which was dominated by contractors finance loans was distinguished by the shift to bilateral and multi lateral loans, which were generally long-term, carried relatively low interest rates and were obtained in a package which normally included clinical aid and conditions that must be fulfilled before a prospective borrowers country may have access to such loans.

The Third phase started from 1978, till the present time is distinguished by the fact that the loan's share of Nigeria's international borrowing originated from international capital markets, particularly the Euro dollar market, and increasing significant propositions of external debt stock which took the form of refinanced trade arrears particularly since 1982. These double problem tends to be largely short-term bear relatively high rates of interest and

of foreign loans that led to the crisis in debt servicing.

3.6 TRENDS IN THE EXTERNAL DEBT

As earlier mentioned, the size of the Nigeria external debt was very slow in the period up to 1977. Even at the end of civil war in 1970, Nigeria's external debt outstanding was only ₩684.3 million. There after it decline sharply to ₩308.9 million in 1971 and then rose gradually to ₩408.9 million at the end of 1977. Up to this period debt were contracted in relatively small amount and were largely to supplement domestic resources for the provision of infra structural facilities and agricultural projects.

Following the emergence of the glut in the international crude oil market in 1978 with the attendant strains in the balance of payment, external resources and government's finances, Nigeria for the first time had to recourse to borrowing in large chunk at shorter maturity from the international capital market (ICM) at higher and variable interest rates. A number of (ICM) Jumbo loans were contracted between 1978 and 1979 in order to redeem balance of payment deficits and to establish a domestic still industry. Consequently ICM loans rose rapidly from 1979 to 1985. In the same period state government joined a bandwagon of external borrowing the subsequent effect is the inability to provide adequate shock absorber for this external debt in term of servicing.

Following the trends described above, Nigeria external debt outstanding started rising sky rocketedly owing to two main factor.

1. The need to attend to rapid development in the economic and, (2) the need to service the existing external owings and their associated economic malaise of currency depreciation which affect the external trade and exchange. Despites the economic diplomacy of the Babangida regime and the in ward looking and self reliance financing of the Abacha's regime between 1985 and 1998, external debt though reduced but still valued at ₦29.8 billion as at the end of 1998.

The table bellow present to us the total Debt stock/services payment (₦'b) between 1980 to 1998.

Year	Total (₦'b) Debt	Debt service
1981	9.8	0.9
1982	13.7	0.9
1983	18.6	1.0
1984	30.8	1.5
1985	37.8	1.8
1986	42.0	2.5
1987	59.5	8.9
1988	137.6	7.3
1989	184.6	11.3
1990	294.6	19.3
1991	382.1	39.5
1992	441.7	46.0
1993	706.2	67.4
1994	695.0	67.4

77189

1995	688.56	66.0
1996	709	67.89
1997	n.a	N.A
1998	------	------

Sources, Major economic & Financial indicators. CBN. research Dept. April 30,1993.

The sharp increases in external debt of Nigeria need not be hidden, correspondingly increases debt services. As shown from the table above, total debt stock which stood at ₦13.7 billion in 1981 rose to ₦42.0 billion, ₦294 billion and ₦706.26 billion in 1985, 1989 and 1992 respectively. Conversely, Debt service payments also rose in similar manner, for example the debt service was about ₦0.9 billion in 1981 it rose to ₦2.5 billion (1985) to ₦19.3 billion in 1989 and reached ₦67.4 billion in 1992ans by 1996 it was ₦67.89.

OUTSTANDING EXTERNAL DEBT ₦9 BILLION

1980	**1.9**
1982	**6.8**
1984	**12.1**
1986	**31.0**
1988	**141.1**
1990	**298.8**
1992	**544.30**
1994	**528.96**
1996	**532.60**
1998	**2,914.00**

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, 1995, 1996.

3.7 IMPACTS OF EXTERNAL DEBT:

3.7.1 A SPECIAL FOCUS ON BALANCE OF PAYMENTS (BOP)

As mention earlier, In recent years, there has being an increase in the growth of external debt owed by the Nigerian government, the reason for this growing concerns is mainly because of its implication on the economic stability of the country. An escalating debt profile has presented serious obstacles to sustainable economic growth and development of Nigeria.

Likewise the serving cost of these indebtedness have gone beyond the capacity of the economy to cope; thereby impacting on the ability to achieve the capacity of the monetary policy for the Nigerian economy.

Furthermore, the rising indebtedness had constrained the ability of the Nigeria government to undertake more loans. Debt burden that the country is experiencing has reduced investable funds that would have been used for the development process. The increasing net transfer of resources from Nigeria is compromising the growth objectives of economic restructuring. Apart from concessionary rescheduling that would provide the necessary repices for the development of more funds into domestic investment, there is the need for concessionary credit flow to Nigeria (which is not forth coming, due to escalated debts). One serious problem that rear its head is that, since the world economies have been largely globalised, stunted economic growth in Nigeria, which had been associated with a rising debt profiles would, and is

partially manifested in inpeding the economies of Sahara Africa and the world's economy in general. Indeed, It is observed that to accelerates global economic growth and pave ways for the country to realise its growth potentials and her leadership role in Africa and the Blackrace, there is the need for the flow of resources to Nigeria from the industrialised world, especially the organization for Economic and cooperation and Development. And because of the heavy indebtedness, the transfer of real resources from the countries of the North has not being utimately cover the entire poor countries of the south most especially the middle power countries which Nigeria has been one of them.

3.7.2 **In relation to the balance of Payment BOP;** (A theoretical overview)

As opined in the preceding chapter, External debt is the quantum of borrowed resources by a sovereign country and/or entities within the country from the rest of the world at a given point in time. For purposes of financing gaps in domestic saving and investment outlays or for bringing shortfalls in revenue owing to poor harvests or other unforseen circumstances. External debt can be acquired to finance programmed domestic resources or for meeting balance of payment requirement in circumstances where short falls persist. When productivity deployed, external debt would not constitute a problem, especially when servicing is due. However, when unproductively utilized, they constitutes major BOP pressure points. Thus external debts are necessary when they are to deployed to productive activities that creates national wealth and in the process enhance human capital and the

standard of living of the people. It has been established that external debts are burden-some, constituting BOP problems beyond the point where their marginal productivity is lower than future servicing cost.

To articulate the relationship between the BOP and external over-financing (foreign indebtedness) let consider some macro-economic equations. Before the consideration, it is provided that;

The BOP is the summary of the external sector activities which is now lined to other sector of the economy. (And the development in other sectors of the economy impinged on the BOP and vice versa). And this can be presented through the national income identities.

$$Y = C + I + G + (x-m) \quad \ldots\ldots (1)$$

or

$$Y - C = I + G + (x-m) \quad \ldots\ldots (2)$$

Where

Y = Income (output);

C = consumption;

G = Government,

x = Exports and

m = Imports

[x-m]=net export or balance of payment

Re-arranged

$Y - C - I - G = [x-m]$ ..... (3)

or

$Y - A = x - m$ ..... (4)

C, I and G are essentially expenditures items which can be grouped under absorption (A).

Thus, if absorption will need to be financed at all cost, external indebtedness would arise. in equation. 4

=> $Y - A = (x-m) + NFI$ ..... (5)

Where NFI is the net foreign income and defines the gap between Y and A that can not be bridged by (x-m).

If we invites monetary survey, the NFI can also be shown in the monetary survey as follows.

$[x - m] + NFI = M_2 - NDC$ ..... (6)

Thus, $Y - A = M_2 - NDC = x - m + NFI$ ..... (7)

where NDC = net domestic credit

m_2 =high power money stock

The equation 7 is of crucial policy relevance for purposes of BOP adjustment and external debt management. This is because change in the money stock in excess of change in the current account balance can not be internalised. The difference to be finance through foreign borrowing. Thus NFI would rise with a Concomitant pressures on the Balance of

Payment when servicing of the obligation is due especially when effect is that the BOP will be shrinking and draining to pressures. So instead of using borrowing to redeem the balance of payment deficit; one option left is to mobilise domestic credit hence reduce pressures on the external sector.

3.7.3 EXTERNAL DEBT BURDENS AND THE BALANCE OF PAYMENT

External debt burden is seen as the reflecting increased difficulties in servicing external debt. This occurs owing to a number of factors, the most crucial being increased interest rates and high current account deficit relative to the quantum of debt to be serviced. The rate of growth of the debt stock can be related to the capacity to service the debt by deflating the current balance by the outstanding stock of debt in the previous period and adding to the interest element.

If interest payment is represented by (r) and external debt outstanding by (d), then the following holds.

$$dd_t = r(t) + \frac{(x - m)_t}{d(t-1)}$$

Where dd_t = rate of growth of debt

$r(t)$ = current interest rate

$(x-m)_t$ = current account balance in the current period.

$d(t-1)$ = the stock of debt in the previous period.

It then follow from the above that the fundamental factor causing debt to rise is the

reliance on external resources to finance capital formation (Klein 1994: 120). Therefore, the higher the interest rate payment, the higher the deficit. On the current account, the heavier the debt burden, (and vice versa) and where the reverse is the case, the burden becomes higher.

3.8 EFFORTS AT RE-SOLVING EXTERNAL DEBT PROBLEMS

Nigeria's external debt problem can be better appreciated from the analysis of two major debt indicators in the economy. First the actual debt service ratio and second, the ratio of scheduled debt service payment to export of goods and services. Whereas the actual debt service ratio has dropped from 25.9 percent in 1992 to some 12.1 percent in 1996 and to 10.06% as at the 1st quarter of 1998, these are due largely to the official policy of holding down disbursement on debt service to about 30% of forex receipts, the ratio of scheduled debt service payment to export of goods and services has remained very high at over 35% since 1992. Another crucial indicators, namely total debt to exports showed that the debt service payment stood at over 35% since 1992. Another crucial indicators, namely total debt to exports showed that the debt stock was more than twice the resources available to service the debt between 1991 and 1995 and slightly less than twice in 1996 and 1997. Thus increasingly, larger amount of exports have to be devoted to external debt servicing if the commitment are to be met as scheduled.

If one should recollect from our introductory section, Nigeria has been tackling the external debt problem since the crisis emerged in the earlier 1980s.

While it has successfully extinguished London club debt owed to private and commercial bank creditors through debt buy back and collateralization of the residual London club debt, Paris Club owed to official creditors have remained the major problem of Nigeria's debt management. As of now, the rescheduling terms of the Paris club do not allow for debt reduction to compound the debt problem. Nigeria's debt servicing capacity has declined over the years. Whereas, Nigeria is one of the poorest countries in the World on the basis of the UNO Human Development Index (HDI) measurement of welfare, Nigeria has been deprived access to facilities available to debts distressed countries (economies).

With the progress Nigeria has made in the opening up of the economy and with the establishment of macroeconomic balance, in addition to the resumption of growth, the international community need to come to the aid of Nigeria by supporting her effort so far, Nigeria's economic policies as enunciated by Obasanjo government, aiming at following consistently, the direction of the Bretton wood; what the country should try and do is to unify the exchange rates, and cautiously. The option in consideration is the concessionary of debt terms which are normally extended to debt distressed developing countries by the Paris Club and creditors.

Lessons had shown that Nigeria has not achieved real benefits from the various rescheduling arrangement made with the Paris club, because effective debt stock reduction has not materialised from these efforts. This is because, the Toronto

and the Trinidad Terms, the Poland/Egypt concessions and the debt write-off applicable to Nigeria. The country was not considered poor, as it was widely held that Nigeria's case was that of mismanagement of wealth and misplacement of priority. Furthermore, the short consolidation period of the Paris Club rescheduling agreements makes it impossible. Then there is a need for a more prudent debt management in Nigeria. This shall be our focus in the next section.

3.9 THE NEEDS FOR MANAGING NIGERIAN EXTERNAL DEBT.

The Nigeria economy as earlier elaborated had undergone considerable strains and stresses. Since the collapse of the oil boom in the early 1980s. The production and consumption pattern 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 imbalances in government finances, low external reserves and current deficits in balance of payments amongst others.

Firstly over the years between 1982 to 1998 various macro-economics policies had been instituted, aimed towards resolving the structural imbalances in our economy, mostly as a result of rising external debt profile, part of these measures are; The economic stabilization acts (1982) which culminated into the Austerity measures; the war against indiscipline (1983) The structural Adjustment Programmes (1986). The vision 2010 (1994) and the guided liberalisation of the economy (1995). All

these measures can only be sustained with rational and reasonable debt management which is predicated on mutual collaboration between Nigeria and her creditors.

In addition, Nigeria's sustainable growth and development will largely depends on her ability to endogenised domestic and external debt obligations. Thus debt is the major threat to welfare and poverty alleviation effort of the government. Though debt problems is seen as a global malaise, but in relation to Nigeria, it is imperative to look for a way of managing these protracted debt burden.

Indeed, debt, when acquired in the right proportion and productively deployed, it increases the rate of economic growth. However unproductivity is deployed, growth scanted when especially the management of these debts (either through servicing or otherwise) is not initiated, the current resources has to be deployed for financing the past consumption which were not production - oriented. Ultimately the inability to imbibe adequate management strategies at the appropriate time will push the debt burden to the future without the debt problem being resolve. Thus it is in order to reduce the debt overhang and provide the conducive environment for improving the conditions of living of the majority of citizens, that countries are advised to device appropriate debt management strategies capable of ensuring improved debt servicing capabilities. Nigeria being no exception. Hence need for an effective debt management strategies.

Lastly, However, if a country borrows abroad, it also must introduce debt

management as a major policy concern. Inappropriate and excessive foreign borrowing will generated debt services obligation that will constrain future economic policy, and so, growth. And in order to sure the future generation from any form of economic, social, and political maladies as a result of external borrowing dilemma, there is a need for management of these debts.

Based on the above, it is very perilous to manage the Nigeria external debt obligations. Before going into the issue of Debt management, it is imperative at the juncture, to look at the impacts of external debts on the Nigerian economy, most especially in relation to the balance of payment (BOP).

CHAPTER FOUR

EXTERNAL DEBT MANAGEMENTS IN NIGERIA.

4.1 THE CONCEPT OF EXTERNAL DEBT MANAGEMENT

External debt management generally refers to the planned acquisition, deployment and retirement of external loans, either for development purposes of external loans, either for development purposes or for balance of payment accommodation. External debt management can be effective and efficient or inefficient. When efficient, external debt management makes it possible for proper schedule of maturities to be compiled and adhere to, in order to avoid bunching and defaults. With appropriate schedule of maturities, retirements is made simple and early signals are readily observed when resources become shunk and defaults becomes imminent.

Within the Macro-economic school of thoughts, Debt management is seen as a conscious and carefully planned schedule of the acquisition development, and reinvesting of external loan contracted, either for development purposes or to support the balance of payment deficits. In it paraphernalia, it encompasses estimates of foreign exchange earnings, sources of external finances, the projected return from the investment which the loan has financed, the amortization schedule and the debt service burden. Also it includes an assessment of the country capacity to service existing debt and a judgement as to country's capacity, desirability or other wise of contracting further loans. External debt management also ensuring a means of achieving benefits of external finances without

creating difficult problems of macro-economic and balance of payment stability.

Within the Accounting management practice Debt management is referred to as the establishment of the condition of issue and redemption of public securities. In this regards, it involves the process of administering the national debt, providing for the repayment of the principal, payment of interest and arranging the refinancing of maturity debts.

Accordingly the primary objectives of debt management is to improve the debt profile in the short term and reduce the burden over the medium - and long term runs. The secondary objectives ranges from

* maintaining a comprehensive inventory of loans.
* Forecasting debt services
* Monitoring loan utilization
* Providing policy guidelines to maintain optimum structures of
  - Maturity of loan
  - Currently composition of the Debtor nations
  - interest rate on loans.

Maximumly Debt management objectives should be aspired towards:

* Determining new sustainable level of borrowing
* minimises the risk exposure
* Assisting in the restructuring of
  - Rescheduling Period

- Refinancing of loan.

For External Debt management to be effective, it requires;

* An appropriate legal and institutional framework for the contracting and monitoring of loans.
* Coordination committees for operational and policy functions.
* A debt unit with clear terms of reference which is strategically located.
* A dynamic and effective debt recording and management system (DRMS)
* An accurate loan by loan Data base
* Trained staffs in the ministry of Finance and other allied agencies in the contracting parties country.

Basically, external debt management involves five basic function

i. Policy
ii. Regulatory
iii. Operational
iv. Accounting and
v. Statistical analysis

This shall be analysed thus:-

Policy - The policy involves co-ordination amongst the agencies with prime responsibility for the economic management of a country in the formation of national

debt policies and strategies.

b. The regulatory aspect concerns, the establishment of a well defined institutional framework and arrangement for recording and monitoring of new debt incurred by the domestic agents (public and private) and the comprehensive recording of maturity debt.

c. Operational - Operationality of debt management should pre supposes the adoption of a strategy to approach and participate in the international financial market.

d. Accounting - The accounting function requires collecting of detailed information on debts on loan by loan basis and providing for an efficient payment mechanism.

e. Analytical - The analytical aspect involves the development of the statistical tools to carry out sensitivity analysis to explore the various options open to debt managers, given market conditions, and the future structures of debt.

The question to ask at this juncture is that who and who is statutionally mandated to manage External debt in a country.

4.2 STATUTORY MANAGERS OF NIGERIA EXTERNAL DEBT

Under the financial and statutory obligation of any given Economy, the Apex bank stood aloof as the general manager of the country's external debt.

In the Nigeria's situation, The central bank of Nigeria being the Apex bank in the land, a banker's bank and the financial adviser to the federal government of Nigeria, is charge with the responsibility of managing the Nigeria's external debt. With the provision

of the Central Bank of Nigeria Decree No. 24 of 1991, The Central Bank of Nigeria is empowered to manage the Nigeria's external debt. It is also empowered, inter alia to; issue a guideline for the smooth operation of the federal governments debt conversion programmes; issue the Naira denomination or other forms of securities or make any arrangement in respect to the outstanding on foreign obligations of the federal government of Nigeria in the course of rescheduling and restructuring of such obligation.

If one should cull from Okugbo P. Assertion that; countries do not know how much they owe, they may be near accurate about their public and publicly guaranteed debt but will be unsure of about the private non-guaranteed debt, especially credits and trade arrears. Even when these are reasonably well documented, they are not authenticated and their values are constantly changing with the change in the exchange rates. Hence an effective external debt management is called for this regard.

4.3 NIGERIA DEBT MANAGEMENT PROCEDURE

A debtor country is obliged to settle her international debts, be it private or sovereign debts. Where a country is unable to settle her short-term debts because of poor foreign exchange receipts arising low two export capacity, the country in question enters with negotiation with creditors in order to convert the short term debts into medium term debts. If negotiation is successful the debtor country issues promissory Note designated in the currency of the creditor country or in the original currency in which the transaction were conducted. A period of Grace is then arranged.

Interest due on those debts are paid during the period of grace while the principal sum are settled after the period of grace, as may be agreed upon by both debtor and creditor. Where a country is still unable to settle short term debt which had been converted into medium tern debts and pure medium term debts which had matured for repayment, the debtor country may be obliged to request for rescheduling of debt and arrange for a new financing package to help the economy get out of the woods. This was practice in Nigeria in the 1980s. Nigeria had to follow this course of action when it became very difficult for her to settle arrears of short term trade debts and medium term debts incurred in the 1970s which matured for repayment in the earlier 1980s.

Despite the arrangements third world countries like Nigeria sometimes failed to meet up. Example is seen in the Nigeria's inability to honour her debt obligation by April 1st 1990. Thus if Nigeria is unable to honour this debt obligation, there is a need for an effective Debt management strategies.

Before going further it will be pertinent to look at the various type of debt management strategy open to Nigeria. upon such terms and conditions as may be agreed between the Federal Government and the bank".

The management of internal debt involves:-

(i) advising the government as to the timing of floatation of debt instruments and terms of issue.

(ii) advertising for public subscriptions to the issue.

(iii) Collecting the proceeds of issues on behalf of the government, supervising the issuing of certificates and warrants and maintaining proper books of accounts in respect of receipts and disbursements, and

(iv) Payments of interests and principal on due debts and managing the sinking fund set to facilitate the redemption.

In carrying out these functions, the CBN guarantees debt instruments/securities by underwriting the un-subscribed portion and provides a secondary market where the dis-investments of public holdings can be effected at a discount. The central bank also provides information on regular basis and advises government about the position and implications of internal debt.

4.4 DEBT MANAGEMENT PLANNING IN NIGERIA

External debt management is more intricate and requires careful planning. Nigeria's external debt management strategies have varied from time to time since the early 1980s when the debt crisis became more pronounced. However, a more pragmatic, articulate and all embracing plan was set out in February, 1988 with the following policy objectives:

a. to outline strategies for increasing foreign exchange earnings thereby reducing the need for external borrowing;

b. to set out the criteria for borrowing from external sources and determine the type of project for which external loans may be sectors.

c. to outline the mechanism for servicing external debts of public and private

sectors.

d. to outline the roles and responsibilities of the various organization of Federal and State Government as well as the private sector in the management of external debt.

In view of these. therefore, the following guidelines were issues as regards to government borrowing;

i. Economic sector projects should have position internal rate of return as high as the cost of borrowing.

ii. Social services of infrastructures would be ranked on the basis of their cost/benefits ratios.

iii. Projects to be financed with external loans should be supported with feasibility studies (which, of course, include loan acquisition deployment and retirement plan schedule).

iv. External loans for private and public sector projects of quick yielding nature can be source from the private capital markets, while loans for social services can be source from concessional financing institutions.

v. Borrowing by state governments, parastatals and private agencies must receive the approval of the Federal Government before they are contracted. The private sector borrowing approval does not constitute a Federal Government guarantee or currency undertaking, but to ensure that the borrowing conforms

with national objectives.

vi. The state Government borrowing proposals should be submitted to the ministry of Finance and Economic Development and the Central Bank of Nigeria for consideration because they are incorporate in the final public sector borrowing for the annual budget.

vii. State Governments and their agencies, as well as Federal parastatals should service their debts through the foreign exchange market (FEM) and inform the Federal Ministry of Finance and Economic Development for record purposes. For failure to service their debts, the Naira equivalents would be deducted at source before the balance of their statutory allocations are released.

viii. For loans on-lent by the Federal Government to state governments, the Federal Ministry of Finance and Economic Development would make due payments and deducts the full amounts at source from their statutory allocations.

ix. As for the private sector, industries that are export - oriented should service their debts from their export earnings, while others should utilise the FEM facilities to service their debts[3].

4.5 TRENDS IN EXTERNAL DEBT MANAGEMENT

As we proceed to analyse the trends in the management of the Nigeria external Debt four distinctive observation should be at the corner of our mind.

Firstly, It could be easily observed that the external debt in naira terms is a larger

proportion of the total public debt outstanding: 73.9%, 70.8% in 1993, and 63.6% in 1995. Secondly, external debt outstanding, though, a larger component than the domestic debt is declining proportionately Thirdly, in spite of this declining proportion , external debt's direct relation to exchange rate variation makes it to have ostensibly greater adverse effects on the economy. This is partly because of the external resources transfer effect and partly also because of the high inflationary impact of exchange rate depreciation on the economy. Fourthly, the declining trend in the proportion of the external debt component also suggests that some effective efforts have been progressively put in place to manage the external debt in particular.

Of course, management effect observed from the external debt in comparison with the rising total debt suggests also that the external debt service payments is decreasing proportionately. For example, the value of external debt service payments dripped from US$1,876.6 million. The ratio of actual debt service payments to exports also declined from 29.1 per cent in 1991 to 16.4 per cent in 1995 and to 13.3 per cent in 1996. However, given the differential effects of the two components of the debt structure, reduced or lower external debt proportion would be propitious to the domestic economy.

In a developing economy, the external debt causes more concern than domestic debt. This is not to say that the latter has no serious consequences on the economy. Rather, it is because the burden of external debt is far more crushing than domestic debt. Studies on debt have, as a result, focused generally on the prevailing external debt crisis as submitted by.

Winbergen. 1989; Eaten, 1993; Cohen, 1990). The Central Bank of Nigeria's **Debt Trends** (1996) though a bold attempt to provide analysis and information on the developments in the management of external debt outstanding, it focuses on the external debt.

Thus, the management of external debt crisis continues to interest scholars, policy makers and even politicians and business community too. This is because despite all the management efforts at controlling external debt, there seems to be no easy way out. A major reason for this, as pointed out by Ndekwu (1997a, 1997b), is that fundamentally external debt as a part of the total sovereign debt takes its root from the rate of government borrowing requirements (RGBR) and hence deficits. The larger the RGBR is, the greater will be the total debt. Therefore, any effective management of external debt in cannot be excised from an effective internal balance management.

An important dimension in such debt management is the securitisation option. We shall critically examines this strategy within the context of Nigeria's external debt management. It is with a view to analyzing the prospects of securitisation as an effective option for resolving the debt problems of the Nigerian economy.

This arguement shall be structured into six section. One: the arguement. In the second section we examine briefly debt management strategies being adopted generally to deal with the debt problems. Section 3 focuses on securitisation as a debt management option while in Section 4, an attempt is made to capture the size and depth of the securitisation and trading in debt instruments so far in the debt management of the economy.

And an analysis of the prospects of securitisation in the country's debt management is pursued in Section 5 with a critical review of the underlying political economy of external debt.

4.6 DEBT MANAGEMENT STRATEGIES: A GLOBAL OVERVIEW

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

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

As a result, the debtor countries' strategies are made to fit into those policies. This is especially because the creditor countries use the strategies to reduce their exposure and

reduce their outstanding claims on the debtor countries. These are also influenced by the international financial organisations' capital flows management. We shall examine briefly some of the general global strategies first after which we look at the Nigeria's component.

Since a major objective of the creditor countries is to reduce their outstanding claims, debt reduction strategies have been uppermost. Most of the debt management operations were accordingly the general categories of "loan sales or debt-equity swaps". It is observed, however, that commencing in February 1988, when the "Mexico-Morgan" debt exchange initiative was taken, interests in transactions involving the exchange of existing claims for new debt instruments have increased. The essence of such transactions is the reduction of either the principal of the debt or interest. This debt securitization strategy involves partial collaterisation or guarantees of debt service payments (Watson, et. al., 1986.

A second option is the debt buy-backs. This is characterized by sale of claims for cash by creditor backs. The option was officially sanctioned in Chile, Bolivia and the Philippines. It is also extensively used on the secondary market as investors are also extensively used on the secondary market as investors are desirous of claims which could be used in debt-equity options.

Thirdly, debt-equity swaps were widely used initially in the 1980s as part of the debt conversion schemes. The option entails the conversion of claims for local currency cash or other instruments such as bonds at a discount. The debtor and creditor banks agree to exchange the claim on the condition that the cash or instruments is used in the purchase

locally equity holdings in the debtor economy. The purchase could be in existing firms or new ones. the swaps permit a reduction in the initial investment cost because of the discount on the claim which also result in the reduction in the debt outstanding while providing foreign investors some investment outlets in the debtor country.

Fourthly, there is other debt exchange option. "Debt exchange" according to Allen et. al. (1990:35) "involves the exchange of one type of claim for another that offers modified terms in return for some form of enhancement or reduced obligation to participate in future financing packages". However, in recent times. debt exchanges have been characterized by the exchange of a claim for "another type of asset of the debtor involving collaterization of principal and interest payments".

The general feature of these options is that they essentially have various forms of debt conversion strategy which in effect reduces the debt outstanding without involving the conventional debt rescheduling or debt forgiving. Even though they do not inject new money into the debtor economy, as new leading would do, the strategy restructures the existing debt either by ownership or by asset or both.

Debt relief is intrinsically provided to the debtor economy in a form that could permit growth which otherwise would have been stranded were repayment to be made conventionally. Thus, debt conversion initiatives as debt management strategies have some mutual beneficial effects to both the debtor and creditor. Hence, as pointed out buy Van Winbergen (1991:455), "without a net nominal increase in foreign debt or an equivalent cut

in scheduled deb t service, .. servicing the face value of the current (Mexican) debt without substantial amounts of new money would have been incompatible with renewed growth in output".

4.6.1 DEBT STRATEGIES: THE NIGERIA EXPERIENCE

In Nigeria, debt conversion programme (DCP) was put in place as one complementary option to other measures of the external debt management strategy following the comprehensive measures set out in February 1988. The Programme was fine-turned in July to effect some amendments to the original guidelines which accordingly simplified the approval process and expanded its scope. The revised guidelines took effect later in April 1989. A good description of the procedures in the country's DCP and an analysis of its performance is made by Yemidale (CBN, 1996:151-173). Debt conversion programme consists of rules, procedures and mechanics of converting a country's external debts by the creditor, holder (or assignee) into other assets or debt instruments in the debtor country at a discount.

The essential characteristic of DCP is that a holder of debt if not the original creditor has some windows through which the debt could be traded with the proceed being used to purchase a debt instrument of the country. This presupposes the existence of a secondary market for trading in debt instrument in the debtor country. And original creditor could also exchange part or all the debt at a discount within the framework or DCP.

Like the earlier debt management options considered, DCP strategy enables the debtor country to reduce its debt and debt service obligation, restructure its debt and debt service obligations, restructure its debt and at the same time permit foreign capital inflow particularly of portfolio type. Conversion schemes could feature debt-equity swap, debt-debt exchange, debt buy-back, and similar debt conversions. "The attraction to a foreign investor" according to Williamson (1991:441) "is that it can invest more cheaply than if it simply bought local currency in the foreign exchange market". Thus, as pointed out by Yemidale (CBN, 1996:253), "under a debt conversion scheme, the creditors have the opportunity to dispose of their non performing assets into equity" or any other instrument thereby diversifying their portfolio and effectively manage their risk.

The mechanics of debt conversion scheme entail complex deals. These embody costs also. But benefits to the debtor country are significant. It estimated that between 1988 and 1995, a cumulative total of over US$670 million worth of debt has been converted with US$245.570 million converted in 1989 alone. The lowest, US$13.352 million, occurred in 1994. Savings on interest payments on debts cancelled through the conversion scheme cumulatively amounted to over US$599.385 million (CBN , 1996: 171,).

Finally, refinancing whereby new money was secured to finance an existing principal or interest payment was adopted as part of the strategy. The first refinancing of over US$2.1 billion worth of arrears of letters of credit outstanding. There fancying option does not necessarily reduce the debt but provides some relief to the debtor as repayment period is

extended. For instance, the refinancing exercise of 1998 had 30 months repayment period with six months grace period and an interest of one per cent per annum over the London-Inter Bank Offer Rate (LIBOR0).

4.7 SECURITISATION AS DEBT MANAGEMENT STRATEGY

Secondary money and capital markets are sustained and developed by the availability of marketable securities, debt instruments, which meet the preferences of the market operators. These may be private individuals, banks or non-bank corporate entities and government. The securities essentially provide the means for exchange of assets between the borrower and the lender or the suppliers and the buyers. In domestic money and capital markets, trading on the securities are largely by the nationals and resident non-nationals. However, globalisation of financial markets has begun to alter this so that non-resident and non-nationals could actively trade in the securities markets.

Debt securitisation has a similar but more profound characteristic. First, it could be viewed as a process of "issuing of bonds that can be passed among lenders instead of simply securing bank credit that is expected to remain with one until maturity ..." (Williamson, 1991:435). Thus, national markets securitisation as a process is being promoted by the repackaging of standardised securities by the intermediaries, especially banks, who perceive it as a way of profiting a part or the banks' conventional spread. Lenders or creditors trade more actively in the process and are, therefore, encouraged by the floating rates on the securities. The "floating rate note" which was more or less invented in the early 1980s

revived interest in the process of the use of bond finance.

Secondly, debt securitisation could also be viewed as an external debt management strategy which actually was its origination. In this case, securitisation has the objective from the debtor's viewpoint of reducing its debt and its service payments while from the creditor's viewpoint of reducing its exposure and risk embodied in the debt. The encouragement to the growth of debt securitisation as debt management strategy was the "practice during the debt crisis, of exempting bonds from the process of rescheduling which applied to back credits" (Williamson, 1991:435).

The strategy allows the marketing of the original bank credit, that is, the original debt. This in effect implied that the borrowers and the ultimate lenders could distribute the banks' traditional spread on the lending and borrowing rates between them. Such sharing of rates differential and not just risk on the lending makes debt securitization highly attractive in the secondary markets. Because borrowers have discovered that they could obtain credit at a lower rate by going directly to the capital market, they have contributed to the growth of securitisation as a debt management strategy.

Thus, securitisation embedded in float-rate notes has become an important secondary market operation. This is largely because the needs of both the lender and the borrower alike during the period of high and variable interest rates with unstable macroeconomic environment have been satisfied Since debts can be converted into instruments, securities has other characteristic of debt conversion. But its central element is the floating rate notes

which are tradable in the secondary markets. It also has debt management mechanism of passing an original debt into a second or third party thereby providing debt restructuring characteristic. With the conversion of debts into instruments, debt securitisation expends debt instruments and hence secondary market expansion. Growth of financial market is stimulated in effect.

As noted by Watson, et. al.. (1986:24), "floating rate notes fundamentally alter the sharing of the risks associated with interest rate variability between the borrower and lender". There is the willingness of the borrower (debtor) to bear an additional risk in order to obtain longer maturities than could typically be available were debt bond to be issued.

Banks generally find securitisation attractive as the debt instruments are useful for liquidity and portfolio management. It enables them to increase the marketability of the banks' assets which otherwise would be held to maturity. The ease, however, of the stability of the debt instruments depends very importantly on the lower's evolving credit worthiness, interest rate and exchange rate stability. For example, Nigeria's promissory notes, as we shall observe shortly tend to have higher market demand when the creditor banks or investors perceive improving credit worthiness of the country as well as when exchange rate especially display greater stability. Of course, these also reflect macroeconomic environment stability.

4.7.1 SIZE, DEPTH AND EFFECTS OF DEBT SECURITISATION

The emergence of securitisation in Nigeria's external debt management was a new dimension towards getting out of debt service quagmire. It could be said to have occurred in 1984 when the arrears of uninsured short-term trade debts were covered by issuing promissory notes. In 1988 again, promissory notes were issued to cover trade arrears worth US$4.8 billion between 1984 and 1988. The notes were issued at "an effective rate of return" of 5 per cent per annum and carried a repayment period of 22 years (Omoruyi, 1986). These promissory notes provide the menu for debt securitisation when they are traded on the secondary markets.

Irked by cash-flows constraint to service its debt even though when rescheduled and because of default in debt service obligation, Government undertook another initiative in 1989. This was when an agreement was reached in London club for the issue of 30-year par bonds with the principal amount over the first three years and 6.25 per cent annum thereafter (Omoruyi, CBN, 1996:19)

Debt securitisation, as a process in Nigeria has accordingly commenced with the issue of promissory note and collaterised par bonds. Interestingly , their issue were as a result of default in debt service obligation. Rather than accumulating the arrears of default in payment, the issue of the debt instrument provided the Nigeria government a window to manage the debt. The instrument also provide the creditor investment outlet without necessarily requiring new investable funds. As the outstanding volume of this promissory

notes increased and available to be traded, the secondary market for the instrument developed.

The total promisor notes amounted to US$ 4,478.9 million or N43,561.9 million in 1991. The face value of the note has been dropping to US$ 3,148.0 million or N69,256.0 million in 1995. As a proportion of the total external debt outstanding, it has also been on a decline trend: from 13.4 per cent in 1996. If anything, the figure suggest that the promissory note as the core means of the debt securitisation strategy in Nigeria are a significant but a declining proportion of the debt.

On the contrary, the service payment on the promissory notes have been on the increase in relation to total eternal debt to 15.5 per cent in 1996. The amount of the service payment on the aggregate and in respect of promissory note declined over the period.

Total external debt service payment decreased by 17.2 percent per annum from US$3,450.0 million in 1991, to US$ 1,620.6 million IN 1995. and Us & 1262.8 in 1997. Promissory note debt service payment in similar manner declined from US$3,450.0 million to US$ 251.6 million and to US $ 152.0 million in the same period. This gives an annual rate of decline of 10.1 per cent over the period. Thus, the rise in the promissory notes debt service payment in relative terms must have been contributed by the high discount on the note and hence lower prices as have been observed by Allen et. al. (1990: 37) that "market prices of developing countries' debt in the secondary market prices have been low and declining. In fact, by 1990s, the weight average price was around 35 per cent. Average

discount of debt conversion, for example, in the country was 33.2 per cent in 1995 and 33% in 1997 which is relatively high.

Trading on the investment may not have been active judging from the declining face of the promissory notes. Though no information is available to me presently on other instrument within the securitisation strategy. However, I postulate that there is a close affinity between securitization and debt program in which some debt instrument are used as earlier observed. Given this relationship we could use the operation in DCP as a proxy for the securitisation strategy.

Again, like the picture presented by promissory notes, the value of the application varied from year to year. In the first year, 1988, there seemed to be a high demand reflected by the total value of US$ 1,628.3 million. This was the highest level. The value increased to US$ 291.8 million from US 195.8 million in 1994. A significant rise was achieved in 1993 when the value amounted to US$ 1110.7 million.

KASHMIR

Table 1: Promissory Note as a Proportion of Total External Debt 1991-1996

(₦ Million)				(₦ Million)			
Year	Total	Promissory Notes	% of Total	Year	Total	Promissory Notes	% of Total
1991	3,364.5	4,478.9	13.4	1991	328,054.3	43,561.9	13.3
1992	27,544.1	3,246.0	11.8	1992	544,264.1	64,140.0	11.8
1993	28,718.2	3,159.9	11.0	1993	633,144.4	69,665.7	11.0
1994	29,428.9	3,178.2	10.8	1994	648,813.0	70,069.1	10.8
1995	32,584.8	3,148.0	9.7	1995	716,865.6	69,256.0	9.7
1996	28,060.0	2,140.0	7.6	1996	617,320.0	47,080.0	7.6

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, 1995, 1996.

Table 2: External Debt Service Payments.

Year	**Total Debt**	**Promissory Note**	
		US$	**% of Total**
1991	3,450.0	376.6	10.9
1992	2,393.3	267.3	11.2
1993	1,772.5	256.1	14.4
1994	1,843.0	254.8	13.8
1995	1,620.6	251.9	15.5
1996	1,876.6	238.4	12.7

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, 1995,1996.

in comparison with the volume of promissory notes, DCP application values are much lower. In fact in 1995 was just 93 per cent of the promissory notes in that year. Thus, in the spite of the declining trend in the promissory notes, the volume of the notes representing the

size of the securitisation is relatively higher than the DCP application values. This also suggest that if debt management options are taking each as the debt management option, it would appear that securitisation may be a preferred option.

The nationality distribution of the DCP application reveals that foreigners from 1989 to 1991, 1994 and 1997 dominated, Nigeria on the other hand, dominated in 1988, 1992, 1993 and 1995 and 1996. This picture does not quite represent the desirable objective. If the revealed picture mirrors what prevails in the promissory note option then securitisation as a debt management option is far from its expected behaviour.

A major effect of the management debt strategy is a reduction in the in total debt outstanding as a ratio of gross domestic product (GDP) from 101.7 per cent in 1991 to 50.0 per cent in 1995 and 48.2% in 1997. Besides, the actual debt service payment as a ratio of export also declined from 29.1 per cent to 16.4 per cent in the same period.

Secondly, some inflow of capital are encouraged when the debt inter nature are purchased even though at a discount. This also induces foreign investment particularly in the equate-swap option. Besides, the proceeds from the debt conversion are injected into the economy and utilised by industries. For examples, the disbursed proceeds from DCP for all sector amounted to N7.056.3 million in 1991-1995 period. The greatest beneficiary is the manufacturing sector whose share accounted for 41.2 per cent of the total disbursement.

Thirdly. the purchase of the debt instrument. and indeed securitisation process, encourage the growth of market for debt. With growth in the secondary market for

promissory note, for instance, there would be financial market development. Hence, securitisation encourages the structural growth of international financial market. And in the case of Nigeria, the growth in the debt instrument in which foreign investor participate induce the internatinalisation of Nigeria's debt instruments.

Fourthly, there are macroeconomic effects as the debt-holder enjoy wealth effects arising from the increase in the debt prices hence return on the instruments. A rise in prices of the debt instruments as the discount fall by implication reduces the cost of capital for investors in the debt instrument; portfolio and liquidity management for banks who hold the debt are encouraged.

Table 3: Value of Applications Received for Debt Conversion (S Million)

Year	Nigerian		Foreigner		Total	
	$'Million	%	$'Million	%	$'Million	%
1988	1,078.2	66.2	549.99	33.8	1,628.2	100
1989	695.50	21.9	339.91	78.1	5435.41	100
1990	477.72	41.8	666.03	58.2	1,143.7	100
1991	62.50	43.9	80.03	56.1	5142.53	100
1992	268.38	57.7	196.78	42.3	465.16	100
1993	1,061.0	95.	49.63	4.5	1,110.6	100
1994	20.00	50.0	195.78	100.0	5195.78	100
1995	55.75	53.4	136.00	46.6	291.75	100

Source: Central Bank of Nigeria Statistical Bulletin, Vol. 6, No. 1, 1995

4.8 WHAT ARE THE PROSPECTS FOR SECURITISATION

The volume of trading in debt instruments is a principal factor which influences the growth of securitisation and secondary market. But this is related to the supply of, and demand for the instruments, the prices and discounts, expectations about the credit worthiness of the debtor or holder of the instrument as well as other macroeconomic variables like exchange rate, interest rate and inflation.

More fundamentally, however, debt instruments supply and demand are bound up with the political economy of debt. The reasons for this are many and inter-related. First, public debt instruments originates from public debt outstanding which are accumulated claims on government. Second, the accumulated claims have their root from government fiscal operations (that is government expenditure in relation to its revenue) and hence budget deficit and current account deficit. Third, the repayment of the principal of the debt and the actual public debt service payments are fiscal decisions and hence influenced by political decisions. Fourth, the rescheduling, securitisation and other debt management options taken by government, even though may be influenced by economic factors, are highly politically undertone.

There is no doubt, therefore that the political economy of external public debt and its management will have strong bearing on the prospects of securitisation and trading on debt instruments. Take a worst case. If government, for instance, decides and actually pays off all its external debt outstanding then the question of securitisation is closed. In other words,

if all external debt obligations are redeemed today, securitisation would probably cease to exist in Nigeria's external debt management.

This is neither necessary nor desirable because debt is basically an integral part of a monetary economy whether at the national or international level. A monetary system subsists on debt, and securitisation is to international financial market what internal debt instrumentation is to a national financial market. However, even though securitisation is more of commercial debt especially by banks, that is the London Club type of Nigeria's external debt, than official sources, the Paris-Club type, national economic policies affect the operations of the trading on the instruments. Besides, people's behaviour towards financial markets' operations has influence on the market.

We can identify at least five factors which could militate against an effective securitisation and trading on debt instruments in Nigeria. First there is the culture of holding-on to the instruments and hence unwillingness of the holders (creditors) to part with their instruments. This starves the secondary market of the necessary menu for nurture and for growth. The holding-on to instruments has the effect of increasing the price of the instruments.

Second, the trading on the debt instruments by the foreign investors are influenced by exchange rate movements. Floating rates tend to be more market-friendly than fixed rates. In fact, fixed exchange rates tend to create large premium for the parallel market operators. For instance, in 1994 when there was a re-regulation of the foreign exchange

market, trading was low. But when in 1995 Autonomous Foreign Exchange Market (AFEM) encouraged liberalisation of foreign exchange market operations trading also improved. A dual exchange rate system in the economy comprising fixed and floating rates is not too stimulative of trading because of distortive effect which the duality creates. Secondary market strives more in a free and flexible exchange rate system than in a fixed exchange regime.

Third, non-collaterisation of the interest stream, taxation and other regulatory procedures weaken the market for instruments. Liberal tax policy especially regarding the flow of capital income of the investor is stimulative. Delays in processing the required documentation are disincentive to investors.

Fourth, unstable macroeconomic environment generally is inhibitive to trading in the securities market since expectation plays a major role in the market activities. For example, unstable exchange rate, high inflation and general uncertainty raise the risk profiles of the debts. Even though investors in securities are willing to manage risk, this is when such risk is predictable. Unpredictable risk arising from volatile macroeconomic policies militate against effective market operations.

Finally, external public debt instruments are claims on government as has been emphasised earlier. Therefore, any political instability and uncertainty in governance create uncertainty on public debts and investment market. As witnessed between 1992 to 1997.

It would appear from the foregoing that there are little prospects in Nigeria for

securitisation and trading in debt instruments. This is more in view of the thinness of the market so far. However, given the increasing confidence in DCP arising, for example, from the use of auction system there may be some hope that securitisation could be nurtured.

It is instructive to mention that as yet, it does not seem that securitisation is a strategy. It is only an option in the debt management strategy. If securitisation is defined as a strategy, then deliberate action plans should be evolved to make it work. In this case, a proper definition of the goal of securitisation should be made with well defined ways of achieving the goal. As it is currently, securitisation in the economy appears to be an expediency, an option to handle the default in debt obligations repayments.

4.9 PROBLEMS AND PROSPECTS OF DEBT MANAGEMENT IN NIGERIA

4.9.1 Problems of Debt Management:

The problems that militate against effective debt management in Nigeria are legion and could be grouped into statistical, technological, institutional, economic, etc. Some of the problems are common to both domestic and external types of debt while others are peculiar to one category or the other but emphasis will be laid peculiarity on external debt in this research thesis. These problems would be highlighted in the next few pages.

The core problem of debt management in Nigeria is dearth of statistical data on both the internal and external debts. So is the situation on the external debt. At the beginning of the restructuring of external trade debt in 1984, for instance, a foreign bank had to be hired to sort out genuine and false claims from the myriad of claims of indebtedness from foreign

creditors. Also, for a very long time, we did not know precisely the quantum of our external debt. As there are varied reports in relation to the sources of statistical data on the Nigeria external debt e.g C.B.N, I.M.F, F.O.S, and world bank. It is thus not surprising that to date no comprehensive review of the national debt profile in Nigeria had been undertaken by any researcher, because such review entails detailed information on several aspects of the debts.

Another problem that is the rapid growth in the size of outstanding external debt and the debt service payments. Internationally, interest rates on various currencies have been rising. Since most of our loans carry variable interest rates, the increase in external debt service payments is inevitable.

There are, however, some problems that pertain to domestic debt management which is in directly or proportionally related to the external debt management. The low rates of interest that were administered on the debt instrument for a long time made the instruments very unattractive, given their low yield vis - a vis other investment outlets. This led to a situation in which the CBN became the major holder of government securities. This trend was injurious in several respects. Firstly, to the extent to which such funding create undue monetary expansion, it fueled domestic inflation. Secondary, the low level of public participation paralysed the potential use of the debt instruments as regulatory instruments in monetary control. Direct control such as the issuance of stabilization securities dominated the control of money supply. Admittedly, such direct controls do not channel resources optimally. Again, the Federal Government was unduly insulated from the fiscal discipline

that the financial market would have imposed on it. These has a recipitorous impact on the external debt and loan source as domestic inscultions dictates external economic relations. Right now, as publicly admitted by the Head of the Transitional Council, Chief Ernest Shonekan, fiscal undiscipline is a major bane of this society.

Likewise, there are some problems with regard to external debt management. These include, among others, institutional arrangements, the nature of debt relief packages, lack of technical expertise, worsening macro-economic imbalances and the fiscal relationship between the Federal and state Governments.

Institutional arrangement for external debt management is an hinderance to its effective management in Nigeria. At present, the three principal actors in external debt management are the foreign consultants, Federal Ministry of Finance (FMF) in charge of medium/long term loans and public sector short-term loans as well as the central Bank of Nigeria (CBN) in charge of the private sector short term trade debts. It is sad to note that while information flows much more freely from the FMF and CBN to the foreign consultants, there is a lot to be desired in the flow of information between the CBN and FMF. Thus, after times, conflicting figures on national debt are given by the two institutions.

Another dimension to the institutional problem is the neglect or ineffectiveness of laws and regulations. If the Borrowing by public Bodies Act (35) of 1965 were put into effective use, it could have forged a cohesive link in the statistical data on external

borrowing of both the Federal and State Governments and their parastatals. A situation where information on foreign borrowing is picked in bits and pieces as is the case at present would not have arisen. Worse still, there seems to be no legal obligation on borrowers in the private sector to submit information on external loans contracted by them.

Most unfortunately, with the exception of the London club deal concluded in 1992, and the debt conversion programme which brought substantial reduction in the debt stock, debt management strategies employed on external debt had neither induced substantial debt relief nor debt reduction. In particular, the terms under which Nigeria had rescheduled her Paris Club debt three times had even worsened the debt situation. Though effort had been rechannelled by the Abdulsalami and Obasanjos government in these regards.

The number off renegotiations of agreements as highlighted earlier in this research work is an indication of enormous technical difficulties often encountered in external debt management in this country. Too often, Nigeria had inadequate knowledge of the full implications of the cash flow requirements that would emerge from such agreements. So, agreements were entered into only to discover later that the finances needed to fulfil the terms of the agreement were not available. The lack of consistent and reliable statistics also weakened our position at the negotiation table when trying to reschedule/restructure our debts. Furthermore, up till now, to my knowledge I am not aware of any comprehensive review of the national debt profile by any researcher; most assuredly, due to lack of statistical data. Such a review would have brought into special focus specific areas and

issues that need to be addressed in our effort to manage the debt.

Although the Structural Adjustment Programme (SAP), has contributed to positive real growth rates for the economy, the macro-economic imbalances remain problematic. Nigeria's balance of payment position has improved between 1993 to date but still exhibits some pressures, the naira exchange rate, though purged of unwholesome over- valuation element, continues to depreciate against major international currencies; government deficit tends to increase and price level continues to rise. These developments do not present a conducive environment for effective management of debt.

4:10 PROSPECTS OF EFFECTIVE DEBT MANAGEMENT:

There is currently the adoption of a Medium term Adjustment Programme. This Programme would address macro-economic restructuring which would enhance effective debt management on at least two grounds. Firstly, the reduction of government's budget deficit would be one of the salient policy issues under the programme and this would have positive impact on the Nigerian general debt management. Secondly, the adoption of the programme would qualify Nigeria to reschedule her paris Club debts under the confessional debt relief packages which the Club had resisted granting us thus far. This would offer substantial reduction of the total external debt as well as the external debt service payments.

In the light of the debt control issues discussed earlier on, the need for a comprehensive review of laws governing borrowing and externally cannot be more urgent. for example, although the statutory limits on borrowing may be deemed to be expedient as

at the time they were set, the national external debt problem at hand calls for a new and well articulated look at them. Also apparently due to the political instability, experienced in the last two decades some of the laws seemed to have gone into oblivion. the effectiveness of the laws should also be ensured.

Debts cannot be well managed without a strong database. Given the magnitude of external debt in Nigeria and the volume of international loans and trade transactions involved, such a data base cannot be built manually. There is need for a computer-based debt management system. Thus, the acquisition of this technology by the FMF is a welcome development. the Commonwealth Secretariat Debt Management Recording System (CS-DRMS) has been installed there and advanced stage has been reached in the compilation of the debt data base. the CBN (as gathered from the C.B.N billion of 1998) is also in the process of acquiring the system for the portion of external debt handled by it. Far beyond the acquisition of the system is the need for properly trained staff in the technicalities of debt management since the data base is only a resource or a means to enhance and not the end of debt management. This researcher is I am convinced that this need would be met sooner than later.

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

Government of any country around the world always make sure as part of their statutory obligations to see that their governed enjoys the best of life i.e. good food, shelter, security, employment, sound health care facilities and above all a more stable and comfortable standard of living, amongst other goodies of life. And in order to have these goodies of life and other corresponding parameters, they need financial capital to finance their policies. And the inability to get this finance always result to governments recourse to borrowing. Thus the failure of repayments of these borrowing then result to Debt problems.

The Nigeria economy ala the third world countries are much more characterized by this problems of debt. In the Nigeria case, the incursions of debt started in the late 1970s, when there was an evidential disequilibrium in her foreign balance of payment. And all attempt towards adjusting her foreign balance of payment positively proved highly abortive and the result was an unprecedented external debt problem. This problems was of two fold, its acquisition and management. Hence this research thesis find it as a matter of importance to look into the problems of Nigerian external debt and its management and profer a solution to it (within the scope of 18 years) on an analytical basis.

The research had defined the Nigerian external debt from different angles and on general summation, it is empirically said to be the total sum of monies accrued to Nigeria as a result of her in ability to honour or repay the monies borrowed from external creditors. Specifically, the multilateral creditors, the Paris and London clubs, promissory note holders etc. And the reasons given for the contracting external loan which later result into debts were to; achieve sustainable economic development; achieve rapid economic advancement, and to make even for inadequate finance of government fiscal policies obligation as a result of the fallen oil fortunes which started in the late 1970s. As a result, the trend in the Nigerian external debt, according to the research show that the volumes of the Nigerian external debt rose from an historical $3.0 billion in 1978 to $18.5 billion in 1984. To $32 billion in 1990 and presenting stood around $29 billion at the end of 1998. And the reason given by the researcher for this risen profile of the Nigerian external debt and its burden were; the rapid growth in the imports and governments public expenditures; non-conventional interest rate on borrowing from the ICM; Decline in Nigerian Oil earning from the late 1970s; emergence of trade areas; Risen extra-budgetary expenditures due to lack of prudent management of resources and accountability.

The above was caused by; low saving pattern of Nigerians; Unrealistic exchange rates and the pseudoic nature of the Nigerian exchange rate regimes; Poor Project financing and management; over dependency on import instead of an inward

looking production of good and services that could sustain economic development and; the depreciation of the dollar and later, the value of the Nigeria Naira.

The Reason outlined above then result in a problemic debt burden of the Nigerian government. Thus the need for an effective management strategies, due to the problems witnessed in the Nigerian economy. The problem highlighted by the research includes; Disruption of the socio-economic, political, industrial and technological development of the country; reduction in the developmental projects and industrial production; Accumulation of import payment arrears and default on debt service payments since 1983, all which had threatened the Nigeria's credit worthless and denials of further lines of credits to importers, procrastination of debt burden solution; the transferring of private debts onto government debt account; consequential budget deficit over the years; the unprecedented inflationary rate, and; the envisaged grounded and paralysed Nigerian economy by the year 2010.

Thus based on these factor, the researcher then make case for the management of the Nigerian external debt. He then stated that, external debt management simply means, the rational utilisation of earned foreign exchange. Hence it is a conscious and carefully planned schedule of the acquisition development, and re-investing of external loan contracted, either for developmental purposes or to support the balance of payment deficits, the objective of which is to generally improve the debt profile in the short term and reduce the burden over the medium and long term runs. Based

on the findings, the statutory manager of the Nigerian external debt is the central bank. And the procedures in the management process of the external debt are given as follows - if the country is unable to settle her short term debts, she enters into negotiation with the creditors, so as to convert the loan into a medium term debt, if the negotiation is successful, he is issued a promissory Note and a grace period is arranged to allow him another opportunity to pay during the period. In case it is unable to settle through medium term means, the debt is then converted into Pure medium term debt. In this disposition, the debtor country may be obliged to request for rescheduling of debts and arrange for a new finance package to help the economy get out of the woods. And this had been practised by Nigeria in the 1980s. which despites, it failed to meet up. To be more serious, the government in 1988 set up an embracing management plans with the overall objectives aimed at strategically outline to increase foreign exchange earning and reduce the need for external borrowing. This was done in line with some guidelines. Inspite of the debt management plan strategies outline in 1988, Nigeria is still being classified on one of the Heavily indebted countries (HICs).

And on sensing the impact of the external debt on the macro-economic and growth objectives of the country. The research posited some attempted combination of debt management options, these are given as;

Repudiation of part of all of the debt: cancellation of Nigerian external debts;

payment of debt obligation and; Negotiation for debt relief or reduction.

However, it was viewed, that Nigerian government must planned her debt management strategies to go in line with the international debt management strategies, so as to salvage Nigerian external relations and protect her economy. Hence some internationally acclaimed debt management strategies like; the Bakers Plan (1985); the Paris Club Plan (1981); the African development Banks Plan; the Brandy Plan (1989); the IMF facilities e.g. structural Adjustment Programmes, the World Bank facilities e.g. the Structural Adjustment Lending (SAL) etc; the Toronto and Trinidad Terms, to mention but the fews, are mentioned as strategic options.

Not withstanding the internationally acclaimed strategies options analysed in the study, was able to expose to us to some instruments that had been used by successive Nigerian government aimed at relieving us of debts these are; embargo on new loans (1984); Limit of debt service payment (1980); debt restructuring (1983); Debt conversion (1988) and; Debt forgiveness begging (1998/99).

But in as much as the economy is still integrated into the world global system, Nigerian government had made it her point of duty to work out an effective management strategy that will reduce the external debt service burdens on domestic commitments and obtain a debt relief from external creditor nations.

In conclusion, the above debt problem and its management issue, we need to say, that it is not only peculiar to the Nigeria economy along but nearly all the

developing economies. But it is believe that with proper policy discipline, dedication and commitment to policies toward debt eradication, by Nigeria government vis-a-vis the third world countries. The issue of debt will be something historical as the relief had earlier on favour South American countries like Brazil and Argentina.

5.2 CONCLUSION

The problem of external debts and the resultant need for its management had not only retarded the growth of the economy in general but it has disrupted the social, economic, political, industrial and technological aspiration of Nigerians, amongst other; And from the study above it can be concluded that;

1. The external debt, though was as a result of the government quest to provide the goodies of life for her citizen. It resulted from inability of the government to correlate and synchronized. The capital import with capital export.
2. The problem of external debt and its management which the Nigeria government found itself in today, is not peculiar to the Nigerian economy, but also to some other third world economies like Brazil, Argentina, Mexico, Bolivia, African countries etc.
3. The Nigerian debt crisis generally originated from both internal and external casual factors which are caused by some macro-economics distortions in the system, and the international economic order.
4. Generally, the problems of Debt and its management does not disturb the

economic sector of the country alone but it has also disarticulates the process of political, social, industrial, Technological and other developments of the country. It has also dislodged the confidence that the citizens has in the government and it agencies.

5. Diplomatically, the issue of debt has made Nigeria to lost its glory within the International community, also it has made the foreign creditor to deny the Nigeria government further lines of credit. And had made the Nigerian International traders and mercantilists to be at the mercy of their foreign counterparts, most especially those from the Advanced Capitalist states.

6. That the Monolithic nature of the Nigeria economy i.e. over dependency on Oil revenue had contributed Immensely to the risen profiles of debt burden in Nigeria.

7. As a way out of these jeopardies, successive Nigerian government had uses one debt management strategy or the other, and the conclusion here is that indiscipline on the part of government, its agencies and the people lack of foresight nature of Nigerian, the inadequate and inappropriate policy articulation, bureaucratic bottleneck and adherence to textbook theories and solution instead of practical solution to the problem had been highlighted as part(s) of the militating factors against effective management of the external debt crisis, and the general workings of the economy.

8. External debt burden in Nigeria has slower the pace of industrialization and Investments in Nigerian. And to the fact that Foreign and local investors are always discouraged in investing into the Nigerian economy as a result of the unhealthy nature of the economy due to the risen external debt structure. The governments inability to manage it adequately and its disarticulate debt services programmes.

5.3 RECOMMENDATION

As earlier mentioned in out analysis, in general, the problems of Nigerian external debts and its management had created lot of dissatisfactions in our economy, and thus generated socio-political, economic, industrial, diplomatic and technological problems within the Nigerian economy and in her relations within the international system. And in order to solve these problems, it is recommended that;

a. The external borrowing should be the exclusive preserve of the federal government of Nigeria.

b. The political economy in practice in Nigeria is the major cause of our economic problems. In this regard, the government should set up a high powered committee embodied all sectoral representations in the economy to look critically at the political economy base for the new millennium.

c. Coupled with the above, there is a need for a detailed study of the various ramifications of Nigeria's external debt problems. Hence, A high powered

committee should be set up for this purpose.

d. Nigeria should now embark on a drastic improvement of its financial management practises.

e. Nigeria government and her concerned agencies should be very cautions when negotiating loans, (the should read through the line of contract statements before signing the agreement).

g. In line with the above, Nigeria now needs Nigerian professional debt negotiators to deal with the foreign banks, the international financial institutions and the creditor clubs of Paris and London. Instead of using inexperience and political office holder that knows little or nothing about the rudiment of financial and debt management.

h. All Un-refinanced trade arrears should be carefully examined to determined their authencities. Those on which any (lots of) doubt is found should be unilaterally discountenanced.

i. As it was highlighted earlier that external debt burden's risen profile was due to the increase in the value of foreign currency (dollar) tied to the loan, at present compared to when it was first contracted. Hence, it is posited that, monetary, fiscal and exchange rate policies adopted by the government must be periodical and concurrently reviewed and adjusted to the changing values at all times the need arises, and also be tailored to discourage import demand.

The raw material use for production in the economy should be source internally to a large extent in the medium term.

j. There is a need to establish a more prudent debt management strategy, in all types of debt. Hence external debt management should not be centralised and tied to a particular strategy. Each type of loan acquired (if possible) should be managed separately on case by case basis.

k. More awareness and education should be given to Nigerian government. her agencies its citizens, business and private organization etc on the need for effective management of resources and that loan so acquired for a particular purpose should be monitored. In order to make sure that the loans are used for the particular purpose it was contracted, and on scheduled which it was based.

l. To make this government agencies and apparatus works effectively, I recommends that some governments agencies (cooperation) eg as related to petroleum and gas production and distribution, power, telecommunication, transportation, industry, ports and airports, should all be privatised and commercialized for effective profitability.

m. As a diplomatic instrument, an effective image laundry and propaganda machinery should be instituted in our foreign offices via our economic attachees office to protects the images and interests of Nigeria in relation to her position on external debt and a accomplished investment opportunity.

n. In lieu of the fact that the seriousness of the problems of Nigerian external debt has now assumed a global dimensions, and tends to threaten the stability of the international monetary system, as well as undermine the standard of living of the citizens of Nigeria and the debtor Nations (most especially the LDCs) an international front of debtor nations should be formed to negotiate with the major creditor countries in order to liberalised lending laws, as well as reduce the servicing rate to an affordable level. The situation where a single debtor is made to face a group of creditor institutions should be avoided.

o. As always done by the Nigerian government in other international organization. Nigeria should take a brave step calling on other debtor nations to campaign vigorously for total cancellation of their debts. If possible, this should be christained "A new world order on Debt" and lastly

p. In view of the legal, socio-political and economic implication of Nigerian external debt generally, Nigeria should now seek how to convert its external debts into equity or otherwise, within the Nigerian economy.

If efforts are made to eliminate the short coming in our economic system identified above, the external debt problems would become more manageable.

SUGGESTION FOR FURTHER STUDY

The research thesis presented above has made an empirical study into the Nigeria external debt management. but in the course of our research, there are some things that puzzled us let look at the analogue below:

The management of external debts necessarily implies more rational utilization of earned foreign exchange. In this regards, an important trade off exists. Thus, if we employ a sizeable proportion of foreign earning to reduce foreign debt outstanding, other important national requirement in industry, agriculture, education, health and infra structural development may suffer.

Conversely, if we satisfy these basic domestic needs with foreign exchange earning while disregarding debt servicing, total values of our outstanding foreign debt increases as well as the proportion of future income stream. That has to be paid abroad as interest.

In this circumstances, an appropriate strategy to manage foreign debts should first pay attention to domestic needs after which residual foreign exchange may be employed to service foreign loans. This approach encourages growth of the domestic economy and facilities debt servicing later. Alternatively policy which put premium on debt servicing produces stagnation social unrest, and possibly political instability. Hence a maximum need for effective Debt management. But the question here is should debt management and Bargaining be done on individual debtor countries

basis? Do we need to borrow more to service our outstanding loan[illegible] we need to rationalise debt management? and what is the best debt management strategy for the country viewing it from the profile and courses of Nigerian debt burden?

Based on the above, I suggests that this unsettled questions should be the basis of further research(es) into the issues of external debt burdens in Nigeria.

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