NET-RESOURCE TRANSFER AND EXTERNAL DEBTS IN NIGERIA (1980-1996)

BY

SA'AD, SULEIMAN

M.Sc THESIS SUBMITTED TO THE POSTGRADUATE SCHOOL AHMADU BELLO UNIVERSITY, ZARIA, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE (ECONOMICS)

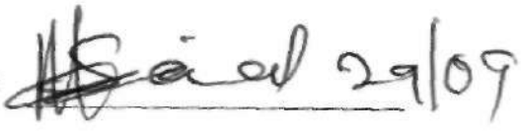
DEPARTMENT OF ECONOMICS
FACULTY OF SOCIAL SCIENCES
AHMADU BELLO UNIVERSITY, ZARIA

SEPTEMBER, 2000

DECLARATION

I hereby declare that, this work is a product of my own research and that no part thereof has been submitted by any body elsewhere for the award of any degree.

All materials consulted and references made are fully acknowledged by a way of bibliography at the end of the thesis.



SAAD, Suleiman

CERTIFICATION

This Thesis entitled NET RESOURCE TRANSFER AND EXTERNAL DEBTS IN NIGERIA (1980-1996), Written by Saad, Suleiman, meets the regulations governing the award of the degree of MASTER OF SCIENCE (Economics) of the Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

Dr. Enwere Dike (Associate Professor)
Chairman, Supervisory Committee

6/October 2000
Date

Dr. G.D. Olowononi
Member, Supervisory Committee

6/10/2000
Date

Dr. A.B. Eshiet
Head, Department of Economics

20. 3. 2001
Date

Dr. C.C. Okeke
External Examiner

Date

Professor Ojo
Dean, Postgraduate School

25/03/01
Date

DEDICATION

This work is dedicated to The AH LUL BAITIL RASUL.

ACKNOWLEDGEMENT

Glory is due to God, the Giver and Originator of Reasons, Ordained and instructor of Transmission. His are the grace and the night from Him are power and the strength. There is no God Save He, Lord of Tremendous throne. And may the peace and blessings of God be upon him in whom are established the signs of Guidance, whom He sent with the light by which He guides - and mislead whom He wills; and upon his noble family and pure companions until the day of judgement.

I would like to register my profound and unreserved gratitude to my able senior supervisor Professor Enwere Dike for his invaluable contribution to his work, without his cooperation this work would not have been a success. Also my second supervisor, in person of Dr. Gabriel Durojaye Olowononi (Alias Baba) I would like to extend my special "Thank you" for his indefatigable contribution to the work.

My thanks also goes to some staff of the Department of Economics such as Professor Mike kwanashie, Dr. A.B. Eshiet, Dr. Mrs P.S. Aku, Mrs. Pati Adagu, Abdulsalam, Ezra, Bulus, Usman also Mallam Yakubu and Adam.

KASHIM IBRAHIM LIBRARY

Among my colleagues within and outside the department I am very grateful to the following Shehu El Rasheed, Sanusi Aliyu, Abdul-Rasheed Zubaru, Ahmed Yusuf Hamisu Ya'u. Ali Musa Kunduri, Abba Buba Dr. Jibrin A. Jibrin and Bashir Babaji (Mai Anguwa),Salamatu Idris,Abdu Yaro(hadji uba

),Alhadji Musa Usman ,Garba Bare ,Hussaini Idris Aliu Zakaria,Mallam Baala Musa Yaya Ubandoma,Adulkarim Yunusa,Ismaail and Mustapha Ado, Kabir Sulei,AminuYakubu Funtua,Abdul Rasheed Ferouk,Dr Mahamed Katcha, Kano Man(Salisu) Dr Usman Musa ,Umar Katsayel,Aminu Usman,M.S Abubakar,Salisu Uli,Aminu Dalha,Narsiru Abubakar,Muhamed Magaji Hamisu Ibrahim Alfa Jimoh,Ibrahim Koko,Sani Usman (politician) Sani Maunde,Freed Ojiekpon,Abba Aminu ,Aminu El Rasheed,Hassan Adamu,(Sassakawa),Isa Imam,and Murterda Taha.

Finally, the members of my family I feel highly indebted to my uncles and brothers especially Professor Hamman Tukur sa'ad, Alhaji Mukhtar Idi, Dr. Amin Sa'ad, Alhaji Yusuf Idi, Amin Idi Mahmud Idi, Ibrahim Idi and finally Mahmud Musa, Amin Baboi and Mustapha Umar.

I pray to Almighty Allah to reward all of you abundantly Amin.

ABSTRACT

The growth of External debt and its consequences (Net resource Transfer) are among the complimentary factors responsible for the present economic crisis in Nigeria. This study was an attempt to study the dynamic interaction between this two complementary factors and their implication to the economic development of Nigeria. To this, both analytical and descriptive statistics were employed in the analysis. The study reviewed that the external debt grew from barely US $ 8.9 billion in 1980 to over US $ 29.019 billion in 1992 as a result of this the net resource transfer remains negative throughout the period except 1982 when positive transfer was witnessed.

The factors identified as responsible for poor performance of the economy during the period includes poor macroeconomic policy measures, coupled with external shocks especially oil shocks of early 1980s. Upon this background we recommended that Nigeria should embark on measures that can reduce our over dependence on foreign sources of financing our projects as well as boost our local revenues generation.

TABLE OF CONTENTS

	Title Page	1
	Declaration	ii
	Certification	iii
	Dedication	iv
	Acknowledgement	v
	Abstract	vi
	Table of Contents	vii
CHAPTER ONE		
1.0	Background of the study	1-2
1.1	Statement of Research problem	3-4
1.2	Objectives of the Study	4
1.3	Research Proposition/Hypothesis	5
1.4	Methodology of the study	5
1.5	Scope and Limitation	5-6
1.6	Structure of the study	6
CHAPTER TWO		
2.0	Profile of the Nigeria=s External Debts	7
2.1	Genesis of Debt Crisis in Nigeria	7-9

2.2	Factors that contributed in Nigeria debt crisis	9-15
2.3	Classification of Nigeria is external debt	15-18
2.4	Analysis of Debt data	19-41
2.5	External Debt Management in Nigeria	42-53

CHAPTER THREE

LITERATURE REVIEW

3.1	Theoretical framework	54-58
3.2	Empirical literature	58-77

CHAPTER FOUR

MODEL SPECIFICATION AND DISCUSSION

4.1	The Savings – Investment gap mold	78-80
4.2	The import - Export Gap	80-81
4.3	Net Resource Transfer Model	81-83
4.4	Data Analysis	84-94

CHAPTER FIVE

5.1	Summary	95-98
5.2	Conclusions	98-99
5.3	Policy Recommendations	99-101
	Bibliography	102-113
	Appendix	114-115

KASHIM IBRAHIM LIBRARY

LIST OF TABLES

Table 2.1. Total External Debt

2.2 Structure of the Nigeria=s External Debt

2.3 Armotization on the External Debt

2.4 Interest Payments on External Debts

2.5 Gross Disbursement on External Loans

2.6 Net Flows k on External Loans

2.7 Net Transfers on External Loans

2.8 Debt Burden Indicators

4.1. Import-Export/Savings-Investment Gap

4.2 Net Resource Transfers

LIST OF FIGURES

2.1 Total Nigeria's External Debt

2.2 Structure of Nigeria's External Debt

2.3 Armotization on External Loans

2.4 Interest Payments

2.5 Gross Disbursements

3.1 Mechanics of Petrodoller Recycling

4.1 Import-Export/Savings B Investment Gaps

4.2 Net Resource Transfers

CHAPTER ONE

BACKGROUND OF THE STUDY

There is no single event that has had greater significance in the global macro economic scene in the last three decades than the external debt crisis of 1980s The decade of 1980s has been described in economic literature as a "lost decade" in growth, or development). The external debt of the Third World, was recognised as a problem in the 1970s, if not earlier, but by the early 1980s the volume of money involved was such that the external debt of the major debtor nations was seen as a threat to the stability of the international monetary system, and, some feared, the potential cause of another 'Great Depression". The external debt crisis of 1980s can be ranked in significance with the Great Depression of 1930s in both international impact and policy significance (Blejer et al, 1991).

The external debt problems had been identified as far back as 1970s, a point already made. It was, however, given less attention as it was seen as a mere banking crisis, which would be overcome easily. Until the weekend of 12th August 1982, when Mexico, one of the major debtor countries, unilaterally declared to its international creditors that, it would no longer honour its debts service obligations the magnitude of the debt crisis was not appreciated. Between 1982 and 1985, no less than twenty debtor countries joined the bandwagon. Henceforth, the problem became a major focus of international attention.

KASHIM IBRAHIM LIBRARY

To this end, the international community embarked on a series of measures to overcome the problem at both international and national levels. Some of these measures include Structural Adjustment Programme, Initiatives reforms, 'Baker Plan,' "Brady Proposal' and debt rescheduling programmes. etc.

At the national level, in Nigeria for example, there had been series of economic policies and programmes put in place by different governments to solve the debt problems. The first attempt was the Economic Stabilisation Act of 1982, which did little to solve the problem. Then the government of General Buhari in 1984/85 came in with more stringent crisis management measures anchored on increased state regulation. Such policies included import control and counter trade policies. And finally, the Babangida government introduced in 1986 the Structural Adjustment Programme [SAP].

To some extent, the efforts both at national and international levels to contain the threat to a global banking crisis appeared to have been successfully achieved at least until now. However, the Third World debtor nations continued to stagnate under the burden of external debt servicing obligations, which was identified as among the factors militating against the rapid economic growth and development in the third world countries. Riley, (1989) pointed out that, by 1980s the poorer debtor states were making substantial debt repayments even in times of famine: for every one pound given in famine relief in 1980s, the west reclaimed some two pounds in debt repayments.

Despite the adverse effects of the debt crisis on the Nigerian economy, the economic dimension of the debt crisis remains inadequately explained and vaguely understood particularly by Nigerian audience. Nigeria's external debt crisis continues to remain an important issue among the relevant areas of academic research. This study is therefore an attempt to add to the existing literature.

1.1 STATEMENT OF RESEARCH PROBLEMS

By the mid - 1980s it has become clearly obvious that the Nigerian economy had begun to under go another round of economic decline (Olukosi, 1991). The inflow of foreign exchange into the country declined, the foreign reserves dropped drastically from N4.4 billion at the end of 1980 to N0.56 billion in 1984 (CBN, 1996). The inflow of foreign capital also declined. The manufacturing sector of the economy was producing below capacity level. High rates of unemployment in all sectors of the economy and the scarcity of basic necessities were experienced. The external debt burden continued to increase from N2, 178.4 million to N38, 394.409 million between 1980 and 1996 (CBN, 1994). That put much pressure on the economy in the form of meeting the debt servicing obligations and domestic needs (such as import). Hence, Nigeria transferred more resources abroad in the form of debt-servicing obligations, repatriation of profits by multinational corporations capital flight and other forms of "underground" leakage from the economy than the inflows it receives from outside. For example in 1987, foreign exchange inflows into the economy stood at US $2.793 billion, the outflow from the economy amounted to U.S. $4,025 billion (Citicorp, 1987). This gave the negative net resource outflows of U.S. $1,232.0 billion. During the past two decades, the high rates of debt servicing remains as one of the factors hindering the rapid economic development in Nigeria. For example, between1982 and 1987, the sum of N3, 700.00 million and N408.00 million was allocated for debt servicing in Nigeria (CBN, 94). This acted as a tax on future output, discouraging domestic productive investment plans of the private sectors and adjustment efforts of the government.

In addition, there was low level of domestic savings and investment and high rate of capital flight. As Ajayi (1990) pointed out the consequence to foreign

borrowing when he stated that, the residents of a country are forced to transfer their financial savings abroad in the form of debt service at the expense of domestic productive investment.

The above problems, therefore, raise some fundamental questions:

What are the causes of the debt crisis in Nigeria?

Has the amount of resources committed annually to debt servicing actually reduced the debt burden?

How effective have the debt management strategies adopted so far helped in solving debt problem in Nigeria?

This study seeks to provide answers to these questions and many more.

1.2 OBJECTIVES OF THE STUDY

The broad objective of this study is to analyse the causes and effects of external indebtedness in Nigeria from 1980 to 1996. The specific objectives are:

1. To analyse the causes of external debt accumulation and servicing difficulties in Nigeria between 1980 and 96
2. To analyse the various debt management policies adopted by successive governments and the impact of such policies on the debt crisis
3. To estimate the magnitude of annual net resource transfer in Nigeria during this period.

1.3 RESEARCH PROPOSITIONS/HYPOTHESES

i. Nigeria has suffered from a negative net resource transfer since 1980 as a result of the debt burden

ii. On the other hand, this negative net resource transfer is feeding into the debt crisis. In sum, both the debt crisis and the negative net resource transfers have dynamic interactions.

1.4 METHODOLOGY OF THE STUDY

1.4.1 Sources of Data

The study will use the time-series data obtained from secondary sources. The data will be sourced from CBN annual reports and statements of accounts, statistical bulletin, financial and economic reviews and publications from the Office of Statistics such as Statistical Abstracts. We shall also make use of World Bank Publications such as World Development Reports. Discussion papers, World Debt Tables, African Economic Indicators and other relevant textbooks and journals from the library will also serve as sources of data.

1.4.2 Techniques of Analysis

The study used both descriptive and analytical tools of analysis. Within descriptive statistics, we used graphs and charts to display the debt burden indicators, the debt ratios and some macroeconomic indicators during the period. Within the analytical tools of analysis we employed quantitative methods as specified in the models to calculate the saving – Investment gap, export-import gap and the annual net resource transfer.

1.5 SCOPE AND LIMITATIONS

The study covers the period of sixteen years, 1980 to 1996. This period covers the beginning of the international debt crisis, which was also the beginning of the present economic crisis in Nigeria. It also covers the period of the Economic Stabilisation Act, through the period of the Structural Adjustment Programme and the post-adjustment era in Nigeria. The adjustment era in Nigeria covers 1986 – 1994; thereafter, the post-adjustment era begins. The period is wide enough to give a clear understanding of both positive effects and negative consequences as well as

the relative effectiveness and otherwise of the policies adopted during the period. This study is specifically restricted to Nigeria only.

The obvious limitation of this study is the wide disparity between the World Bank and CBN statistics on Nigeria's external debt. To lessen the problem, we resort to use only World Bank statistics. Unless where we cannot get data on a specific variable in the World Bank Statistics, then we shall make a substitute with the CBN statistics

1.6 STRUCTURE OF THE STUDY

This study is divided into five chapters; Chapter One contains the introduction of the study, statement of problems, objectives scope and limitations. Chapter Two contains a profile of Nigeria's external debt, causes of the debt crisis and an analysis of various policies adopted to solve the problems between 1980 and 1996. Chapter Three has the theoretical frame work and literature review. Chapter Four contains the model specification and discussion, data analysis and interpretation of result. Chapter Five contains summary, conclusions and policy recommendations.

KASHIM IBRAHIM LIBRARY

2.0 Profile of the Nigeria's External Debts

2.1 THE GENESIS OF THE DEPT CRISIS IN NIGERIA

"If there is any one area in which Nigerians have demonstrated unrivalled dexterity in economic management it is in their capacity to borrow and to spend. Indeed, so talented have they been, that they would even borrow to pay outstanding debts" (Ikara, 1988).

The history of external debt in Nigeria predates its "political" Independence. During the colonial era, most development plans were partly financed through external loans. For example, in 1958 the sum of US $28 million was contacted for railway construction. In the initial stage, he amount borrowed was quite modest. Even after the Civil War the level of Nigeria's external debt outstanding was relatively low at N488.8 Million (CBN, 1980). At that level, the external debts constituted on 9.2 percent of the GDP. The External Loans (Reconstruction, Rehabilitation and Development) Decree of 1969 sanctioned the raising and use of external loan not exceeding one billion Naira for reconstructing and rehabilitating and development of the Civil War ravaged areas (laws of the Federal Republic of Nigeria, 1985). Between 1970 and 1977, Nigeria's outstanding external debt was less than N500 million on an annual basis and the debt service ratio averaged 1.4 percent per annum (CBN, 1985). Thus, Nigeria remained largely "under borrowed" throughout 1970s relating to the high absorptive capacity of the economy. During that period the country received large inflows of foreign exchange through the sale of Crude Petroleum Products. During the period of the "Oil Boom" the level of outstanding external debt was not only relatively low but was restricted to bilateral and multilateral loans. Such loans were usually provided on concessionary or "soft term" basis. Thus, debt servicing did not constitute any serious problem to Nigeria.

A turning point was however reached in 1978 as the "Oil Boom" collapsed and oil glut surfaced. The pressure on government finances led to the first borrowing of a "Jumbo" loan of US $1.1 billion from the International Capital Market for balance of payment support (Irefin 1990). Being a loan from private sources, it attracted higher rate of interest and a shorter maturity period. At the end of 1978 the level of total outstanding debt Nigeria owed increased more than two folds from that of the preceding year. Since then, many more loans have been raised from private capital market as funds from bilateral and multilateral lending institutions dwindled. This caused a remarkable shift in the structure of outstanding debt and consequent increase in the debt burden.

Between 1979 and 1983, there was an indiscriminate resort to external borrowing ostensibly to finance projects. The result was a multiple increase in the level of outstanding debt. More over, due to the sharp decline in foreign exchange earnings brought about by the adverse development in the World Oil Market, Nigeria started to incur more payment arrears from 1982. The arrears increased from N1981.7 million in 1982 to N12, 279.7 million at the end of 1986 (CBN, 1996).

A particular unwelcome development between 1979 and 1983, was the indiscriminate way in which some state government resorted to borrowing from external sources to finance all sort of projects. Such loans did not bear the federal government's guarantees and usually borrowed at high interest rate from international capital markets.

The increased level of debt coupled with the harder borrowing terms

meant that an increasing proportion of exports earnings was aside to meet the debt service payments. Thus between 1978 and 1983 the annual average debt service payment increased to N513.8 million and further increased to an average of N2, 953.6 million between 1984 and 1986. As a proportion of Nigeria's earnings, debt service payments increased from 0.7 percent in 1980 to 33.2 percent in 1986 (CBN, 1996).

The external debt problems of the past few years should therefore be seen in the context of the costs, which the debt servicing imposed on Nigeria. Moreover, the accumulation of arrears has seriously impaired the country's international credit worthiness thereby making it difficult to secure an additional line of credit.

2.2 Factors that contributed to Nigeria's External Debt

There are quite divergent views among scholars on the general causes of external debt crisis in Nigeria. Some attributed the cause to the workings of the international economy, while others to purely domestic macroeconomic policy failures. What ever is the cause of the debt crisis in Nigeria, Nigeria has found herself in an unfortunate situation. It is therefore instructive to look at some of the factors that contributed to the crisis as well.

2.2.1 Declining Export Earnings

According to Adedeji (1984), Africa's external indebtedness crisis is measured in terms of debt servicing capacity crisis because the world economy is facing crisis. Thus, the debt servicing requirements coupled with low levels of economic growth, particularly the national income and export revenues led to structural disequilibrium in Nigerian economy during the past two decades. This

structural disequilibrium between import requirement and export earnings compelled Nigeria and indeed, many other LDCs to resort to external borrowing.

During the 1970s and early 1980s the main source of Nigeria's foreign exchange earnings was from the proceeds from the sales of crude oil. The impact of the oil revenue boom of the 1970s and 1980s made Nigeria even richer and the crux of the focus of economic activities. Unfortunately the bulk of the revenues were used for the importation of manufactured goods, consumer goods and armaments, often at highly inflated prices. Instead of embarking of productive agricultural and growth oriented industrial activities, so long as the oil revenue remained sufficiently high, this unproductive accumulation process could continue unabated. However, the oil glut of 1980s brought the production levels and prices down. Nigeria 's production dropped from 2.085 millions of barrels per day (mbd) in 1980 to approximately 1.36 Mbd and the price per barrel (pb) dropped from US $55.2 in 1980 to US $28Pb in 1984,this scenario reflected a decrease in export receipts which were then reduced from N12.8 billion in 1980 to N7.5 billion in 1983 (World Bank, 1993).

In contrast, the import increased from the 1979 levels of N7.1 billion to a peak of N11.3 billion of oil glut between 1981 and 1982 this resulted to a current account deficits of N12.0 billion (Rimer, 1988). This deficit was financed by foreign borrowing, running down foreign reserves and accruing large trade arrears. The accumulation of arrears was primarily caused by the failure of government to respond swiftly to the oil production slumps of 1981 and the inability to reduce the imports quickly enough. Thus government acted in April 1982 (with the promulgation of the stabilisation Act), when the foreign exchange reserves had

already declined to little more than U.S and 1 billion. The CBN had little choice but to ration its foreign exchange approvals in accordance with the available income, and therefore "forcibly" borrowed the difference from the suppliers and banks, which had issued letters of credit. By allowing these arrears to accumulate, Nigeria further dented its credit standing in the international markets.

The fears for the continuing weakness of the oil market and lack of control overstretched borrowing. As Terter (1984) observed, that the intensification of problems in 1982 was primarily as a result of the effect of global recession from 1980 to 1982, the second oil shock in 1979 and adverse psychological shocks to financial markets caused by problems of some few individual countries.

For non-oil LDCS the total external debt by the end of 1982 reached approximately U.S $ 500 billion while the estimated total of five OPEC countries (with Nigeria inclusive) added another U.S. $ 30 billion between 1973 and 1983. The external debt for non-oil developing countries rose to an annual rate of 19%. The commercial bank's financing which had accelerated in the 1970s averaging an increase of 23% between 1976 and 1980 to 20% in 1981 and 100% in 1982. For LDCs slowdown was even more dramatic as commercial bank's lending came to an abrupt halt in the third quarter of 1982, following the Mexican default.

2.2.2 Fiscal and Monetary Policy Failures

Fiscal and monetary policies of a country have a tremendous impact on its indebtedness. This area covers the exchange rate and debt management policies. For instance, in the early 1980s, the domestic economic situation deteriorated and balance of payment began to worsen (rising current account deficit and decline in

reserves), with output and exports declining, reserves almost exhausted and debt servicing obligation increased. Nigeria's foreign exchange reserve fell drastically from U.S. $ 8.5 billion at the end of May 1981 to about U.S.$ 85 billion in December 1981 (Citicorp 1987). The total value of external debt roses from U.S $ 500.7 billion in 1970 to U.S. $ 12.086 billion in 1981 (CBN' 96) Thus, Nigeria's foreign exchange resource continued to be insufficient even to maintain the existing level of annual growth rate. Hand in hand with the depleting value of foreign resources and escalating value of foreign debt, both monetary and exchange rate policies of Nigeria did not respond quickly enough to reflect the external value of Naira at the time of drastic decline in the flow of resources from the depressed oil market. The prevailing exchange rate was U.S $ 1.2/ N1, thus Naira was grossly over valued and this created severe pressure on Nigeria's external sector.

There was a large Naira bank which at the existing rate of exchange made it possible for individuals, corporations and even government officials to incur foreign obligations which the country's resources could not sustain and this led to the accumulation especially of short term trade arrears which were unplanned. The over valuation also gave great incentives to leakage and capital flight, which substantially dwindled away, the already depleted foreign exchange earnings.

Among others, the rationale for loan acquisition should normally be for supporting the developmental activities and correcting the balance of payments disequilibrium. In deciding the optimal levels of commitments, it is expected that, a carefully planned schedule of acquisition deployment and retirement of such loans be prepared. Moreover good estimates as well as projected returns on

investments to be financed with a loan are required. All these help to determine the ability of a country to service the existing loans and the desirability or otherwise of contracting new loans.

In the Nigeria context particularly between 1980 and 1983, there was general lack of consideration for those factors. As Quentin (1984) observed, other priorities of 1970s and 1980s have also resulted to accumulation of debts without generally any additional income to finance them. For example, the River Basin Authorities and steel projects have absorbed disproportional amount of money for their capital-intensive irrigation scheme with little returns.

Another area in which Nigeria has shown gross mismanagement of external debt is the nature of debt contracted and the terms of the loans.

2.3.3 Financing Long Term Projects with Short/Medium Term Loans

The structure of Nigeria's external debt especially around 1980s and 1990s was in favour of short and medium term loans.

From 1978 when the government borrowed US $1.1 billion from International Capital Market (ICM) that attracted high rate of interest onward, the bulk of the loan borrowed were from ICM such as Paris and London Clubs. For example, as at the end of 1996 out of US $31.407 million total stock of external debt Nigeria was owing, US $18,334.32 billion was on non-concessional owed to Paris Club only and US $4,402.27 billion was owed to multilateral concessional creditors (World Bank). Most of these loans were drown to finance long term projects some of such projects include the Steel Project at Ajaokuta and Aladja and the Aluminium Smelter Project among others. Unlike others loans from

ICM's have relatively shorter grace period and amortisation period of between 5 and 8 years. In other words, in the case were the projects are self-financing, they were hardly completed when the amortisation become due. Consequently, a situation of debt service bunching resulted with compounded debt problem. This phenomenon is not peculiar to Nigeria alone as Terter (1984) observed another disconcerting trend in developing countries debt has been the increasing share of short-term debt. Short-term debt rises from 8.7 percent in 1973 to almost 20% in 1982, showing a rise to a new plateau after each oil shock.

2.3.4 Large Scale Corruption

This is another fundamental factor that led to the present debt crisis in Nigeria. A lot of foreign debts were contracted in a fraudulent manner especially during the civilian regime which connives with the international commercial bank to inflate the value and debt as Olukoshi (1989) pointed, foreign banks suppliers, MNCS, Local Companies Official of the Central Bank and commercial banks and custom department colluded to transfer huge sums of money abroad. This is a fact which was brought to light in 1984 by the collapse of the Johnson Mathley bank (JMB) during which it was alleged that the bank had taken part in the inherent country's import dependent industrialisation process and irregular transfer of US $6.2 billion from Nigeria (Times, 1984). As Quetin (Ibid., p.28) noted other aspects of corruption in Nigeria's long term borrowing is the way in which the rules have been violated over the years by both International Commercial banks and the Nigerian authorities. One trick in recent years has been to finance 100% of the cost of a particular project with foreign borrowing although part of the cost would obviously be spent only in Naira (Local labour and raw material for example). The portion of the loan not tied to procurement of imported goods

relay amounted to disguised balance of payments loan rather than project finance. Despite these anomalies, for quite a long times foreign banks were prepared to go along with the deceit.

Nigeria was also found guilty of wasting enormous amount of resources without considering the prevailing economic condition facing the country. Nigeria is administered exclusively, inefficiently, corruptly and often ineffectively. Certainly all these are well documented in the falling of the Second Republic. Corruption became so pervasive that during the fall of the Second Republic the NET building (the tallest building in Africa) the Ministry of External Affairs and the Accounts Section of the Federal Capital Development Authority (FCDA) were burnt apparently to conceal widespread frauds.

The other aspect of the causes of debt crisis in Nigeria has been the soaring foreign borrowing of individual state government during the civilian government, which has to be properly quantified. By 1982 the states were estimated to have borrowed more than US $5.6 billion, almost 40 percent of the outstanding foreign debt owed by Nigeria then (World Bank, 1983).

Finally another factors worth mentioning include low savings propensities, exchange rates fluctuations especially the value of the United State Dollar vis-à-vis other major European currencies as well as the diversion of the loan proceeds to other uses.

2.4 CLASSIFICATION OF THE NIGERIAN EXTERNAL DEBT

There are different ways in which external debt can be classified. First

classification is on the basis of the status of the donor, generally divided into private and official debts. Official debts are those obtained from national governments or their agencies or from international agencies like the World Bank and the IMF. Private debts on the other hand, consist of those obtained from private creditors include the Euro dollar loans, suppliers credits and loans from private commercial banks.

Another classification is the maturity structure of the external debt whether they are short, medium or long-term loans. Short-term loans are those with original maturity period of one year or less. Medium term loans covers the period between two to five years. While long-term are those with the maturity period of ten years and above. The long-term loans are further sub-divided into publicly guaranteed and privately guaranteed external debt. Publicly guaranteed external debt is usually defined as external debt obligation of a private debtor, which a public entity (e.g. government) guarantees for payments. While the privately guaranteed are private bodies guaranteeing those debts.

As rightly pointed out, at the beginning of the chapter Nigeria's external borrowing predates its political independence from 1958 when the sum of US $28 million was contracted for railways construction up to late 1970s, Nigeria did not resort to much borrowing from external sources. The reason might not be unconnected with the oil revenue boom of early 1970s, which fetched the federal government sufficient foreign exchange to meet its obligation. Even after the Civil War, by 1977 the level of Nigeria external debt outstanding N488.8million (Helleiner, 1989) was relatively low when compared to Nigeria annual income form petroleum. Thus, external debt constituted only a small proportion of (9.2%)

% of the CODP. Worth noting is the fact that all loans contracted during the period before 1978 were on concessionary terms of up to 50 years maturity period and they attracted lower rate of interest from bilateral and multilateral sources. These loans constituted about 75% of the total debt stock (world Bank, 1996).

As period of oil boom receded it marked the entrance of Nigeria into the league of borrowing nations of sub-Saharan Africa. This was the period when Nigeria contracted in 1978 a loan of U.S $ 1.1billion from the international capital market to support balance of payment. Thereafter the spate of borrowing from private sources increases with the entry of the state government into external loan contractual obligations. While the stock of loans from multilateral and bilateral sources declined substantially, borrowing from private sources at stiffer rates increased considerably.

By 1985, the total debt outstanding stood at U. $18,904 million of which U.S $ 7,833 million was owed to Paris club, U.S. $ 3, 506 million to London Club, while U.S $ 4,255 million to multilateral and bilateral sources and U.S $ 1,939 million as promissory notes (CBN, 1996).

As at December 1994, private debt (London Club and promissory notes) outstanding amounted to U.S $ 524 billion or 17% of the total debt stock of U.S $ 29.043 billion. The debt is broken down in U.S $ 2.06 billion to London Club and U.S. $ 3.18 billion as uninsured short-term trade arrears. At the same time, the official debt (Paris Club multilateral and other non-Paris club creditors) stood at U.S $ 24.190 billion. Which accounted to 82% of the total debt stock. The Paris Club alone totalled US $18,033 billion representing 62.23% of the country's total

debt stock, the multilateral debt accounted to $4,040 billion or 15% while the non-Paris Club bilateral debt amounted to US $1,046 billion or 5 percent (CBN, 1996).

As at the end of the year 1996, the profile of the external debt structure revealed that out of US $31,043 billion owed, US $13,222 billion or 42% was owed to non concessional bilateral creditors (Paris Club) and US $929.0 million to concessional creditors. The World Bank debt amounted to US $425 million or 2 per cent, and US $4.068 billion or 13% to other multilateral concessional and non concessional creditors respectively other non-Paris Club private creditors debt amounted to US $7.086 billion or 23%.

A critical examination of the structure of Nigeria's external debt from 1970s to 1990s showed that during the early stages of 1970s the "Oil boom" period, the bulk of the loan were owed to multilateral concessional creditors such as the World Bank and the amount was insignificant, in fact Nigeria was grossly "under-borrowed" during that period.

From 1978 when Nigeria first contracted a loan from ICM to date, the structure had changed dramatically. Hence, a shift from multilateral concessional creditors (such as the World Bank) to private non-concessional creditors (such as Paris Club).

2.4.1 Analysis if Debts Data

Table 4.3 shows the total external debt stock of Nigeria with its rates of growth and percentage change between 1980 and 1996. All are calculated in millions of US dollars (current prices and exchange rates).

The stock of external debt stood at US $8.9 billion in 1980. It moved upward to US $12,954 billion, US $18,537 billion and US $19,551 billion between 1982, 1984 and 1985 respectively. From US $30,122 billion in 1989 and US $35,527 billion in 1991, the external debt stock however declined to US $29,019 billion in 1992. This is as a result of the successful rescheduling of the London Club debt (CBN, 1996). The debt however gradually rose to US $30,699 billion and US $34,093 billion in 1993 and 1995, this was largely as a result of capitalisation of unpaid interest and accumulation of arrears (CBN, 96). It can be observed that the growth of the debt was particularly severe between 1985 and 1995 with an average increase of 7.6% per annum (Table 4.3). This increase could be attributed to some number of factors: First, during that period, Nigeria was able to enter into some agreements with its major creditors for rescheduling of its debt service payments and obtain some additional loans under the Baker and Brady Plans. In 1988 the World Bank provided Nigeria with a Trade Policy and Export Development (TPED) loan of US $452.0 million a Trade and Investment Policy (TIP) loan of US $500 million was also provided. Also in accordance with the Baker Plan, in December 1986 the Paris Club rescheduled the payment of Nigeria's external debt amounting to US $900 million to 1997 (Fashanu, 1995).

TABLE 2.1 TOTAL EXTERNAL DEBTS FOR NIGERIA
Millions of US Dollars (Current Prices and Exchange Rates)

Year	(Total External Debt)	(Growth in External Debt)	% Change
1980	8,934	-	2.08
1981	12,136	35.8	2.83
1982	12,954	6.74	3.02
1983	18,540	43.12	3.16
1984	18,537	-0.016	4.32
1985	19,551	5.47	4.56
1986	24,043	22.98	5.61
1987	29,021	20.71	6.77
1988	29,621	2.067	6.91
1989	30,122	1.69	7.03
1990	33,440	11.015	7.80
1991	33,527	0.26	7.82
1992	29,019	-1.345	6.77
1993	30,699	5.79	7.16
1994	33,092	7.79	7.72
1995	34,093	3.025	7.95
1996	31,407	-7.88	

SOURCE: CALCULATED FROM AFRICAN DEVELOPMENT INDICATORS 1997 THE (WORLD BANK)

However, the increase in the stock of external debt between 1987 and 1992 was accompanied by a remarkable increase in the general performance of the economy for example the rate of growth of the GDP increased from N68.9 billion in 1985 to N70.7 billion and N94.6 billion between 1987 and 1991 (CBN, 1996). As Ashinze et al (1996) observed, the positive contribution of external debt to growth between 1988 and 1992 could be explained partly by the policy of SAP adopted by the government during which foreign capital were not just targeted at productive sectors but were also monitored by their donors. Evidence showed that most of the foreign resources inflows within that period were utilised largely in financing foreign exchange market (FEM) and especially imports which translated into increased economic activities and contributed to positive growth in the

economy. According to the World Bank (1996) the launching of the Adjustment in 1986 corrected a number of policy distortions. In response output and real per capita consumption expanded Nigeria's GDP grew at an annual rate of 3.5% and total manufacturing output at average of 5% per annum between 1987 and 1992 (see fig 4.3).

A number of structural characteristic were exhibited by Nigeria's external debt, especially with respect to its composition and terms of payments (Table 4.4) shows the composition of Nigeria's external debt between 1980 and 1996. Private debt was 70.5% in 1982 while long-term official concessional debt was 7.6% and concessional loans constituted 3.5%. In 1987 the use of official non-concessional loans increased to 37.8% while loans from private sources declined to 55% and official concessional to 1.6% during the same period. Between 1989 and 1996 the use of external debt from private sources declined considerably while sources from non-concessional official and official concessional long-term maintained an upward trend. During the period the private loans declined from 49.7% in 1989 to 22.6% in 1996. Official non-concessional loans increased from 47% in 1989 to 58% in 1996 and official-concessional rose from 1.5% in 1989 to 43% in 1996 (as indicated in fig. 4.4).

TABLE 2.2 :STRUCTURE OF EXTERNAL DEBTS

In Millions of US Dollars (Current) prices and Exchange Rates)

YEAR	TOTAL DEBT STOCK	LONG TERM OFFICIAL NON-CONCESSIONAL	RATE OF GROWTH	% OF TOTAL DEBT STOCK	LONG TERM OFFICIAL CONCESSINAL	% OF TOTAL DEBT STOCK	RATE OF GROWTH	LONG TERM PRIVATE	RATE OF GROWTH	% OF TOTAL DEBT STOCK
1980	8,934	461		5.16	544	6.09		4,376		48,98
1981	12,136	613	32.97	5.05	488	4.02	-10.29	6,608	51.01	54.45
1982	12,954	851	38.83	6.57	437	3.37	-10.45	9,131	38.18	70.488
1983	18,540	1,473	73.09	7.94	460	2.48	5.26	11,547	26.46	62.28
1984	18,537	1,616	9.71	8.72	410	2.21	-10.87	10,766	-6.76	58.09
1985	19,551	1,762	9.03	9.01	450	2.30	9.76	12.344	14.66	63.14
1986	24,043	8,441	379.06	35.11	552	2.29	22.67	11.331	-8.21	47.13
1987	29,021	10,970	29.96	37.80	449	1.55	-18.66	16,034	41.51	55.25
1988	29,621	10,332	-5.81	34.88	439	1.48	-2.28	17,303	7.91	58.41
1989	30,122	14,234	37.77	47.25	442	1.47	0.68	14,981	-13.42	49.73
1990	33,440	16,484	15.81	49.29	521	1.56	17.87	14,928	-0.35	44.61
1991	33,527	18,191	10.36	54.26	961	2.87	84.45	13,516	-9.46	40.31
1992	29,019	17,355	-4.60	59.81	972	3.19	1.15	8,482	-37.24	29.23
1993	30,699	17,153	-2.19	55.87	1,094	3.56	12.55	8,496	0.17	27.68
1994	33,092	18,521	7.98	35.97	1,290	3.89	17.92	8,455	-0.48	25.55
1995	34,093	19,115	3.21	56.07	1,377	4.04	6.74	7,949	-5.96	23.31
1996	31,407	17,291	-9.54	55.05	1,354	4.31	-1.67	7,086	-10.86	22.56

SOURCE: CALCULATED FROM AFRICAN DEVELOPMENT INDICATORS 1997 WORLD BANK

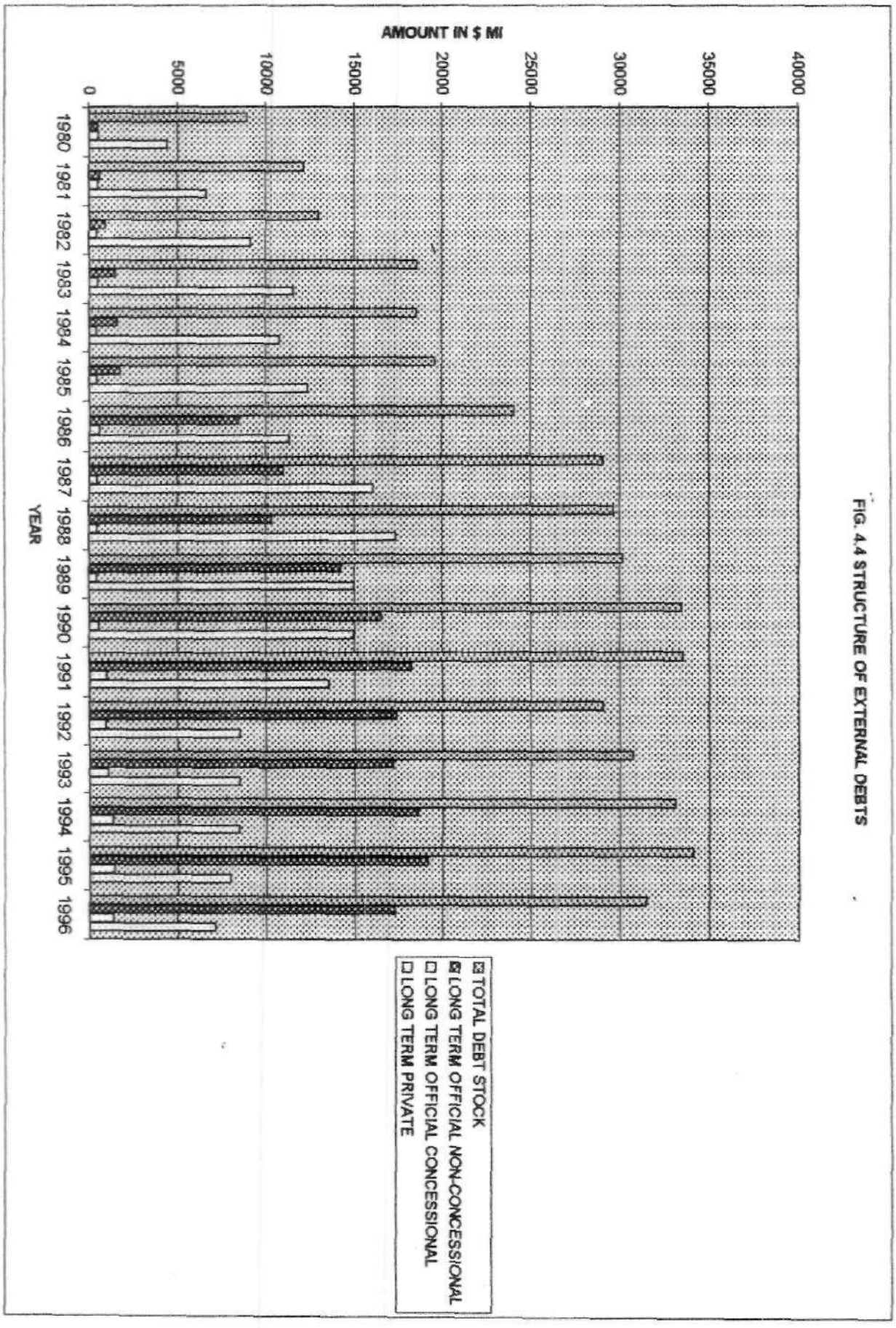


FIG. 4.4 STRUCTURE OF EXTERNAL DEBTS

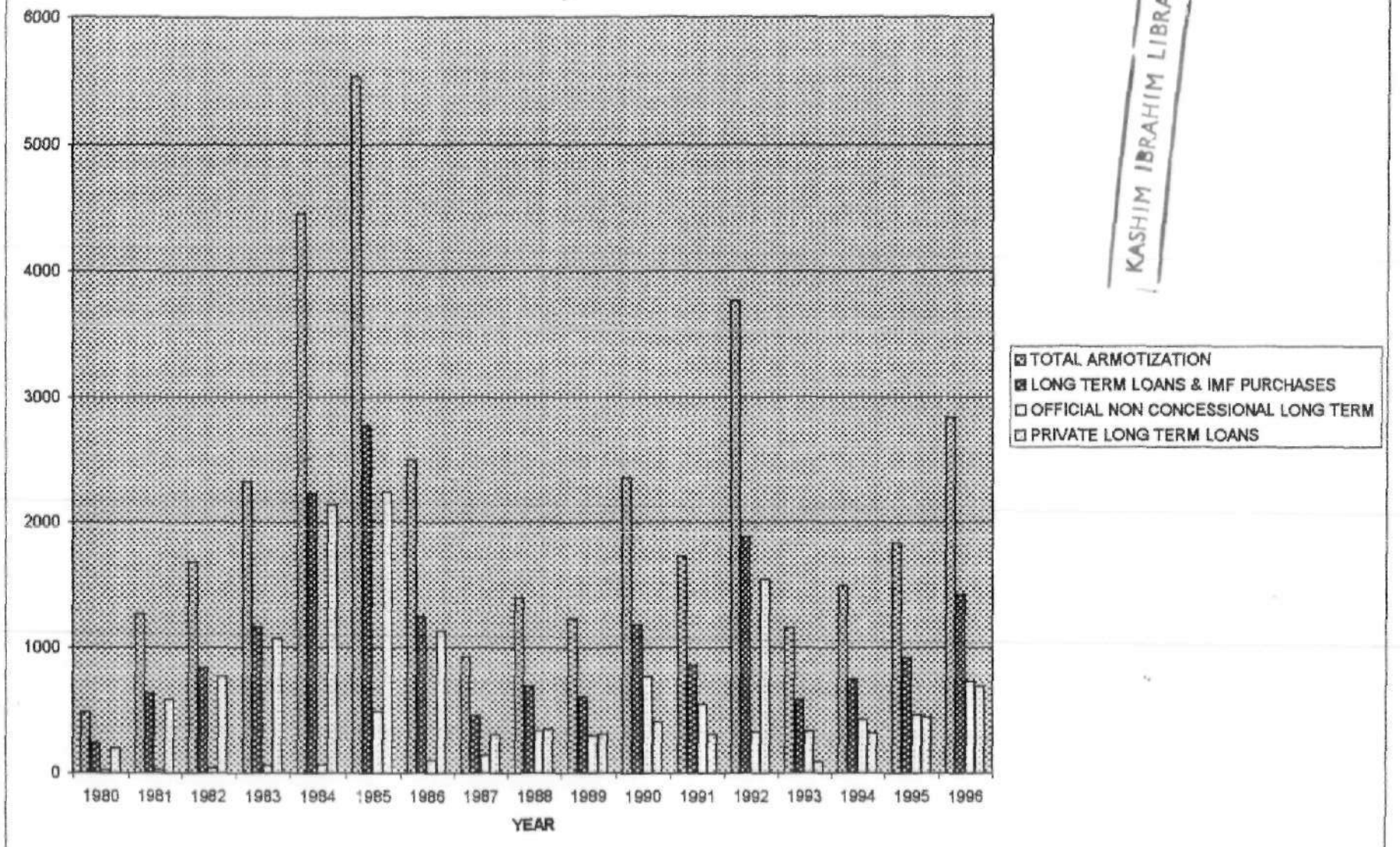
The above result showed that Nigeria found the private and non-concessional sources to be more convenient and attractive to borrow from at floating interest rates despite the economic implications of such loans. One major economic implication of such loans is that the debt contracted through the private sources attracts higher rate of interest and shorter maturity period Ajayi, (1991) pointed out the implication of borrowing from private sources. According to him "one macroeconomic implication of rising external debt contracted on floating rates is ever-rising debt service this will have serious implications on resources use and hence on growth".

TABLE 2.3: AMORTIZATION ON EXTERNAL LOANS

YEAR	TOTAL ARMOTIZATION	LONG TERM LOANS & IMF PURCHASES	% OF TOTAL	OFFICIAL NON-CONCESSIONAL LONG-TERM	% OF TOTAL ARMOTIZATION	PRIVATE LONG TERM LOANS	% OF TOTAL ARMOTIZATION	OFFICIAL CONCESSIONAL LONG-TERM	% OF TOTAL ARMOTIZATION
1980	485	242	49.90	25	5.154	197	40.61	21	4.33
1981	1,268	633	49.92	27	2.13	586	46.21	22	1.74
1982	1,681	841	50.03	39	2.32	771	45.87	30	1.78
1983	2,324	1,162	50.00	60	2.58	1,074	46.21	28	1.20
1984	4,450	2,225	50.00	67	1.51	2,136	48.00	22	0.49
1985	5,535	2,768	50.09	490	8.85	2,242	40.50	35	0.63
1986	2,490	1,245	50.00	101	4.06	1,128	45.30	16	0.64
1987	922	459	49.78	145	15.73	313	33.95	5	0.54
1988	1,392	692	49.71	334	23.99	351	25.21	15	1.08
1989	1,227	607	49.47	296	24.12	310	25.26	14	1.15
1990	2,360	1,180	50.00	767	32.05	406	17.20	7	0.30
1991	1,724	862	50.00	547	31.73	313	18.16	2	0.12
1992	3,756	1,878	50.00	331	8.81	1,546	41.16	1	0.03
1993	1,158	579	49.74	328	28.32	89	7.69	162	13.99
1994	1,492	746	50.00	429	28.75	316	21.18	1	0.07
1995	1,836	918	50.00	468	25.49	448	24.40	2	0.11
1996	2,837	1,418	49.98	727	48.66	690	24.32	1	0.04

SOURCE: CALCULATED FROM AFRICAN DEVELOPMENT INDICATORS 1997 WORLD BANK

TABLE 4.5: AMORTIZATION ON EXTERNAL LOANS



KASHIM IBRAHIM LIBRARY

Table 4.5 showed principal payments (Amortisation) on external debt contracted to various creditors for the period under review 1980 to 1996. The data reflect the trend in Table 3 and Table 4 above in which private and non-concessional creditors obtained a larger proportion of the annual principal payments. Between 1980 and 1996 the amount of principal payments showed that long-term non concessional creditors and IMF purchases maintained the rate between 49 and 50% of the total principal payments. The share of private creditors fluctuated between the ranges of 25% and 46% between 1980 and 1989. In 1990 it declined to 17.2% from the 1989 rate. By 1992 the rate increased to 41.2% and then declined to 7.7% in 1993 then increased to 24.3% in 1996. The long-term concessional loans fluctuated from the period 1980 to 1998 between 1.5% and 9%. It then rose to 16% in 1987 further rising to 32.5% in 1990 and then declined to 8.8% in 1992 and finally increased sharply to 48.7% in 1996 (as depicted in fig 4.5).

Table 4.6 depicts the annual interest paid to various creditors based on the magnitude of the debt. Interest has a direct relationship with the level of total indebtedness. Debts from private and non-concessional sources attract higher rate of interest and therefore, results in a more severe debt burden than debts from multi-lateral sources. The amount of interest paid during the period (1980 – 1995) maintained an upward trend from US $1,444 million in 1980 to US $3.035 million in 1985 (Table 4.6). The rate then declined between 1986 and 1987 to US $1,254 million. It however, increased to US $4,137 million in 1991, and then dropped to US $1,774 million in 1995. The reason for the decline in the interest payment between 1986 and 1989 was due to some agreements reached between Nigeria and its major creditors for debt rescheduling and waivers on some of the debts under

TABLE 2.4: INTEREST PAYMENTS ON EXTERNAL LOANS IN MILLION OF U.S. DOLLARS

YEAR	TOTAL INTEREST PAID	OFFICIAL CONCESSIONAL	% OF TOTAL INTEREST	SHORT-TERM LOANS	% OF TOTAL INTEREST	LONG TERM AND IMF CHARGES	% OF TOTAL INTEREST	OFFICIAL NON-CONCESSIONAL	% OF TOTAL	PRIVATE LONG-TERM LOAN	% OF TOTAL INTEREST
1980	1,441	18	1.25	379	26.19	531	36.85	47	3.26	466	32.34
1981	1,825	17	0.93	487	26.68	669	36.66	47	2.58	605	33.15
1982	2,124	15	0.71	378	17.80	873	41.10	58	2.73	800	37.66
1983	2,416	16	0.66	420	17.38	998	41.31	102	4.22	880	36.42
1984	3,198	12	0.38	700	21.89	1,249	39.06	142	4.44	1,095	34.24
1985	3,035	13	0.43	436	14.37	1,299	42.80	162	5.34	1,125	37.07
1986	1,330	12	0.90	300	22.56	515	38.72	163	12.26	340	25.56
1987	1,254	0	0	40	3.19	607	48.41	391	31.18	216	17.22
1988	2,951	0	0	40	1.36	1,478	50.08	717	24.30	761	25.79
1989	2,989	5	0.17	31	1.04	1,479	49.48	577	19.30	897	30.01
1990	4,279	312	7.29	32	0.75	2,124	49.64	988	23.09	823	19.23
1991	4,137	34	0.82	28	0.68	2,054	49.65	1,216	29.39	805	19.46
1992	3,702	361	9.75	40	1.08	1,831	49.46	466	12.59	1,004	27.12
1993	1,774	256	14.43	50	2.82	862	48.59	314	17.70	292	16.46
1994	2,201	2	0.09	50	2.27	1,075	48.84	335	15.22	739	33.58
1995	1,774	2	0.11	56	3.16	859	48.42	322	18.15	535	30.16
1996	2,129	3	0.14	48	2.25	1,043	48.99	512	24.05	528	24.80

SOURCE: CALCULATED FROM AFRICAN DEVELOPMENT INDICATORS 1997 WORLD BANK

SAP. Between 1986 and 1989 the Federal Government entered into no less than five different agreement with its creditors for rescheduling of its external debt service (CBN, 1996).

The breakdown of interest paid during the period under review, showed long term non-concessional and private creditors received larger proportion of the interest paid (Table 4.6) in 1980 out of US $1,441 million total interest paid, US $ 531 million or 37% was paid to long-term non-concessional creditors and IMF charges. While private creditors received the sum of US $466 million or 32% and multilateral creditors received only US $18.0 million or 12%. This trend remained the same up to the end of the period under review.

It is important to note that throughout the period under study interest payment constituted a larger part of the total debt services paid. For example, in 1980 out of US $1,926 million total debt service paid, US $1,441 million or 75% was paid as interest and only 25% was allocated for principal payment. However the only slight reversal was observed in 1985, of US $85,700 million total debt service US $5,535 million or 65% was paid as principal and US $3,035 million or 35% as interest.

From the above analysis with respect to payments according to sources of loan the total debt service payment (Amortisation and interest) tended to increase across the board within the period under review. The principal payments made between 1980 and 1996 favoured private creditors, long-term non-concessional creditors and IMF charges. The interest paid also followed the same pattern.

The economic implication of ever-rising debt service payment on Nigerian

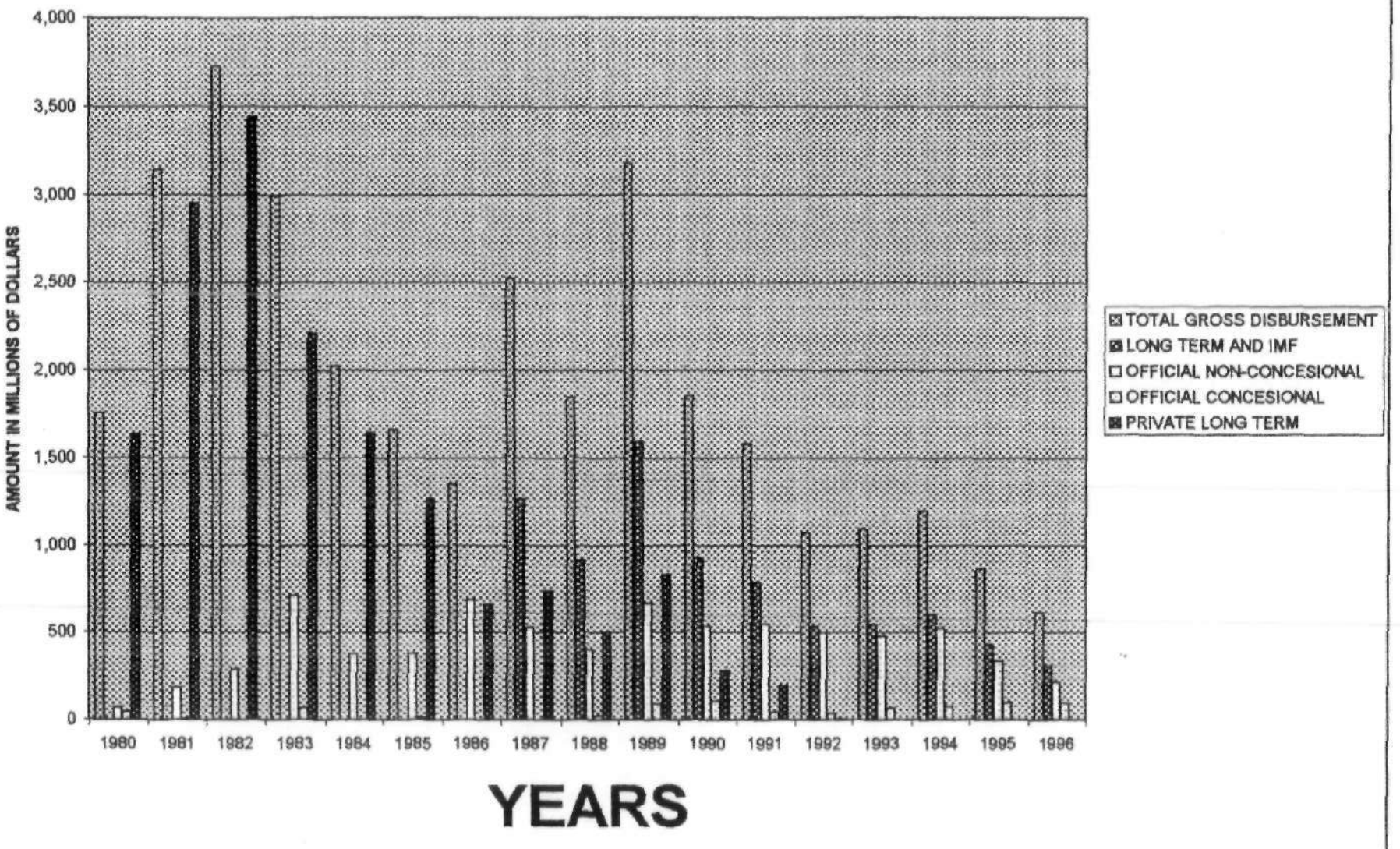
TABLE 2.5: GROSS DISBURSEMENTS ON EXTERNAL LOANS

In Millions of Dollars (current prices and exchange rates)

YEAR	TOTAL GROSS DISBURSEMENT	GROWTH	LONG TERM AND IMF	GROWTH	% OF TOTAL	OFFICIAL NON-CONCESIONAL	GROWTH	% OF TOTAL	OFFICIAL CONCESIONAL	GROWTH	% OF TOTAL	PRIVATE LONG TERM	GROWTH	% OF TOTAL
1980	1,753		NA	-	-	73		4.16	49		2.80	1,631		93.04
1981	3,141	79.18	NA	-	-	186	154.79	5.92	3	-93.87	0.10	2,952	80.99	94.80
1982	3,724	18.56	NA	-	-	287	54.30	1.46	0	00	00	3,437	16.43	92.29
1983	2,986	-19.82	NA	-	-	707	146.34	4.90	67	60	2.24	2,212	-35.64	74.08
1984	2,023	-32.25	NA	-	-	377	-46.67	-2.31	0	00	0.97	1,646	-25.59	81.36
1985	1,658	-18.04	NA	-	-	377	00.00	-	16	00	0.97	1,265	-23.15	76.30
1986	1,347	-18.76	NA	-	-	687	82.23	6.10	0	--	--	660	-47.83	49.00
1987	2,524	87.38	1,262	-	50.00	524	-23.73	-0.94	0	--	--	738	11.82	29.24
1988	1,843	-26.98	914	-27.58	-1.49	404	-22.90	-1.24	24	--	1.30	501	-32.11	27.18
1989	3,178	72.44	1,588	73.74	2.32	667	65.10	2.05	91	279.17	2.86	830	65.67	26.12
1990	1,854	-41.66	927	-41.62	-2.24	535	-19.79	-1.07	107	17.58	5.77	285	-65.66	15.37
1991	1,573	-15.16	787	-15.10	-0.96	549	2.62	0.17	44	-58.88	2.80	193	-32.28	12.27
1992	1,070	-31.98	535	-32.02	-2.99	495	-10.09	-0.94	36	-18.18	3.36	4	-97.93	0.37
1993	1,087	1.59	544	1.68	0.15	476	-3.84	-0.35	67	86.11	6.16	0	-	-
1994	1,198	10.21	599	10.11	0.84	522	9.66	0.81	77	14.92	6.42	0	-	-
1995	866	-27.71	433	-27.71	-3.20	334	-36.02	-4.16	99	28.57	11.43	0	-	-
1996	616	-28.87	308	-28.87	-4.69	214	-35.93	-5.83	94	-5.06	15.26	0	-	-

SOURCE: CALCULATED FROM AFRICAN DEVELOPMENT INDICATORS 1997 WORLD BANK

FIG.4.7 GROSS DISBURSEMENTS OF EXTERNAL LOANS



economy is in terms of the tax imposed on domestic productive investments and welfare of the citizens. As pointed out by Helleiner (1983)

> *"While SSA debt may be of little significance in global terms, its level is rather more serious from the point of view of government and population of SSA the major problem of increasing international debt and growing difficulty in debt servicing both contribute to an part of the worsening economic crisis in SSA".*

There is also an international consensus that high debt service is deleterious to economic development in poor countries. Consider the remarks made by Comdesus (1989)

> *"a satisfactory recovery in investment and output growth in the indebted countries will remain elusive as long as two major impediments continued to hold. First, a burden of debt servicing will entail so sizeable a net transfer of resources abroad and second, a level of debt of such a magnitude as to turn away investors concerned by the on going risk that their investments will be heavily taxed".*

The gross disbursement during the period between 1980 and 1996 maintained an upward and downward trend (Table 4.7), the amount increased slightly from US $1,753 million in 1980 to US $ 3,724 million in 1982. Then declined slightly between 1982 and 1986. From US $20,203 million to US $1,347 million from 1989, the rate continued to maintain a steady decline till the end of the period under review.

The distribution of the sources of funds disbursed showed that private and long-term non-concessional creditors released the larger proportion of the disbursed loans between 1980 and 1989. Loans from private sources accounted for a larger part of gross disbursement. During that period the disbursement from private sources fluctuate between 94 and 47%. However in 1993, there was a slight reversal with official concessional creditors releasing 86% of the total amount of the gross disbursements.

The economic implications of the above scene implied that Nigeria was invariably forced to borrow on harder terms to contract the immediate deterioration in the terms for more conventional loans. This has not only increased the level of Nigeria's 'indebtedness but more importantly impo0ses a greater degree of rigidity on Nigeria's Balance of Payments.

Table 4.8 shows the net flows on debt, that is the gross disbursement minus principal payments from 1980 to 96. Between 1980 and 1985 the net-flow was dominated by a single source that is the long-term loans. Between 1984 and 1985 there was a negative flow while from 1986 to 1996 the flow fluctuated between two major credit sources that is long and short-term loans. Between 1986 and 1989 the positive trend continued and the peak of US $2,933 million was recorded in 1987. Between 1990 and 1996, except 1993, the net flow remained negative. This implied that interest payment were more than the disbursement indicating a negative resource transfer. Hence, the productivity of capital borrowed was less than the interest on capital. This translated into a poor debt management strategy in terms of contractual agreements.

TABLE 2.6: NET FLOWS ON EXTERNAL DEBTS
In Millions of Dollars (current prices and exchange rates)

YEAR	TOTAL NET FLOWS ON DEBT	GROWTH IN NET FLOWS	NET FLOWS ON LONG TERM LOANS	GROWTH IN LONG TERM NET FLOWS	% OF TOTAL NET FLOWS	NET FLOWS ON SHORT TERM LOANS	GROWTH IN SHORT TERM NET FLOWS	% OF TOTAL NET FLOWS
1980	1.510		1,510	-	100	-	-	-
1981	2,506	65.96	2,506	65.96	100	-	-	-
1982	2,883	15.04	2,883	15.64	100	-	-	-
1983	1,819	-36.91	1,819	-36.91	100	-	-	-
1984	-202	-111.11	-202	-111.11	100	-	-	-
1985	-455	143.44	1,109	-449.09	100	-	-	-
1986	1,442	210.11	102	-109.20	7.07	1,340	-	92.93
1987	2,933	103.40	914	88.84	31.16	2,019	50.67	68.84
1988	1,637	-44.19	222	-75.71	13.56	1,415	29.97	86.44
1989	1,566	-4.34	981	313.51	20.01	585	58.66	37.36
1990	-253	-116.16	-253	-125.79	100.00	-	-	-
1991	-162	-35.97	-76	-69.96	46.91	-86	-	53.09
1992	-708	-337.04	-1,343	1,667.11	189.69	-635	638.37	89.69
1993	472	-166.67	-35	-97.39	-7.42	437	168.82	92.58
1994	-660	-239.83	-148	-322.86	22.42	-152	134.78	23.03
1995	-559	-15.30	486	428.38	-86.95	-73	51.97	13.06
1996	-1,334	-138.64	1,110	128.40	-83.21	-224	206.85	16.79

SOURCE: CALCULATED FROM AFRICAN DEVELOPMENT INDICATORS 1997 WORLD BANK

Table 4.9 shows the net transfer on debt remained positive from 1980 to 1983 with highest of US $3,253 million in 1982. This implied more capital flows into the country. Between 1984 and 1985 there were negative transfers. However from 1986 to 1987 positive transfers of $106 million and $2,462 million were recorded (that was the beginning of SAP). Unfortunately this positive development did not last beyond 1987. From 1988 to 1996 the negative trend were maintained.

TABLE 2.7: NET TRANSFERS ON LOANS

In Millions of Dollars (current prices and exchange rates)

YEAR	TOTAL NET TRANSFERS	GROWTH IN NET TRANSFERS	LONG TERM LOANS INCLUDING IMF	GROWTH IN LONG TERM	% OF TOTAL NET TRANSFERS	SHORT TERM LOANS	GROWTH IN SHORT TERM	% OF TOTAL NET TRANSFERS	NET PRIVATE LOANS	GROWTH IN NET PRIVATE	% OF TOTAL NET TRANSFERS
1980	1,168		979		83.82	599		51.28	-410		-35.10
1981	2,745	135.02	1,837	87.64	66.92	1,350	125.38	49.18	-442	7.80	-16.10
1982	3,253	18.31	2,010	9.42	61.79	1,631	20.81	50.14	-388	-12.22	-16.93
1983	848	-73.93	821	-59.15	96.82	401	-75.41	47.29	-374	-3.61	-44.10
1984	-3,909	-560.97	-1,450	-276.61	37.09	-2,150	-636.16	55.00	-301	-19.52	7.70
1985	-4,860	-224.33	2,407	66.00	49.53	-2,199	-2.28	45.25	-254	-15.61	5.23
1986	106	-97.82	-413	82.84	-389.62	627	-128.31	591.51	-108	-57.48	-101.89
1987	2,462	2,222.64	196	-147.46	7.96	2,285	264.43	92.81	-19	-82.41	-0.77
1988	-1,161	-95.29	-1,254	-739.80	108.01	119	-94.79	-10.25	-26	-36.84	2.24
1989	1-457	-60.64	498	-139.71	-168.97	-945	-8894.12	206.78	-10	-61.54	2.19
1990	-5,541	-1,112.47	-2,377	-577.31	42.90	-3,190	-237.57	57.57	26	-360	-0.47
1991	-3,925	-29.16	-2,130	-10.39	54.27	-2,244	-29.66	57.17	28	7.69	-0.71
1992	-4,969	-26.55	-3,174	-49.01	63.88	-2,579	-14.93	51.90	784	2,700.00	-15.78
1993	-545	-89.03	-897	-71.74	164.59	-440	-82.94	80.73	792	1.02	-145.32
1994	-2,459	-351.19	-1,223	-36.34	49.74	-1,785	-305.68	72.59	549	-30.68	-22.33
1995	-2,019	-17.89	-1,344	9.98	66.57	-1,474	-17.42	73.01	799	45.54	-39.57
1996	-3,633	-79.94	2,153	-60.19	59.26	-2,425	-64.52	6.74	945	18.27	-26.01

SOURCE: CACULATED FROM AFRICAN DEVELOPMENT INDICATORS 1997 WORLD BANK

2.4.2 Debt Burden Indicators (all under Table 4.10)

The debt burden of a country inevitably imposes a number of constraints on its growth prospects. The burden of principal and interest payments for instance, drains the nation's resources and curtails positive expenditure of resources on other productive ventures. This is even more constraining considering that incomes from which debts are to be serviced are very little. This gives rise to three macroeconomic problems; the macroeconomic of earning foreign exchange funding extra budget resources to service debt and adjusting to a reduction in expenditure (Ajayi, 1991).

The debt ratios are the major yardsticks for measuring or assessing the performance of the economy of the country externally. There are different ratios but the most important are the rate of external debt to GDP of a country (EDT/GDP), external debt to exports of goods and services (EDT/XGS) and total debt service to exports of goods and services (TOS/XGS). Many creditor countries and international lenders often use these ratios to assess the ability of a country to honour its obligations and hence influence their lending decisions. This is perhaps one of the reasons why international lenders see the ratio of a nation's debt to export as an important debt burden indicator (Sweet, 1987).

The EDT/XGS shows the extent to which the earnings from exports of goods and services can be used to liquidate the total debt stock. This ratio measures the gravity of the debt burden facing a country. When the ratio is high the economy is in a difficult situation.

Table shows the profile of debt burden indicators for Nigeria for the period

TABLE 4.10 MAJOR DEBT BURDEN INDICATORS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
EDT/XGS (%)	4.15	9.09	16.17	23.60	33.62	38.75	29.55	13.08	29.26	214.7	221.7	267.8	231.7	296.5	313	306	199
EDT/GNP (%)	8.90	12.93	13.97	20.92	20.28	21.85	50.54	125.39	107.06	138.4	130.7	134.9	108.9	143.9	140	148	100
INT/XGS (%)	3.28	5.87	9.70	13.04	15.71	12.76	11.80	7.58	18.76	17.6	14.6	15.5	14.3	7.6	10.	8.6	7
INT/GNP (%)	0.92	1.24	1.36	1.61	2.14	1.95	1.78	2.48	5.06	6.8	12.3	14.0	4.1	5.3	5.	5.0	26
TDS/EXGs (%)	0.80	4.7	8.4	17.2	28.9	31.7	22.1	11.8	26.1	24.7	22.6	21.9	28.7	12.5	17.	17	16
DS/GDP(%)	0.2	1.0	1.5	2.4	4.2	5.2	3.5	3.3	5.7	8.0	13.3	12.4	99.0	79.0	71.	36	26

Source: CBN Statistical Bulletin Various Editions

from 1980 to 1996.

EDT/XGS showed an explosive rise from barely 4.15 in 1980 to over 300 in 1995. This rise was particularly high between 1989 and 1996. This unprecedented rise is not good for the economy when compared with the World Bank critical level of 200 the economic implication for this on Nigeria meaning that the total annual export earnings is less than the amount required to liquidate the total debt stock. So there is an urgent need to embark on measures to boost exports, and reduce imports and external borrowing.

EDT/GNP shows the extent to which the gross national income can be deployed to wipe out the outstanding debt. The higher the ratio the more difficult external debt management becomes. As shown in table 8, the ratio has grown over time, though the rate of growth was not as large as EDT/XGS, between 1980 and 1985 there was a steady rise from 8.9 t0 21.85 which was not 'healthy' for the economy. From 1986 the ratio assumed an explosive increase to over 140 in 1995 that development happened during the adjustment period when many macro-economic transformations took place as a result of policies introduced. Conventionally it was expected that the ratio should decline.

Another ratio for assessing the external situation of a country relates the interest rates to exports of goods and services (INT/XGS). A rapid increase in the ratio means the productivity of capital borrowed is very low or interest on capital is too high from the table. It is clear that this ratio had maintained a steady rate of growth during the

Period under review. The highest ratio of 18.76 was in 1988, which was relatively low when compared to other ratios discussed.

INT/GNP shows the proportion of national income that is allocated to interest payment, it also shows the favourability or otherwise of the terms of the contractual agreements on a debt. If the ratio is too high the agreement has snot favoured the debtor country, which implied substantial portion of income is used for interest payments. From the table this ratio INT/GNP exhibits two trends; from 1980 to 1987 the ratio was less than 3 while between 1988 and 1996 it rose from 5.6 in 1988 to 26.2 in 1996 that was the highest during the period under study.

The proportion of annual earnings from exports of goods and services allocated to debt servicing (TDS/XGS) shows the extent of debt burden and service capacity of a country. This, reveals the proportion of resources available to service the rest of the economy (Ojo, 1994). The table showed trends in the ratio ranging between 10 – 20 is a problem so it is evidence that Nigeria has been facing increasing debt service burden since 1980.

2.5 THE EXTERNAL DEBT MANAGEMENT IN NIGERIA

Once debt problem is identified whether caused by internal, external or a combination of both; the question is how to overcome the crisis.

The debt crisis management in the LDCs took two broad dimensions, both at international and domestic levels. We shall first discuss the crisis management at the international level from 1980s to 1990s. The second part will deal with the domestic approach to the debt crisis management

2.5.1 International Debt Management Strategies

The debt crisis as we have seen has dominated policy discussions both at national and international levels since 1980s and even earlier. Early strategies were dominated by macroeconomic stabilisation measures imposed by the IMF. By late 1980s strategies characterised by co-operation and burden sharing by both debtor and creditor nations had begun to evolve.

2.5.2 Macroeconomic Stabilzation imposed by the IMF (Austerity Measures)

From the Mexican Weekend of August 1982 onwards, the IMF, the World Bank, the creditor nations and the Western Commercial Banks have sought to retreat from substantial over-lending to the LDCs. During most of the 1980s there were attempts to manage the debt crisis usually by the adoption of policies sponsored by the international creditors.

Prior to 1985, austerity measures were among the most important policies recommended by international creditors. Among the measures required by the

creditors, the debtor nations should adopt a series of well known stabilisation measures usually involving public spending cuts, currency devaluation and policy reorientation's. As Walton et al (1989) pointed out, since August 1982 debt and austerity have become watchwords of underdevelopment in Latin America and indeed poor countries from Africa to Eastern Europe.

> *"The debt crisis is a global problem both in (its) origins and its effect. Striking miners in Romania and food rioters in Zambia's copper belt towns responded in locally conditioned ways to the common experience of austerity measures implemented by states facing a towering international debt".*

Unfortunately, the austerity measures did not helped in solving the LDCs debt crisis. The effect of the policy has been seen across the globe, as contributing to retreats the overthrow of governments and change in policies. For example Nigeria on 31st December 1983 and Sudan 1985. However the austerity does have variant effects and consequences within the countries concerned.

2.5.3 The Baker plan 1985

The "Baker" Plan initiated in 1985 by the US Secretary of Treasury James Baker was the first formulation of a systematic US debt management strategy. The Baker Plan targeted two debtor groups. The fifteen largest debtors consisting of mainly of Latin American countries (Baker Plan I) and Sub-Saharan African countries including Nigeria (Baker Plan II). The overall strategy recognised the limited success of market oriented financing measures while continuing to insist on major International Adjustment Policies.

Baker Plan I contained three elements. First, it called for adoption by debtors comprehensively macroeconomic and structural policies to promote growth, to adjust the balance of payments and to reduce inflation.

The second element was continue central role for IMF as the co-ordinator of policy reforms and sustained capital flows. The World Bank was asked to increase Structural Adjustment lending the plan proposed a fifty percent increase in the annual disbursement of these institutions from $6 billion to $9 billion over three years period with the World Bank supplying the two-third of the increase.

Third plan called for commercial banks to extend new lending of about $7 billion annually to the fifteen major debtor countries.

473636

Baker Plan II encouraged the reformulation of the IMF Structural Adjustment Facility (SAF) for Africa by calling for enhanced collaboration between the IMF and the World Bank. This action brought about the use of cross conditionalities in which the IMF's austerity conditions would be applied to the World Bank negotiated agreements.

The Baker Plan was not a success, principally because of the reluctance of the commercial banks to lend more money to the indebted countries. The United States government itself was unwilling to provide much in the way of money lending or leadership on this issue, although yet more plans have emerged.

2.5.2 The Paris Club Plan 1987

Under this plan creditor governments were requested to waive payments of past debts by converting them into grants for low income debtor countries pursuing Structural Adjustment Programme. Other aspects of the plan include the reduction of interest rates for governments or officially guaranteed debt and

rescheduling of such debt over a long period.

In a move that could be even more significant this initiative of the Paris Club was accompanied by a promise to examine the possibility of restructuring and reducing the remaining stock of debt after a passage of three or four years providing that IMF conditionalities were maintained and that a similar concession(s) is forth coming from other (non multilateral) creditors. The Paris Club therefore moved toward recognition that the debt of poor, highly indebted countries was simply not serviceable. Yet the movement is agonisingly slow in the face of widespread technical agreement that radical solution must replace the charade of serviceability.

However, some experts on Africa's debt situation increasingly see Paris Club as being more of an obstacle to resolving African debt crisis than a help (Helleiner, 1992)

2.5.3 Brady Plan (1989)

By early 1989 a new attempt to a "global" initiative emerged. This was the Brady initiative; the plan was named after the US Secretary of Treasury Nicholas Brady. Announced in March 1989 and it incorporated the objectives of renewed financial flows and long-term strategy of debt reduction. About US $30 to $35 billion was likely to become available for debt reduction in the period 1989 – 1992 although this was a relatively small figure when compared to the scale of the total debt involved, and of cause any debt help involve the requirement that the debtor pursue on agreed IMF and World Bank supported adjustment programme (CBN, 1996).

Brady plan has gone some way toward meeting sub-Saharan African countries' aspirations but it applies only to the largest debtor and in Africa so far it applies only to Nigeria.

2.5.4 Toronto and Trinidad Terms (1988)

At the Toronto Economic Summit in June 1988, leaders of the group of seven (7)-industrialised nations agreed that the non-concessional bilateral official debt of low-income African countries should be rescheduled at Paris Club under the menu of three options.

Option A

i. Cancel one-third of eligible maturity and reschedule remainder.

ii. Adopt the longer repayment period of 25 years applicable to concessional debt with market interest rates.

iii. Charge moratorium interest rates below market rate with a 14-year repayment period. Commercial creditors, on the other hand, have three options for debt service relief.

Option B

i. Cancel one-third of debt service due during the consolidation period, reschedule the remaining two-thirds over 14 years with grace period of 8 years at market-based interest rates;

ii. Reschedule debt service due over 25 years including a grace period of 14 years at market-based interest rates or

iii. Reschedule debt service due over 14 years, with a grace period of 8 years at 3.5 per cent interest below market rate.

Option C

The Trinidad terms provide the following options:

i. Two-third reduction of eligible debt stock;

ii. The remaining one-third to be paid off over 25 years with 5 year grace period; and

iii. The interest due in the 5 years grace period would be capitalised and spread over remaining 20 years.

Essentially, the Toronto and Trinidad proposals involve rescheduling arrangements ranging from 14 to 25 years and grace period of between 5 to 10 years as well as concessional interest rates.

2.5.4 The Houston Terms (1990)

The terms, which were proposed by France and USA at the Houston Summit of industrialised countries in July 1990 for lower and middle-income countries, are the following:

i. ODA loans to be rescheduled with 20 years maturity and a 10 year grace period;

ii. Export credits and official loans other than ODA to be rescheduled over 15 years with grace period of 8 years;

Creditor governments could sell or swap ODA loan as well as a limited amount of non concessional credit (10 percent of outstanding claims or US $ 10 million which ever is higher) through debt for nature, debt for aid, debt for equity or local currency conversion.

2.5.6 Enhanced Toronto Terms (1991)

Since the debt problem persisted, the Paris Club in December 1991

replaced the 1988 Toronto terms with the Enhanced Toronto terms with the following features:

i. All Official Development Assistance (ODA) debt would be rescheduled for 30 years, including a 12 year grace period at interest rates at least as favourable as the original concessional rates

ii. For non-ODA debts, creditors would choose from a menu of three options leading to 50 percent reduction in the net present value (NPV) of rescheduled debt.

Option A

i. Write off 50 percent of debt service due during consolidation

ii. Reschedule the remainder over 23 years, including a 6 year grace period, and

iii. Interest rates to be market based.

Option B

i. Reschedule over 23 years with no grace period and

ii. Moratorium interest rate, to be sufficiently low so as to reduce the net present value of debt service falling due by 50 percent.

Option C

i. A combination of interest rate reduction and partial interest rate capitalisation

ii. Capitalised interest to be interest-free, and

iii. Repayment period of 23 years including a five-year grace paid.

Further debt reduction could be obtained through official debt conversion mechanism subject to a limit of 10 percent or US $10 to US $20 million, which ever is higher for non-concessional loans and no limit for ODA

loans.

2.5.6 The Naples Terms (1994)

The Naples terms are the newest debt restructuring strategy. Following the implementation of the enhanced Toronto Terms, the creditors realised that debtor nations' problems remained unchanged. Consequently, extensive discussions were held to improve the debt situation by reducing further debt stock. Thus, in December 1994, an agreement was reached on the Naples terms with the following features.

i. A concessional 67 percent reduction of debt in NPV

ii. Lengthening the maturity up to 33 years for debt service reduction option and 40 years for rescheduled ODA debts with gradual repayment schedules;

iii. Debt previously rescheduled could be subject to further restructuring for greater concession, determined on case – by case basis.

iv. Eligibility for rescheduling on Naples terms is to be determined by the degree of poverty and indebtedness.

v. Proven ability by debtor country to respect agreements through established track records under both rescheduling agreements and IMF sponsored structural adjustment programme.

2.6 DOMESTIC DEBT MANAGEMENT POLICIES

At the domestic level, the first effort on the debt management in Nigeria was, the 1962 'External Loan Act" which authorised the federal government to raise loan outside Nigeria not exceeding the sum of US $ 60 million (laws of the

FRN). For the purpose of Development programmes and giving out loans to regional government on such terms as may be approved.

The next is the Decree Number 38 of 1970 'the external loan (Reconstruction, Rehabilitation and Development) which make a ceiling on external loan to US $ 500 million with various amendments in 1978 (Laws of FRN) 1987. Decree No 30 of 1978 fixed the maximum amount of external loan Nigeria can borrow at N500 million from 1978 to 1984 successive governments flagrantly breached the decrees. In April 1982, the economic stabilisation Act put a ceiling of N200 million on the individual state governments borrowing (Laws of the FRN) under a revised budget 1984, further governments external loans were prohibited and federal governments external borrowing was restricted to borrowing only on exceptional circumstances.

The country's financial situation was so critical that in April 1984, the CBN had to issue a circular titled "issue by US dollar notes by CBN in respect of outstanding trade debts'. In connection with the rescheduling of Nigeria's uninsured trade debts that were owed in foreign currencies by eligible Nigeria's debtors to foreign creditors (CBN, 1996). Under the proposal foreign creditors were given the opportunity to accept US dollar promissory notes that were issued by CBN under the guarantee of Federal Government with full satisfaction of eligible outstanding obligations from Nigeria importers (Omoruyi, 1995).

In 1987 the federal government debt management principles under the Structural Adjustment Programme were enunciated and include:

i. Restriction of external borrowing to the country's ability to service

the loans as determined by Projected Foreign Exchange earnings, maturity of the loans and type of project to be financed

ii. Embargo on new external loan commitments except for few agricultural projects designed to increase the production of food, raw materials for industrial export as well as water and health care.

iii. Preference for medium and long term multilateral and bilateral loans to private short term loans.

iv. Limitation of state government loans outstanding to equivalent of N200 million per state in any given year.

These principles constituted the philosophy on which the Nigeria's external debt policy of 1988 was formulated. The policy was further streamlined under the Structural Adjustment Programme (SAP).

Structural Adjustment Programme was the first and the only comprehensive macroeconomic programme ever formulated to deal with the Nigerians economic crisis. Most of the previous economic policies adopted prior to the SAP like the Economic Stabilisation Act, the Counter Trade Policy, among others, were temporary and ad-hock measures.

The Structural Adjustment introduced in 1986 was a prerequisite for debt relief under the Baker and Brady Plans (Fashanu, 1995). Although the programme was not properly implemented as recommended by the initiators, Nigeria benefited tremendously in terms of debt relief and rescheduling.

After considering different available options under SAP debt management strategies in 1987, the federal government annulled the upper limit of 30 percent

of available foreign exchange, US debt service ratio for the year and urged that eligible debt should be rescheduled/refinanced through the auspices of London and Paris Clubs. Nigeria thus availed herself of the opportunity offered by the Baker's plan. In line with this initiative, the country was expected to come to an agreement with the IMF and the World Bank on the restructuring of the economy. The World Bank was expected to play a leading role including the provision of new loans. The World Bank consequently provided Nigeria with a Trade Policy and Export Development (TPED) loan of US $452 million. A trade and investment policy loan of US $500 million was also provided (World Bank, 1996).

Between 1987 and 1991 separate agreements were reached between Nigeria and the London Club for either rescheduling or some relief on its external debt stocks. In 1987, an agreement was reached with the London Club to reschedule repayments on medium and long-term debt amounting to US $3.0 billion for nine years with four years grace period at interest rates of 1.25 per cent above LIBOR and rescheduling fee of 1.5 percent on total rescheduled amount outstanding (CBN, 1996).

In 1989 Nigeria reached another agreement with the London Club which reduced its debt service obligation to the Club from $1,345 billion to $711 million per annum. Similarly under the 1991 Brady deal rescheduling; the London Club stocks of debt were reduced to US$2.1 billion while debt service obligations were further reduced from 711million to $311 million per annum (CBN, 1996) Nigeria therefore successfully achieved some measure of debt and debt service reduction (DDSR) under the Baker and Brady Plans.

Under the debt-by-back colateralisation and new money option, on 12 January, 1992 Nigeria bought 62% or US $3.395 billion commercial debt due to the London Club at 60% discount. In other words, Nigeria paid $1,352 billion to liquidate or buy back its commercial debts while 38% or $2.054 billion was collateralisation as 30 year per bond with the London Club.

While there has undoubtedly been progression in the economic performance between 1987 and 1992, the debt burden remained high and debt-servicing ratios continued to grow awhile debt transaction also continued to absorb enormous amount of resources, which were needed for productive investments.

CHAPTER THREE

3.0 LITERATURE REVIEW

3.1 THEORETICAL FREMEWORK

Foreign exchange constraints and savings constraints are familiar elements of the dual-gap model. In development economics, the two–gap analysis sought to adopt the open Harrod-Domer model to the analysis of growth conditions in LDCs.

The dual-gap analysis was popularised in the late 1950s and 1960s. The central idea in the analysis is that LDCS growth tends to create situations which at various points along the growth path, are characterised by supply of all but one or few of the factors 'required' for sustained uninterrupted growth; namely, domestic savings, foreign exchange, absorptive capacity, etc. For these, a gap between the quantity of foreign exchange supplied and that required (demanded) slowed down economic growth or completely aborted it. When growth is limited by internally created bottleneck(s) there is under-utilisation of other productive factors. Foreign resource can then serve as a means to break that bottleneck thereby permitting fuller utilisation of all resources and a continuation of growth process.

There are various versions of dual gap analysis. The gap, which dominates the analysis, is the savings gap. This is said to obtain when domestic savings are below the necessary level to finance investments required to achieve target or planned GDP growth rate when available imports are in adequate. Foreign capital serves to cover this gap on deficits and permit achievements of the target GDP growth rate. A foreign exchange gap occurs if the import capacity is below the required level. Here again, foreign capital comes in to break the import bottleneck, which permits the target GDP growth to be achieved.

The Harrod-Domar model, and the analysis of debt dynamics that follows from it, assumes a single, homogeneous output that can also serve as the capital stock. The amount of output allocated toward investment and the incremental capital-output ratio thus limit the growth rate.

According to Eaton (1992) the two-gap model posits that output requires not only physical capital that can be produced domestically, but an imported input (that could also be a capital good) that is not produced domestically. Both domestic capital and the imported input are essential for production, and the standard assumption is that they are needed in fixed proportions. If K_d denotes the stock of domestic capital and K_f the stock of the imported input then output Q is given by:

$$Q = \min(\alpha K_d, \beta K_f)$$

Where ß is some positive parameter.

If domestic savings is a proportion s of income Y, in the absence of foreign aid, lending, or depreciation (ä=0) the growth rate "warranted by domestic savings is now s/K where k = 1/á + 1/ß

For the Nigerian economy to grow at this rate, however, requires an investment of foreign capital I_f equal to a share s/ßk of output each period. Obtaining this foreign capital with domestic savings does not pose an additional problem if it can be purchased at a given price with domestic output. The analysis assumes, however, that this is not the case, but rather that the supply of foreign capital as an upper bound proportional to capacity. If a denotes the availability of foreign capital relative to capacity then the warranted growth rate can be sustained as long as eß > s/k. Otherwise, the availability of foreign capital, rather than domestic savings, limits growth, and the maximum sustainable growth rate is eß, in

this case increases in the domestic savings rate do not increase growth.

This framework has been called the "two-gap" model because there are now two possible resource gaps that keep the actual growth rate below the growth rate of the labor force, or the "natural" growth rate. One is the gap in domestic savings. The other is the gap in foreign exchange.

Say that foreign exchange is indeed the binding gap, so that in the absence of foreign debt growth is constrained to ße. Foreign borrowing obviously provides an additional source of foreign exchange, but servicing debt is an additional use. Again, denoting total foreign debt in period t by D_t and the ratio of debt to output as d_t the growth rate "warranted" by the availability of foreign capital g^f, becomes:

$$f - \frac{ß(e+d_t\, rd_t)}{ß_t \quad 1-ßd_t}$$

If in the long run a constant ratio of debt to output is maintained, so that DT - 0 and d_t- d, then the warranted growth rate g^f is given by:

$$f - \frac{ß\,(e\ rd)}{ß_t \quad 1-ßd}$$

The basic implications are qualitatively similar to those of the Harrod-Domar analysis:

First, the long run effect of an increase in d on g^f is positive or negative as ße exceeds or is exceeded by r. As in the basic Harrod-Domar model, if the growth

rate in the absence of borrowing exceeds the interest rate then net borrowing has the long-run effect of increasing growth even further while, if in the absence of borrowing the warranted growth rate is lower than the interest rate, net borrowing lowers the warranted growth rate.

Say that the economy tries to use borrowing to achieve a target growth rate g. The long-run level of debt necessary to do this is given by:

$$\frac{ße-d-g}{d-ß(r-g)} - \frac{g^f-g}{ß(r-g)}$$

Again, as with the Harrod-Model, a positive level of debt is implied only when the target rate is either below the warranted rate and the interest rate or above these two rates.

Finally, for any given growth rate g, the change in the debt-output ratio is given by:

$$d - \frac{g-g^f}{ß} + (r-g)d,$$

The Harrod-Domar and two-gap models have been popular tools for analysing the debt problems of developing countries. For one thing, they allow the analyst to make long-term projections with a minimal amount of data. Nevertheless, there are at least two reasons why they can yield very misleading results:

First, there is little reason to think that the magnitudes they treat, as constants should be. Opportunities for substitution between capital and other factors imply that the capital-output ratio should rise with more investment. In fact, capital output ratios can fluctuate wildly. Similarly, the savings rate should depend on more than

current income and the stock of debt. A framework should base its assumptions about how investment affects output and about savings on a more complete description of technology and the inter-temporal trade-offs facing the economy.

Secondly, and more fundamentally, the analysis makes unreasonable assumptions about the resources that a competitive world loan market can be expected to provide a borrowing country. Stability in these models requires a growth rate in excess of the world interest rate. But if the country maintains a constant debt-output ratio then its debt must also grow faster than the interest rate. Creditors must always lend the country more than what it owes to service past debt so that it never needs to make net resource transfers to its creditors. Moreover, the faster it grows, the more resources it can perpetually obtain from the rest of the world. This state of affairs is unsustainable, however. In order fore the country not, at some point, to exhaust the world supply of funds, world wealth must also grow forever at least as fast as the country. But then anyone could always borrow whatever was needed to repay past debts. Attempts to do so would drive the world interest rate up to at least the growth rate of world wealth, however. While we have observed growth rates far in excess of interest rates, the phenomenon has necessarily been a temporary one.

KASHIM IBRAHIM LIBRARY

3.2 EMPIRICAL LITERATURE

The decade of the 1980s has seen the emergence of a plethora of studies, which have sought to explain the origin of the debt crisis. Despite difference of emphasis among scholars, there is some agreement in the literature that the present crisis is a product of three sets of circumstances. They are internal factors, external factors and the combination of both.

This chapter is an attempt to analyse each of the diverse opinion of such scholars and examiner the relevance of their views to our study.

Internalist Position:

The Internalist School blames the crisis on the poor domestic macroeconomic and trade policies. Such policies include printing of money to fill deficits, over-value currencies, disincentives to agricultural production, wasteful expenditure by poor states either, luxury imports and inefficient prestige projects. Also too, Interventionist State creates growing fiscal deficits and the failure of debtor countries to make efficient use of the borrowed capital, etc.

Adherents of Internalist position belong to the monetarist faction of the neo-classical school and the world Bank/IMF Economist.

According to the World Bank (1991), in many countries during 1970s, investment was channelled to public sector undertakings which had low returns. Chain, et al (1995), supported the above position. They linked the crisis to factors like large borrowings for defence spending; inefficient macro-economic policies and channelling borrowed capital to inefficient public undertakings, which have low returns on investments. They saw debt strategy as an integral part of macroeconomic management strategy and advocated the limited use of public borrowing on a concessional basis. In which different factions complete for control of the national finance in order to fine their patronage network. This style of leadership lends itself to the misuse and misappropriation of state funds thus exacerbating tendencies toward indebtedness.

As Heatey (1990) has also pointed out, for oil exporting, less developed countries with large population like Mexico and Nigeria, the anticipation of even larger oil prices rises in future encouraged more ambitious growth programmes, financed by foreign banks debt, incurred in unproductive or conspicuous consumption.

Lever and Hunne (1985) also observed these effectively wasteful and unproductive expenditures in many oil-rich countries based upon expectation of future good oil prices. By the mid of 1980s, however, these expectations seemed misjudged as the oil prices slumped and many third world states were in considerable financial difficulties and unable to repay their loans.

The above opinion was shared by Dornbusch (1986), that no other factors explains the debt crisis than the fiscal deficits incurred by most of the major countries of Latin America. According to him, though some factors may be relevant but the main problem was excessive public and private spending that was financed by loan. The world recession and high real rates of interest in the internal – financial market aggravated the crisis but it did not create it.

Callaghy (1983) also supported the above opinion that "It was alarmingly clear that corruptive system in Zaria with mismanagement and fraud destroyed all endeavours of institutions of friendly governments rehabilitation of Zaria economy". Similarly, Ajayi (1991) uses growth - with - debt mode and charts to analyse the effect of external debt on economic growth in Nigeria between the periods 1978 and 1989. He conclusion those external borrowings have less influence on Nigeria's economic growth. The most important factor was the oil boom of 1970s

As Heatey (1990) has also pointed out, for oil exporting, less developed countries with large population like Mexico and Nigeria, the anticipation of even larger oil prices rises in future encouraged more ambitious growth programmes, financed by foreign banks debt, incurred in unproductive or conspicuous consumption.

Lever and Hunne (1985) also observed these effectively wasteful and unproductive expenditures in many oil-rich countries based upon expectation of future good oil prices. By the mid of 1980s, however, these expectations seemed misjudged as the oil prices slumped and many third world states were in considerable financial difficulties and unable to repay their loans.

The above opinion was shared by Dornbusch (1986), that no other factors explains the debt crisis than the fiscal deficits incurred by most of the major countries of Latin America. According to him, though some factors may be relevant but the main problem was excessive public and private spending that was financed by loan. The world recession and high real rates of interest in the internal – financial market aggravated the crisis but it did not create it.

Callaghy (1983) also supported the above opinion that "It was alarmingly clear that corruptive system in Zaria with mismanagement and fraud destroyed all endeavours of institutions of friendly governments rehabilitation of Zaria economy". Similarly, Ajayi (1991) uses growth - with - debt mode and charts to analyse the effect of external debt on economic growth in Nigeria between the periods 1978 and 1989. He conclusion those external borrowings have less influence on Nigeria's economic growth. The most important factor was the oil boom of 1970s

In another study, Kapoor (1995) traced the causes of Uganda's debt crisis to excessive borrowings to finance Civil War. However, there were as economic recovery programme backed by foreign government to bring about internal financial stability and to reduce imbalances in the economy. The study showed that the programmes were successful within a short period of their inception.

Furthermore, Riley et al (1989) conducted a study on Nigeria and linked the debt crisis to purely internal factors such as wasting of enormous amount of resources on unproductive ventures, corruption and profligacy. Financial mismanagement has also been identified as a common characteristic of Nigeria's politics. Other factors identified are the process of capital accumulation in Nigeria, which is not directed, on productive activities. The scope of the study covers the period between 1980 and 1987.

One might also draw on the work of some scholar such as Jackson et al (1982) that suggested that the personalised neo-patrimonial nature of leadership in many African states has led to the accumulation of debts. 'It has often been noted that in many of the new African states political cleavages have often tended to develop along ethnic/regional lines with political factions securing support through patronage to arrive at the state mechanism which represents the greatest single resources in many African countries. There is tendency for it to become the focus of a spoils system.

KASHIM IBRAHIM LIBRARY

Externalist Position:

The Externalist perspective is by a disparate body of structuralist

dependency theorists Marxists and neo-Keynesian. This perspective traces the origins of the debt crisis to the working of the international political economy dominated by the major capitalist countries, dependent upon raw materials exports by LDCS, transfer pricing by multinational corporation, etc.

The Externalist position thus rejects many key prescriptions of the World Bank/IMF structural adjustment model. Most importantly, it rejects the policy position that the debt crisis and the development crisis that underlies can never be resolved through strategies that preclude a key role for the state, recommending, instead, strategies that lean towards a 'reconstruction' of an effective developmental state.

Thirlwall (1989) in defending Externalist position argues that, A major cause of debt serving difficulties in recent years has more to do with changes in the World economic conditions which have depressed the foreign exchange earnings of developing countries than with miscalculations of rate of returns on investment, the misuse of capital inflows.... The trouble started in 1982 when World trade volume shrank by 2.5 percent and terms of trade for the developing countries as a whole deteriorated by over 10 percent. Not even the most prudent borrower or cautious lender can foresee such events.

Korner, Maas et al (1986) drew attention to another set of contributory external factors to the growth of indebtedness, which are linked to colonialism and neo-colonialism. They noted that many third world states were forced to Adopt mono-cultural, primary -- commodity based pattern of development by their colonial masters. Such economies vulnerable to the vagaries of the World market, in which

many primary products are prone to a cycle of boom and slump. They noted that, debt is related to colonial legacy that has shaped third world economies in such a way that they have an in built tendency towards Bop deficits, which can only be filled by drawing on loans.

In additions. The recession in the western countries have led to decline is the external demand for Africa's primary product exports. Export volumes and values have decreased overall, producing significant fiscal problems for SSA countries. The resulting Foreign exchange shortages have meant a decline in GDP, industrial stoppages and an inability to replace infrastructure. Hussain et al (1984). One of the consequences of this continental and global crisis has been the increasing indebtedness of SSA.

Nyerere (1987) has given another explanation for African indebtedness in the long-term trend in terms of trade for primary commodities to decline. He expanded on this theme as follows:

> *During the last few years of world recession, the fall in commodity prices has been catastrophic. The World Bank has estimated that from 1980 – 1982, the prices of non-oil primary commodities declined by 27 percent in current U.S dollar terms. As a proportion of their GDP was 2.4 percent less of income for the low income countries of SSA.*

The above observation was in line with the study conducted by Warner (1993), which formulated an investment model to examine how debt crisis and terms of trade decline could have affected investment in Mexico. He used regression analysis to determine the influence of falling oil prices during the1980s on investment in Mexico, and the study covers the period 1979-1992. He concluded that, the decline in Mexico's international terms of trade during the period of study was in the net capital inflows to Mexico, which may have played an important role in the crisis.

The position of internationalist against the IMF/ World Bank prescription to solve the debt crisis in the LDCS was supported by Arias (1994) evaluating the costs and benefits of the IMF Debt and Debt Service Reduction (DDSR) programme in five Latin American countries (Mexico. Philippines, Costa Rica Venezuela and Uruguay) between 1990 and 1995. Using descriptive statistics (Bar Charts, Pie Charts etc.) He concluded that contrary to the views expressed by the proponents of the programme that bankers have benefited from the operations of the commercial banks participation in Debt and Debt Service Reduction (DDSR). He found that less benefit accrued to the participating banks. And concludes that, for a country to benefit from DDSR it needs significant indirect benefits (such as increase in domestic and foreign savings). Direct benefits are likely to be negative because commercial banks financial gains and because DDSR operations are front-loaded. DDSR operation can not be justified solely by direct benefits and savings in cash flows.

Some economists and policy makers commonly agreed that debt contracted on a fixed exchange is less risky than on flexible exchange rates because in the event of an increase in the international interest rates it will not affect the terms of payments, also if there is an increase in the demand for a countries export commodity it will be to the advantage of the debtor country. However, Warner (1993) dismissed this view. As historically inaccurate in general proposition. He argues that for many developing countries, flexible rate borrowing is actually less risky-whether debt service payments were indexed to nominal interest rates or to inflation in industrial countries. To reduce the risk he suggested that countries should seek debt contracts in which debt – service payments vary positively with

their terms of trade.

Rockerbie (1994) extended the above article; He incorporated external debts as variable in his analysis of investment in Latin America between 1970 and 1980. He conducted a regression analysis on terms of trade, GDP and external debt. The result showed that if borrowing countries can be assumed of specialising in labour intensive goods for exports and increase in their terms of trade may increase their investment/GDP ratio. Increase in levels entailing a higher demand for labour-intensive factor, with more labour involved in production, the return to capital will increase and investment will be stimulated. He further argues that in developed countries, the net flow – GDP ratio would simply be an indication as to the lending status of a nation positive for net borrower and negative for net lender. For a LDC the net flow – GDP gives an indication as to the availability of credit from developed countries, since LDCS are typically always net borrowers. Based on the analysis he concludes that during 1980s net flows were negative for most LDCS, and indications of fresh lending to facilitate already large debt service payments was not forth coming. Hence gross domestic profits were very low and returns to capital is always very low impending new investments.

Like the above study, Kofi et al (1996) was also an attempt to incorporate external debt service as a third variable into the relationship between exports revenues and economic growth. To justify their position, they conducted an analysis using regression analysis and causality test on middle income African countries between the period 1971 and 1990. They arrived at a conclusion that the debt servicing burden of African countries had been the worst in the indebtedness of developing countries that greater proportion of export revenues is used to service

external debt, thus, very little will be available for industrial investment and growth. This implied an inverse relationship between external debt servicing, investment and economic growth. It is also conceivable that a positive relationship exist between export revenues and debt servicing. Since countries with promising exports potentials tends to succeed in obtaining more foreign loans and hence, carry larger external debt burden. But the expected positive relationship between export revenues and economic growth may not be observed because resources from export are directed to debt servicing instead of productive investment.

The Externalist school often critisize the role of IMF in assisting member countries to correct their Bop disequilibruim through adoption of 'appropriate' economic policy measure like SAP and provision of access to its short-term credit facilities. Such critics often attempt to assess the effect of an IMF stabilisation programme in terms of its impact on key target variables such as the BOP, the GDP growth inflation and income distribution. They argue on the basis of empirical studies that the IMF has not been successful in achieving its objective Brown (1990) provided. Provides an alternative opinion that, any attempt to assess the effect of an IMF stabilisation programme requires a better understanding of the nature of the IMFs multiple roles in the world economy. There is an interplay between different and sometimes competing objectives, interest and forces that those roles engender. There is also the growing problem of debtor nations' arrears to IMF in relation to its compelling sets of relationship.

He stressed that creditor governments pressure on IMF to conclude a series of unrealistic functions, credit agreements with a debtor government's order to expect immediate debt relief procedures, enhances the possibilities of defaulting to

IMF and undermines its capacity to perform its policy roles.

The structuralist school of economic thought argues that in development processes of LDCs some gaps will always exist which can be filled through the use of foreign capital Pascal, (1997), formulated a theoretical model for calculating financial flows necessary for a country to fill its gaps. The net resource transfer concept was introduced in the model allowing the possibility of substitution between domestic and external debt.

Like the above, Baltratti (1989), also formulated a framework to calculate the level of debt which can be considered as sustainable in a country where the model can also be used to calculate the present value trade surplus needed to repay a debt for a given values of the investment GDP and rate of growth of GDP.

3.2.3 A Balanced View

Both the internalist and Externalist explanations seem to justify pre-conceived philosophical or ideological positions. But explanations arrived at from such preconceived positions did little justice to understanding an obviously complex, multifaceted development problem. The debt crisis is not just a result of 'home-made' mistakes in development; neither can it be blamed wholly on some hostile external influences. A more balanced explanation would seem to be one that admits an interface of forces originating in both internal and external sources: Specifically, a fundamentally defective domestic economic structure was complemented by hostile external influences to derail the LDCS into a debt crisis. The distortions and crises in the world economy often cited in Externalist analyses as major determinants of the debt crisis constitute only a reinforcing element. Indeed, with a depressed world economy and consequent collapse in raw material

prices and decline in net resource transfer the fundamental structural defects in the LDCS could not but become amplified. This position does also suggest that policies to resolve the crisis must necessarily incorporate strategies to resolve structural disequilibrium at both the external and internal fronts.

The following eight trends and developments – some exogenous and some endogenous – complemented one another to hatch the debt crisis.

(i) The two oil shocks of 1973 – 1974 and 1979 – 1980, while generating enormous savings surplus for a handful of oil-exporting LDCS, had, in fact, led to record balance of payments deficits for the majority of LDCS and deteriorating terms of trade for the non-oil exporters. On the other hand, the emergence of a dollar glut in the International Capital Markets (ICMs) funded by surplus petrodollars from OPEC depressed lending rates which in turn, seduced LDCS particularly the rapidly industrializing middle-income Latin American countries, into large-scale external borrowing.

(ii) The 'growth – with-debt' strategy evolving in the 1970s among LDCS assumed however, that external borrowing would lead to an economic boom which would assure repayment of the 'cheap' loans. On the contrary, however, the influx of these cheap loans and also expanding oil earnings in OPEC countries seem only to have contributed to new 'development deficits' and to further debt. But characteristics of the 1970s in LDCs were over ambitious externally financed Public Sector projects to develop the material infrastructure, the basic industries expanding military budgets, etc. Adjustment and restructuring of production base was neglected in favour of growth through large scale projects which made high levels of imports and inflow of debts capital necessary. Manifest miscalculations, unproductive investments and minimally profitable development projects, in addition to

using external debt to finance current costs and consumption point towards an externally financed derailment of development process in many an indebted LDC.

(iii) Much too little of national investment resources were channeled into direct productive purposes especially, development of export capacities in agriculture and manufacturing. Because this was known to the ICMs lenders, they should have assumed that borrowed funds would also most likely be misused in the same manner as domestic capital. Burt because they (ICM lenders) were interested in recycling their petrodollars, they often refrained from applying well known criteria for investment financing.

(iv) Sluggish growth in the OECD economies led to decline in demand for non-oil exports. The terms of trade (TOT) fell sharply as from mid-1980s for LDCS as a whole. For instance, for SSA, by 1987 the TOT were 32 percentage points lower than in 1980 export earnings were only 42 percent of 1980 level in 1987 despite a 16% rise in export volume (Dike, 1998). The ability of the LDCS as a whole to repay their debts was undermined by the prolonged global economic depression which, coupled with the rapid growth in oil prices and rising price for industrial goods imports, made it increasingly difficult for LDCS to cover debt service with current export earnings.

(v) Expansionary fiscal policies which clearly out spaced increases in tax receipts but which continued even in the post-1980 period collapsed in commodity prices, had a large role in the crisis. The ensuing expanding fiscal deficits come to be financed largely by money creation (capital Bank borrowing) at the same time surging private credit demand increased. These could not but increase money supply which, in turn fed the inflationary

process given prevailing fixed exchange rates regime, rising inflation had led to real exchange rate over valuation which, in turn had undermined exports incentives simultaneously as it encouraged parallel markets in currencies and capital flight.

(vi) Financial repression discouraged the flow of savings into domestic savings institutions while at the same time encouraging currency switching and capital flight.

(vii) The Latin American and African LDCS as a whole failed to respond to rapidly changing economic and technological conditions in the 1970s with cautious policies of adjustments. Rather than devise strategies for active integration into the world economy through for instance, improved technological capabilities to develop man-made comparative advantage as the style of East Asian NICs the Latin American and SSA LDCS were (and are still) content in pursuing existing raw-material based participation in the world exports trade, import dependent import substitution industrialization.

(viii) Further to (vii) the development of intra-regional and south-south trade made little progress. Esser (1990) notes of Latin America, that intra-regional trade took only 15.4 percent of the total trade. For Africa no accurate statistics exist on this but it seems correct to claim that intra-regional trade ranges for less than 5 percent of the total regional trade.

The balanced opinion was strongly supported by Todaro (1994) where he observed that, 'the seed of the debt crisis were sown in the 1974-1979 period, when there was a virtual explosion in international lending, precipitated by the first major OPEC oil prices increase. The newly industrializing countries, particularly those like Mexico, Brazil, Venezuela and Argentina in Latin America, had growth rates well above the developing

countries' average. To meet their growth needs, many countries began importing heavily commercial banks holding the bulk of the OPEC surplus (which had jumped from US $ 7 billion in 1973 to $68 billion in 1974 and ultimately peaked at $115 billion in 1980) and facing a low demand for capital from the slower growing industrialized countries, aggressively competed in lending to developing countries on comparatively permissive and favourable terms.

FIGURE 1 THE MECHANICS OF PETRODOLLAR RECYCLING

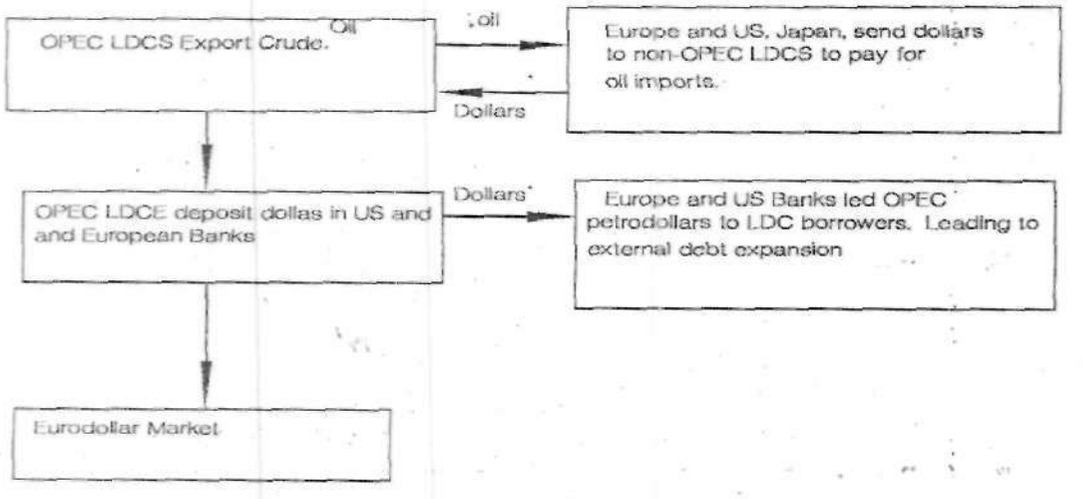


Figure 1 attempts to portray the mechanism by which OPEC petrodollar were recycled, starting with OPEC petro-dollars being deposited in US and European Banks, which gave rise to growth in so called Eurodollars, which were then lent to LDCS public and private sector borrowers . Over $300 billion is reported to have been recycled from OPEC countries between 1976 and 1982 (Todaro ibid). P. 462.

Eurodollars refer to dollar deposits in any bank outside the United States, not necessarily in Europe only. Foreign Banks had begun in the 1970s to accept direct dollar deposits, pay interest on them and lend them directly to LDCS borrowers.

According to Hussein (1991), the successes and failures of debt management strategies depended on two broad environmental factors, the international economic events such as, developments in the international markets especially in developed countries and the domestic policy environment such as the level of institutional developments, human resources development and domestic macro economic and trade polities, such as channeling the investment into unproductive public ventures, extra-budgetary spending, etc. Are among the factors that can lead a country to external debt crisis.

Carefully examining the observations of Hussain he blamed the crisis on both external and internal factors.

Further more, Iyoha and Iyare (1994), blamed both endogenous and exogenous factors as the causative forces responsible for debt crisis in LDCS. They suggested the need for joint cooperation of creditors, multilateral agencies and debtor nations in order to overcome the debt problem.

Also in support of the balance view as both the domestic and external forces to responsible for debt crisis in LDCS, Ojo (1994), was of the opinion that the persistence of the external shocks, the volatility of interest and exchange rates, the incidence of reverse transfer of resources from indebted countries and poor economic management prevented significant growth of income in the indebted countries.

Ezenwe (1994) shared the same opinion that both exogenous and endogenous factors are responsible for Africa debt burden. However, he

condemned the orthodox IMF/World Bank recommendations to deal with debt problems instead, he calls for innovative and courageous measures by debtor countries to 'stem and tide' their economic policies restore growth and development.

The opinion of Ezenwe was supported by Haynes (1987) that both exogenous and endogenous factors contributed to Ghana's indebtedness before the military took over internal factors includes corruption, inefficient and in appropriate public policies such as unwillingness of successive governments to adjust to external shocks, instead, most political leaders believed that economic growth and their own political survival required the state to develop jobs, industries and public welfare service, public funds were used to develop political support as well as financial gains. Compounding the mismanagement a number of highly placed government officials and senior military officers were engaged in an apparent frenzy of corruption misusing import licenses, and taking dubious loans.... As he quoted Hutchful et-al 1979, the external factors include economic recession in the West during 1980s, decline in the demand for exports, a situation aggravated by heavy debt-servicing burden and high cost of oil imports.

The above view was shared by Parfitt and Riley (Op cit). In their study on Sierra Leone they attributed the causes of debt crisis to fiscal crisis such as declining official export earnings and government revenues and corruptly and wastefuly used government expenditure. Also Aniamikogbo (1994) had the same opinion that both external and domestic factors were responsible for Nigeria's debt crisis. Such factors include neglect of agriculture, import dependent industrialization, debt induced social reforms, failure to diversify export, heavy defence spending, as well

as in effective, inefficient and corrupt administrations. The external factors includes the global economic recession and the oil shocks among others.

The same year Bello (1994) conducted a similar studies on Nigeria. Using debt ratios, he observed that all debt burden ratios indicate Nigeria's poor debt management policies. He concluded that unless future efforts were embarked upon, the debt overhang problem will persist.

Furthermore, Suttle (1989) analyses the problem of forecasting debt servicing difficulties in SSA. He identified five factors which influence a country's ability to meet its foreign exchange requirements. These are: domestic policies like monetary and fiscal policies, monitoring and accumulation of debt, the nature and the sources of loan and the terms of payments. Structural policies such as policies to enhance export promotions, import substitution industrialization and agricultural policies are also important factors. Others include, external environments such as economic recession in creditor countries. Fluctuation in world interest rates and fall in the demand for a country's export commodity(ies) as well as the behaviour of the creditors for example IMF/World Bank conditionalities may also play an important role in influencing a country's ability to pay its debts.

Porfitt and Riley (Op.Cit) again identified the SSA debt crisis to the economic crisis which rapidly increases the SSA's indebtedness and was caused by both short and long-term factors such as the decline in domestic production and increase in food imports. The recession in the western world has led to a decline in external demand for Africa's primary products.

In addition, Cohen (1996) adopted solow (1990)'s model to analyse the sustainability of Africa debt and conclude that both the debt and the number of rescheduling were significant in the growth slow down of 1980s in Africa.

Greene and Khan (1990) are also strongly in support of the balance view that both internal and external factors were responsible for LDCS Debt crisis. Factors identified includes among others, deterioration in the terms of trade, rise in foreign interest rates, and fall in external financing. While the internal factors include growing fiscal deficits, rapid monetary expansion and maintenance of over valued currency among others. Ashize et al (1996) used the growth– cum-debt model to examine the relationship between external debt and economic growth between 1974 and 1995 in Nigeria based on the regression result. They concluded that while external factors could be among the contributing factors to the GDP growth in the early stage, major responsibility seems to lie on domestic factors.

473636

Another study on Nigeria was conducted by Chibber and Pahwa (1994). They examined the need to restore growth in Nigeria, by employing the regression analysis and some descriptive tools for the period between 1971 and 1990 to analyse their result. Based on the result they concluded that the combination of fiscal indiscipline and debt overhang were among the factors that dampened private investments in Nigeria. They also recommended the recovery in private investment as a key features in sustaining future growth in Nigeria.

Also Onah (1994) conducted an empirical analysis on debt accumulation in some sub Saharan African Countries (Nigeria inclusive.) between 1965 and 1988. He used the growth cum debt model and concluded that both domestic

factors like over- ambitious public projects, fiscal irresponsibility by the debtor nations and some external factors aggravated the debt problem. Other factors, according to him include oil shocks deterioration in terms of trade of LDCS and rising foreign interest rates.

Enenuga, C (1994), also supported the above view that both the internal and external factors were responsible for Nigeria's indebtedness. Such factors include borrowing for investments in projects that could not generate sufficient revenue to cover loans and interest rates and high fiscal deficits financed through money creation resulted to high inflation and currency over valuation. The external factors on the other hand includes the oil price shocks of the 1970s and 1980s as well as the international interest rates.

Another study was conducted by Ajayi (1991), He used growth – cum-debt model and some graphical charts to analyse the effects of external debt on economic growth in Nigeria between the periods 1970 and 1989. He concluded that external borrowings though have some influence on Nigeria's economic growth, but the most important factor was the oil boom of the 1970s.

Similarly Perfitt and Riley (1988) attributed the causes of the sub Saharan African Debt Crisis to the 1980s global economic crisis which rapidly increased SSA' indebtedness and had been caused by both long and short –term factors such as the decline in domestic production and increase in food imports as a result of famine also the recession in the western world which led to the decline in external demand for Africa's primary product.

Perfit and Riley Ibid pg. (98 – 120) also analysed to causes of debt crisis in Zaire, they blamed the crisis on both external and internal factors. Factors like the decline in the world prices of copper, the major export earner of the country, rising oil prices which caused the oil import cost to quadruple were among the exogenous factors. Internal factors on the other hand, includes expensive and untimely unproductive prestige projects, corruption in the leadership.

As rightly stated in the beginning of the study, literature on external debt are inexhaustive. The above literature reviewed, both theoretical and empirical. Suggest that both internal and external factors are responsible for African debt crisis.

On the internal factors., the crisis is seen as a product of the kinds of policies that have been adopted by the debtor states which are viewed as economically inefficient. The inefficient policies identified are corruption, growing fiscal deficits and printing money to fill deficits. Other policies include an over – valued currency, and disincentives to agricultural production. Wasteful expenditure by corrupt elite's luxury imports, and inefficient prestige projects all add to growing external state debt.

The exogenous factors include colonialism and neocolonialism, the fluctuation in the international interest rates, recession in the Western World, the two oil shocks, the role of Western Commercial Banks, and the decline in the demand for LDCS export commodities

CHAPTER FOUR

4.0 MODEL SPECIFICATION AND DISCUSSION

In this study two models shall be employed to analyse our data. The first two models are the dual gap models as formulated by (Chenery and Bruno 1962). We shall use the first two to calculate the savings-investment and export-import gaps. The second model is the World Bank Basic transfer Accounting model which we shall use to calculate the annual rate of net transfer during the period.

4.1. The Savings-Investment Gap

Suppose we assume that the savings-investment gap is larger than the import-export gap, foreign borrowing must be sufficient to meet the shortfall of domestic savings below the level necessary to achieve the target rate of growth. What we wish to consider is the size of the initial gap that must be filled by foreign borrowing and the determinants of the size of the gap to be filled in future years from foreign sources. If the gap is too narrow, and foreign borrowing is to be terminated, the presumption must be that additional increments to saving out of increase in national income generated are greater than the increments of investment. For any target rate of growth, r, the required foreign assistance in the base year Fo is:

$$Fo = Io - So = Yocr - Yosa = Yo(cr\text{-}sa) \ldots\ldots (1)$$

Where "Io" is investment in the base year, So is savings in the base period, 'Yo' is income in the base period, "c" is incremental capital – output ratio, Sa is the average savings ratio and "r" is the target rate of growth.

If the rate of savings is expected to rise over time, the savings function may now be written as:

$$St = Sa\ Yo + S'(Yr - Yo) = (Sa - S')\ Yo + S'Yt \ldots\ldots (2)$$

Where S' is marginal savings ratio. Rewriting investment requirements at time t as:

$$It = Yt\ cr \quad \ldots\ldots\ldots\ldots (3)$$

And combining (2) and (3) we get the net flow of capital required in time t:

$$Ft = Yt\ cr - [(Sa - s')\ Yo + s'Yt] \quad \ldots\ldots\ldots\ldots (4)$$

Or

$$Ft = (cr - s')\ Yt + (S' - Sa)\ Yo \quad \ldots\ldots\ldots\ldots (5)$$

The difference between borrowing requirements in the base year and borrowing in period t is the difference between equations (5) and (1) which are reduced to:

$$Cr(Yt - Yo) - S'(Yt - Yo)$$

Or

$$Ft - Fo = dI - ds \quad \ldots\ldots\ldots\ldots (6)$$

i.e. increments in external capital finance the difference between investment requirements to sustain the target rate and growth and increase in saving generated by the rising income. If foreign assistance is to decline (i.e. Ft < Fo), ds must be greater than dI. The investment savings gap will disappear, and the phase of investment limited growth come to an end, when domestic savings reaches a level adequate to sustain target rate of growth.

From (5) the rate of growth that can be achieved with an exogenously given inflow of foreign capital is :

$$r = 1/c\ ((sa - s')\ Yo/Yt + s' + Ft/Yt) \quad \ldots\ldots\ldots\ldots (7)$$

The derivative of r with respect to f is positive, so that a larger inflow of foreign capital can achieve a higher growth rate, provided there is no rise in c the capital – output ratio or fall in s'.

From equation (7) we can also calculate a number of years after which

Nigeria can generate enough domestic savings to finance its target rate of growth, and dispense with foreign borrowing. Equation (7) becomes 0:

$(cr-s')\ Yn + (s' - sa)\ Yo = 0$ ..... (8)

$Yn = (s - sa/s' - cr)\ Yo$ ..... (9)

Since $Yn = Yo(1 + r)^n$ ..... (10)

Then $(1 + r)^n = .(s' - sa/s' - cr)$ ..... (11)

From which n can be calculated we stress again that the essential condition for Nigeria to reduce its external borrowing requirements is that the marginal rate of savings should exceed the required rate of investment i.e $s' > cr$ in (11) above. N is obviously highly sensitive to s' and c.

4.2 The Import-Export or Foreign Exchange Gap

Now let us suppose that the M – X gap is the larger of the two gaps. In the base year the foreign assistance required to cover the foreign exchange gap is:

$Fo = Mo - Xo = Yoxa = Yo\ (ma-xa)$ ---- (12) where Mo is imports in the base period, Xo is the export in the base period, Yo is income in the base period, ma the average import coefficient, and Xa is the average export coefficient.

If import in year t equal

$Mt - ma\ yo + m\ (yt - yo)$ ---------- (13)

KASHIM IBRAHIM LIBRA

And export is year equal

$Xt = Xa\ Yo + x'\ (yt - Yo)$ -------- (14)

Where m' is the marginal import coefficient, x' is the marginal export coefficient and $Yt = It/cr$, then foreign borrowing requirement in time t to achieve the target rate of growth is:

$Ft = MaYo + m'(Yt - Yo) - xo\ Yo - x'\ (Yt - Yo)$ ------ (15)

Subtracting (14) from (15) gives

$Ft - Fo = dm - dx$ ---------- (16)

i.e. in rements in external assistance finance the difference between imports to sustain the target rate of growth and increment of exports. If the level of foreign assistance is to decline over time (i.e. Ft < Fo), x' must be greater than m'.

An alternative approach is to express the minimum import requirement for growth as a proportion of investment requirements in which case, from (5) we have;

$$Mt = mi\ It = mi\ Yt\ cr \text{ ---------- } (17)$$

Where mi is the import – investment coefficient.

The condition that Ft = Mt – Xt gives

$$Ytmics = Xt + Ft \text{ ---------- } (18)$$

And the trade limit growth rate is then

$$R = 1/mic\ (Xt/Yt + Ft/Yt) \text{ ------ } (19)$$

The export – import gap will become less and less restrictive as time goes on, provided exports increase at faster rate than the national income (i.e. if x' > Xa) and/or if Mt falls, which is likely as more and more capital goods are produced domestically.

With respect to policy, the analysis highlights the importance of a greater proportion of resources devoted to exports rise to a level sufficient to meet the import requirements of target rate of growth set. One of the preconditions of an end to relevance on foreign borrowing to finance development, and to pay off past debts is that a balance of payments deficits be turned into continuing surplus through price and income adjustment mechanisms.

4.1.3 Net Resource Transfer Model

As a result of heavy debt servicing and other processes the LDCs transfer more financial resources abroad (to the creditor industrial nations) mean they receive from abroad. To explain this process, it is necessary to understand a

fundamental concept known as the basic transfer (Steward 1985).

The basic transfer (BT) of a country is defined as the net foreign exchange inflow on outflow related to that country's external borrowing. BT is measured as the difference between the net capital inflows and interest repayments on the existing accumulated foreign debt. The net capital inflow in turn is imply the difference between the gross inflow and the amortization on past debt. The importance of the BT lies in the fact that it represents the amount of foreign exchange a particular LDC is gaining or loosing each year from international capital flows.

Existing studies show that the BT turned negative for LDCs as a whole during the 1980s, causing a loss of foreign exchange and a net outflow of capital. The BT equation can be represented as follows. Let FN = net capital inflows be expressed as the rate of increase of total external debt, and D = the total accumulated foreign debt capital. Given d = percentage rate of increase of that total debt capital, then:

$$FN = d\,D \qquad (1)$$

Given r = the average interest that must be paid annually on external debt capital, so that r D = the total annual interest payments. The BT then is simply the net capital inflow least interest payment; that is:

$$BT = d\,D - r\,D = (d-r) \qquad (2)$$

If d>r, BT>0, and the debtor LDC will be gaining foreign exchange; if D<0 or r>d, BT<0 (or BT turns negative) and the LDC loses foreign exchange. Table 2 provides the analytical components of the various factors that might cause r and d to rise and fall.

When judging the consequences of external debt on an economy, the extent

of the BT, otherwise also known as the net resource transfers (NRT) is more significant than the absolute debt stock for the simple reason that the BT has extremely seriously consequences for economic growth and development. The BT shows whether, on balance, the economy receives financial resources from abroad (positive net resource transfers) or is losing resources abroad (negative resource transfers). The direction or value (whether positive or negative) of the BT statistic for any debtor LDC is a product of the interplay of various factors, as can be seen in Figure 4.2 below. Let us examine these factors.

Figure 4.2

Analytical Components of Basic Transfer (BT)

External Loans Disbursement

(Debt Capital Inflows)

- Principal Rapyaments (amortization)

- Interest payments

- Net Flow on External Debt

+ Foreign Direct Investment (net)

+ Foreign Portfolio Investment (net)

+ Other Net Inflows on foreign capital - e.g. official grants, did, etc.

= External Net Financing

(Aggregate Resource Flows)

+Interests and profits received abroad

-Interest and profits remitted abroad

- Other net capital outflows, in capital flight

= Basic Transfer (BT or Net Resource Transfer.

4.2 DATA ANALYSIS

4.2.1 Investment –Savings/Export Gaps

The calculated values of I-S and M-X gaps from 1980 to 1996 are shown in Table 4.1 below. The table is divided into three phases in order to give a clear picture of the performance of the Nigerian economy in each phase. Phase I from 1980 to 1984 while Phase II is between 1985 and 1990 and phase III from 1991 to 1996.

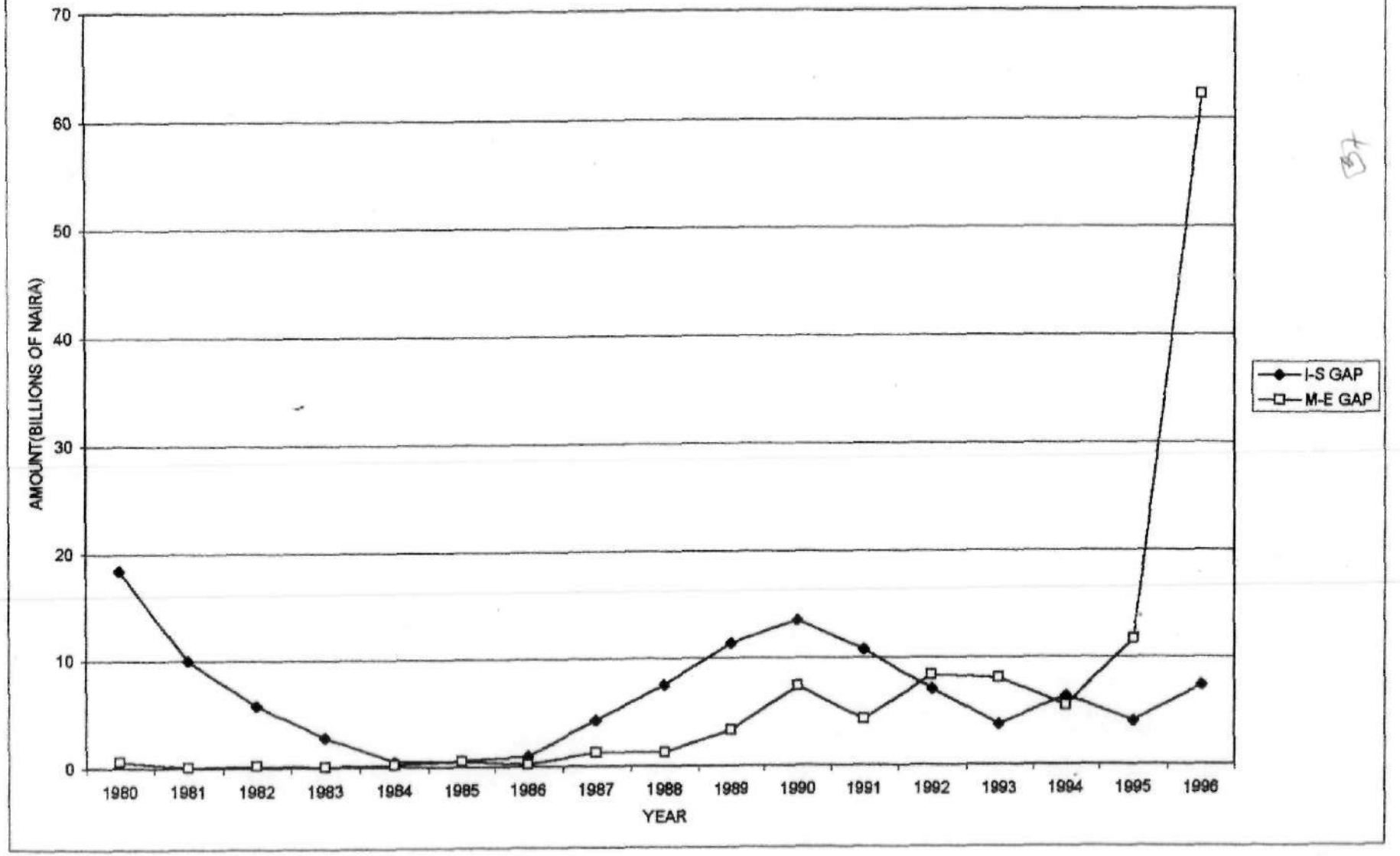
TABLE 4.1

ESTIMATED INVESTMENTS-SAVINGS AND IMPORT-EXPORT GAPS FOR NIGERIA BETWEEN 1980 AND 1996 IN BILLIONS ON NAIRA

	1980	Y1 1981	Y2 1982	Y3 1983	Y4 1984	Y5 1985	Y6 1986	Y7 1987	Y8 1988	Y9 1989	Y10 1990	Y11 1991	Y12 1992	Y13 1993	Y14 1994	Y15 1995	Y16 1996
GDP @ 1994 FC IN N bins	92.2	70.4	20.2	66.4	63.0	68.9	71.1	70.7	77.8	83.5	93.3	94.6	97.4	99.6	101.0	103.58	107.0
INVESTMENTS	22.2	13.9	10.3	7.6	3.2	4.2	4.8	3.6	3.1	4.2	5.7	5.9	5.6	6.6	5.9	6.2	5.5
SAVINGS	3.8	3.9	4.5	4.8	2.7	3.6	3.8	7.9	10.6	15.6	19.2	16.7	12.7	10.4	12.3	11.1	12.9
I - S GAP	18.4	10.0	5.8	2.8	0.5	0.6	1.0	4.3	7.5	11.4	13.5	10.8	7.1	3.8	6.4	4.1	7.4
EXPORTS	9.1	11.9	8.8	7.9	7.2	7.1	5.9	17.9	21.4	30.9	35.7	89.5	143.2	165.6	161.0	757.9	563.3
IMPORTS	14.9	12.9	10.8	8.9	9.4	12.2	8.4	28.2	31.7	63.2	120.1	132.4	226.9	245.7	215.5	875.5	1186.1
M - E GAP	0.58	0.10	0.22	0.10	0.22	0.5	.25	1.3	1.3	3.3	7.4	4.3	8.4	8.1	5.5	11.7	62.2
PHASES	PHASE I					PHASE II					PHASE III						

SOURCE: COMPUTED FROM CBN STATISTICAL BULLETIN, 1996

FIG:4.1 ESTIMATED INVESTMENTS-SAVINGS AND IMPORT-EXPORT GAPS FOR NIGERIA BETWEEN 1980 AND 1996 IN BILLIONS ON NARIA



As indicated in the model discussion, for Nigeria to fill its gaps and achieve a targeted rate of growth of national income, there is a need for foreign capital either in form of foreign direct investment (FDI), Aids, Loans or any other form of capital. Once the larger of the two gaps is filled then the growth process will begin

In phase I the I-S gap predominates the two gaps with N18.4 billion in 1980. The gap declined steadily to its lowest values of N0.5 billion in 1984. The M-X gap also recorded the largest in 1980 this characteristics is in conformity to the conventional assumptions and empirical evidence on the dual-gap analysis. Cehenery and Strout (1966) showed that at the First Stage of development countries will have a dominant savings constraints and later foreign exchange constraint over their course of development.

The reason for I-S gap being predominant in this phase was the steady decline in per capital income in Nigeria over time which was accompanied by rapid increase in population thus, putting much pressure on the resources available in the economy. The population increased from 60 million in 1975 to 102.3 million in 1996. On the other hand, the GDP in real terms declined from 102.29 million in 1980 to N89.329 billion in 1996 (CBN, 96). With the continuos population explosion and a gradual decline in real GDP there is a tendency for per capital income to decline which will affect the marginal propensity to save (MPS) negatively.

Another factor that retards savings mobilization in Nigeria is the growth of savings resulting from increase in real income which is not channeled into

production uses that would have had a multiplier effect and thus enhance economic growth. The increase in income only resulted in massive increase in consumption (especially imported goods).

Phase II (between 1985 and 1991) is very critical in the economic history of Nigeria. A lot of structural transformations took place during the Structural Adjustment Programme. The values under this phase showed a significant improvement in the overall economic performance. Although the increase in the GDP was not encouraging, however, the levels of savings increased considerably. The largest I-S gap recorded during the period was N13.5 billion in 1990 which was less than the initial gap assured in 1986. The M-X gap also reached its peak in 1990 with N74 billion under the second phase.

The significant improvements witnessed during the phase can be attributed to various policies put in place under the Structural Adjustment Programme. Some earlier anti-exports policies were replaced with some incentives like the abolishing of import and export licensing, and most of the domestic prices especially for agricultural produce were deregulated. The immediate effect of such reforms was to restore the incentives to exports, discourage imports, increase productivity and profitability of agriculture and other sectors, which increased the level of income and also directly increased the rate of savings. In contrast to an average decline of 1.8% per annum between 1981 and 1985, Nigeria's real GDP grew by 5.4% per annum between 1987 and 1992 (World Bank, 1996). The values of exports also increased significantly during this period from N9.1 billion in 1980 to N120 billion in 1990 (CBN 1996).

The third phase (1992 – 1996) marked the post Adjustment or Consolidation period. This phase reflects the gains and loses of the Adjustment Programme. In this phase the M-X gap was the dominant of the two gaps. The largest gap of N62.2 billion was recorded in 1996 while the I-S gap reached its zenith under this phase in 1991 with the values of N10 billion (See Figure 4.1). The improvements recorded during the second phase under the adjustment programme were overshadowed by the impacts of policy distortions on average income. Events since 1992 have eroded many of the positive gains that took place during the SAP era whereby the real exchange rate appreciated thereby reducing incentives for non-oil exports (this caused the M-X gap to broaden). Wide margin between official and parallel exchange rates between 1991 and 1994 shifted potential investible funds from real sectors to foreign exchange transactions (World Bank; 1996). This process caused the risk proned agriculture and manufacturing sectors to suffer with the substantially reduced credit or working capital needs for small holder farmers and the diversion of foreign exchange means for industrial inputs imports to foreign exchange dealings.

The above also suggests that Nigeria has been unable to bring about the required adjustments in its productive structures so that the exports could rise more rapidly than the imports. Also these high imports requirements resulted from relatively inelastic demand for large proportion of manufacturing goods currently imported particularly intermediate and finished consumer goods arising from lack of sufficient domestic supply and their necessity in production.

Furthermore the existing economic structure in Nigeria at any moment in time also limits the feasible growth of exports earnings. Since exports earnings

from primary products are determined by the World demand conditions there is a need for a rapid increase in exports products or improvements on the existing ones which is limited by protective capacity as well as organizational and institutional factors.

Based on the analysis, the results showed a need for Nigeria to generate a surplus of at least N62.2 billion in order to close the two gaps and finance targeted growth rate and bring an end to foreign borrowing.

To achieve the above, there is a need for export promotion or import substitution policy that can generate enough resources sufficient enough to eliminate the difference between the two gaps.

4.2.2 Net-Resource Transfer

Negative Net Resource Transfer remains one of the greatest problems that militate against rapid economic growth and development in Nigeria from the calculated values in (Table 4.2 below). It can rightly be seen that throughout the period under review from 1980 to 1996 Net Resource Transfer remained negative except in 1982 when positive values of (US $1562 million) was recorded. Since then the figures remained deficit; between 1983 and 1996 the rate of negative transfer continued to fluctuate; the highest of US $11394 million was recorded in 1985. However, the amount declined appreciably reaching the lowest point of US $67 million in 1995. As shown in figure 4.2 capital flight and debt servicing were the major contributory factor responsible for the negative transfers. In 1987 the rate of capital flight from Nigeria was US $5,408 million (Ajayi, 1990); that was about 90% of the total negative transfers while the foreign direct investments

(FDI) during that year was US $68 million. Capital outflows remains one of the most disturbing effects of debt crisis in most LDCs. According to IMF, capital flight for Nigeria (plus 12 other LDCs) rose faster in 1980 than the total external debt. Capital flight as percentage of external debt rose from 43% in 1983 to more than 50% by 1988 (IMF Survey, 1990).

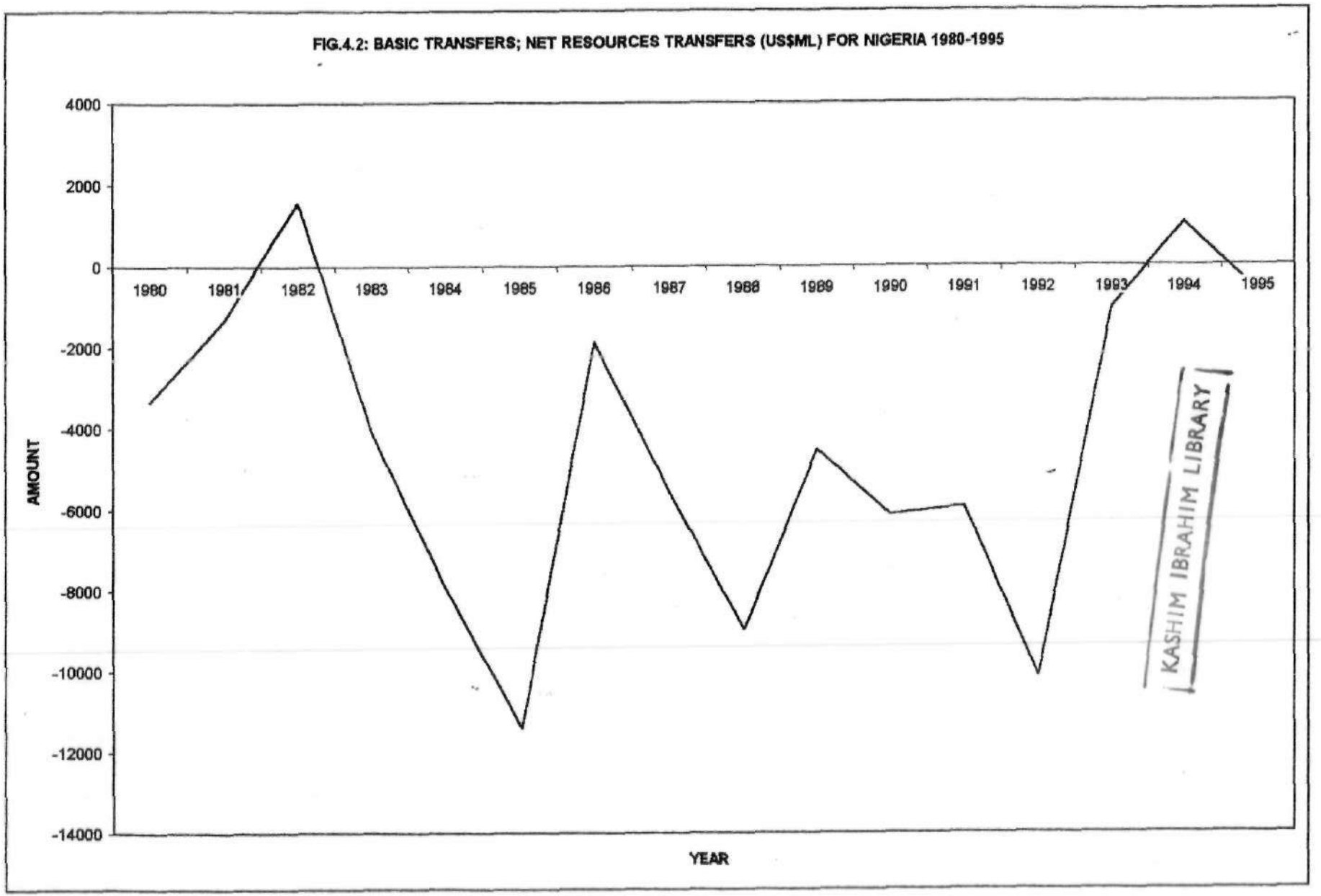
The high rate of negative net resource transfer serves as a tax on domestic economy by consuming substantial amount of foreign exchange that were generated from exports to be used for domestic productive ventures. It also puts pressure on BOP through continuos needs to borrow to meet the domestic foreign exchange needs.

Table 4:2 BASIC TRANSFERS: NET RESOURCE TRANSFERS (US$ ml). FOR NIGERIA 1980 - 1996

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1980-1996
EXTERNAL LOAN DISBURSMENTS	1,753	3,141	3,724	2,986	2,023	1,658	1,347	2,524	1,843	3,176	1,854	1,573	888	1,087	1,098	866	616	27820
Principal Repayments (Amortizaaon)	485	1,270	1,581	2,324	4,450	5,735	2,496	922	1,392	1,229	1,360	1,724	3,7756	1,158	1,492	1,836	2,836	67304
Interest payments (INT)	1,441	1,825	2,124	2,416	3,198	3,034	1,330	1,254	2,996	2,989	4,279	4,137	3,702	1,774	2,201	1,774	2,134	40474
NET FLOW ON EXTERNAL DEBT	-173	46	-81	-1,754	-5,625	-7,111	-2,473	348	-2,545	-1,042	-3,785	-4,288	-6,570	1,845	-2,595	-2,744	-4,354	-42237
Foreign Direct Investments (FDI)	-740	546	430	-354	189	470	195	68	na	1,882	588	712	897	1,345	1,959	2,201	1,391	10388
Other Capital Flows	-1,529	-1,4425	1,810	1,656	324	-1,275	-1,421	-251	-12,235	-2,692	-900	-349	-2,735	322	711	766	Na	-32223
Grants Including Technical	50	56	52	48	33	1,032	59	69	120	199	220	227	215	151	121	111	109	2763
EXTERNAL NET FINANCING	-2,219	-777	2,211	304	-5,079	-6,884	-3,640	234	-3,648	-1,653	-3,877	-3,698	-8,193	-27	196	334	-2,854	-36452
CAPITAL OUT FLOWS	5,93.2	-	-	3,581.2	-2,100	-3,665	-1,334.4	-5,408.89	4,941	1,381	135	186	116	150	165	145	160	-1114.89
Interest and Profits Received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Interest and Profit remitted Abroad	529	535	649	809	785	845	848	450	380	1,480	2,124	2,054	1,831	862	1,075	859	1,043	116115
NET RESOURCE TRANSFERS	-3,341.2	-1,312	1,562	-4,086	-7,964	-11,394	-1,852.4	-5,624.89	-8,969	-4,514	-6,136	-5,938	-10,140	1,039	1,044	-670	-4,057	-112462.49

Source: Author's calculation using model framework

FIG.4.2: BASIC TRANSFERS; NET RESOURCES TRANSFERS (US$ML) FOR NIGERIA 1980-1995



KASHIM IBRAHIM LIBRARY

This development shows an urgent need for greater adjustment on the part of government in order to be in a position of increasing the inflow of foreign exchange. To achieve this, the government has to embark on policies to boost exports, discourage unnecessary imports, lure foreign investors and of course to put pressure on her creditors to give more concessions on her foreign debt in terms of interest payments and some wavers on the principal.

CHAPTER FIVE

SUMMARY, CONCLUSSIONS AND RECOMMENDATIONS

5.1 SUMMARY

This study was an attempt to analyse the causes of the external debt accumulation and its consequences (negative resource transfers) in Nigeria between 1980 and 1996.

In Chapter One, the relevance of the study was highlighted. As a background we noted that the present debt crisis in Nigeria can be traced back to the early 1980s, when Nigeria joined the league of the major debtor nations of the LDCs. Since then, debt and debt-servicing burden have become heavy and unbearable. It imposed intolerable constraints on the efforts of government towards achieving its developmental objectives. As a result of the high debt burden large proportion of earned foreign exchange were earmarked for debt services annually. This coupled with capital flight left little amount of resources for domestic productive investments.

The aforementioned problems motivated the researcher to investigate the causes and consequences of debt accumulation and to suggest ways to remedy the problem.

In Chapter Two we analysed the general profile of the Nigeria's external debt and found the causes of the debt crisis to be poor macroeconomic policies, large-scale corruption and the recession in the Western World in the early 1980s among others.

The structure of the external debt revealed some number of characteristics especially with respect to composition and terms of payments. The structure showed that the bulk of the external loan was from private and non-concessional sources and were contracted at unfavourable terms.

Chapter Three was a general review of the related literature. In the first part of the chapter we discussed the theoretical framework of the study that is the Harod-Domer Model of economic growth which stressed how foreign capital can be used to fill the saving: Investment and import exports gaps in the LDCs, process of development.

In the remaining part of the chapter we examined both theoretical and empirical literature on external debt crisis. Three schools of thoughts which held divergent opinions on the causes of the debt crisis in the LDCs were identified. The first school of thought is the internalist who blame the debt crisis largely on wrong macro-economic and trade policies which distorted markets and misallocated resources in the debtor countries. These includes over valued exchange rare, deficit financing through printing of money among others.

The second school of thought is the Externalist view which held the opinion that the crisis is a result of the workings of the international political economy such as the role of Western Commercial banks, the recession in the developed countries and the fluctuations in the demand and prices in the international commodity markets etc.

The Third school of thought consists of scholars and economists who held a balance view that, both external and internal factor were responsible for the present debt crisis in the LDCs.

In the first part of Chapter Four we discussed three basic models used as the theoritical basis for the thesis. The first two were the dual-gap models savings investment and export-imports gaps while the third was the World Bank Basic Transfer Accounting Framework. In the analysis of the dual-gap we divided the period of our study into three phases. The result revealed that in phase one (1980 – 1985) the I-S gap has the dominant gap with the widest recorded in 1980.

The second phase (1986 – 1991) showed an important improvement in the general performance of the economy during the SAP the gap was reduced narrowly though the I-S gap remained the dominant gap.

The third phase was the period between (1992 and 1996) this phase exhibited a contrary phenomenon. Under this phase the X-M gap was the limiting gap with the highest of N62.2 billion Naira in 1992. This development might be the result of policy distortions and political instability witnessed in Nigeria during the period.

The above result conforms with empirical results and conventional assumptions that during the initial stage of development in the LDCs, the I-S gap will be the larger of the two gaps (Chenry and Strout 1966).

The calculated Net-Resource Transfer during the period between 1980 and 1996 revealed that throughout the period under study (except 1982) Nigeria had

transferred more resources abroad than it received implying a negative resource transfer. Hence, Nigeria lost foreign exchange in the form of capital flight and debt-servicing.

In the concluding part of this chapter we calculated the debt burden indicators which showed that most of the ratios calculated were above the World Bank critical levels, implying that the debt burden has been very high in Nigeria.

5.2 CONCLUSION

The findings of the study showed the joint influence of external debt and Net Resource Transfer caused both the I-S and X-M gaps to widen. The growth of the external debt was attributed to low exports earnings. Apart from this a substantial proportion of the export revenue was devoted to debt service.

From evidence there was a joint feedback between external debt and Net-Resource Transfer which negatively affected economic growth and development in Nigeria during the period under study.

The general macroeconomic performance of Nigerian economy however, differed considerably between the three phases categorised in the study. Development(s) under each phase coincided with some factors which influenced the general performance of the economy under the phase.

Finally, it was clear that the poor debt management policies of Nigeria were important additional elements that aggravated the difficulties for example, the increased reliance on short-term debts against long-term was a symptom of

poor debt management policy

5.3 POLICY RECOMMENDATIONS

Having shown that the overall performance of the economy during the period was not encouraging, we hereby make the following policy recommendations:

i. In managing Nigeria's external debt, the government should ensure that the momentum of social and economic development in the country as well as the living standard of Nigerians are not compromised. In this regards, the government should strive to reduce the country's debt servicing obligations downward. On annual basis the country's debt service ratio should not exceed 20% of total foreign exchange earnings accruing to the government.

ii. As much as possible, the government henceforth should avoid raising loans from the international capital markets and other creditors such as IMF which charge high rate of interest and whose money carry short maturity. Emphasis should instead be placed on raising soft loans on concessional terms from such bodies as International Development Associations (ODA), United Nations Development Programme (UNDP) and other multilateral Agencies like the World Bank. As a general rule only soft loans with long maturity should be taken from International Lending Agencies.

iii. There is a need for legislations to establish a comprehensive and consistent policies and institutional framework for external debt management in Nigeria to facilitate cooperation, coordination and

collaborations by all concerned in the management of external debt in the country.

iv. To reduce the debt burden and increase debt servicing capacity, an increase in export and reduction in world interest rates is required therefore a continuos macroeconomic policy that will avoid inflation and over- valued exchange rate should be adopted and in addition, or as part of the package, borrowed funds must be used productively.

v. In restoring investment and the level needed for sustainable growth, the evolution of appropriate domestic policy to increase savings and promote investments will be required. These policies that will foster savings habits and remove impediments to investments are necessary. Beneficial foreign investments will only be forthcoming, if the huge debt-overhang is reduced and if political stability exists. More reliance on domestic savings in future will be needed given the increasing stagnation in the international capital flows to indebted countries.

vi. The Sub-Sahara African countries need to reiterate their call for a maximum limitation on debt servicing and for a minimum inflow of capital to guarantee steady per capital income growth. A way must be found for moving more aggressively to reduce outstanding bilateral debt of all countries without corresponding cut-back in ODA. Political pressures must be increased for reducing the commercial debt of middle income countries and for making special provision for heavily debt-distressed countries including where necessary the writing down as rescheduling of multilateral debt.

vii. Government should, by and large be credible and consistent with emphasis on promoting exports, savings, investments and on the industrialization of the economy the absence of continuos major policy changes will no doubt enhance credibility and produce good environment for investment which will enhance both foreign direct investment and local

private investments.

viii. Finally most of the foreign borrowed and locally raised funds should be invested in productive uses that will raise the capacity of the economy to repay the debt. Nigeria should also rely heavily on domestic savings and domestic resources for financing investments.

These conclusions have important policy implications on the reduction of debt. If the government wants to reduce the level of its indebtedness it should not determine the level of borrowing on political ground and consequently adjust its revenue accordingly. The amount of funds available should determine the level of government spending. This may be achieved by the adoption of debt management policies that overcome the problems of existing ones it should also without fail – if it can enforce the borrowing limits.

Measures to curtail excessive borrowing must consist of policies designed to reduce deficit by enhancing revenue base and cutting unproductive expenditure. The latter calls for economic restructuring, improved tax collection which will reduce government borrowing.

BIBLIOGRAPHY

Ajay C. and Sonia P. (1994): "Investment Recovery and Growth in Nigeria. The Case of Debt Relief. In African Debt Burden and Economic Development" selected papers for Annual Conference of the Nigerian Economic Society pg. 115-141.

Ajayi S. I. (1991) "The Macro-Economic Approach to External Debt: The Case of Nigeria" African Economic Research Consortium (AERC) Research Papers Series VIII English Press Limited Nairobi, Kenya.

Ajayi S. I. (1990) "Capital Flight and External Debt in Nigeria" African Economic Research Consortium (AERC) Research Paper Series.

Andrew W. (1993) How should Sovereign Debtors Restructure their Debts, Fixed Interest Rates, Flexible Interest Rates or Inflation Indexing: Policy Research Working Papers. The World Bank.

Andrew W. (1993): Did the Debt Crisis or Declining Oil Prices cause Mexico's Investment Collapse? Policy Research Working Papers Series 1102. The World Bank.

Andrea B. (1989) "Investment and Value of Foreign Debt". Development Studies Working Papers Series March, 1989.Anoaleng K.

Amoako Adu B. (1996) Economic Growth Experts and External Debt Casuality. A Case of African Countries. Journal of Applied Economics Vol. 28 No.1.

Ashinze J. O. (Mrs), Onwioduokit E. A. (1996). Economic Growth and Foreign Debt. A Case Study of Nigeria Central Bank of Nigeria Economic and Finance Review Vol. 34 No.1.

Bello, B. G.(1994): An Analysis of Some External Debt Indicators for Selected African Countries. A Lesson for Nigeria. In African Debt Burden and Economic Development Nigerian Economic Society Annual Conference.

Bleger, M. I. and Cheastly A. (1991). Measuring the Fiscal Deficit, Analytical and Methodological Issues. Journal of Economic Literature.

Callegy T. (1983) External Actors and Relative Authority of Political Aristocracy in Zaire. Journal of Commonwealth and Comparative Politics.

Camdessus M. (1988) "The IMF Facing New Challenges" . An Interview with the Managing Director of the Fund in Finance and Development Vol. 25 No.2.

Central Bank of Nigeria (1983 – 1996) Various Issues of Annual Reports and Statements of Accounts C.B.N. Lagos.

Central Bank of Nigeria (1996) Statistical Bulletin, C.B.N. Abuja.

Chain, P. and Philipil. (1994) External shocks and performance response during systematic transition. A case of Ukrain World Bank Policy working paper WPS 1361 the World Bank

Chenery H. and Adelman I. (1996) "Foreign Aid and Economic Development: The Case of Greece." The Review of Economic and Statistics Vol. XLVIII No.1 February

Chenery H. And Stroot M. A. (1966) "Foreign Assistance and Economic Development ". The American Economic Review Vol. LVI No. 4 Sept.

Chenery H and Bruno M. (1962) Development Alternatives in an Open Economy: The Case of Israel Economic Journal March.

Chhiber, A. and Pahwa, S. (1994) Investment Recovery and Growth in Nigeria In African Debt Burden and Economic Development annual paper NES

Citicorp of New York (1987). A Document Titled "A Current Perspectives on LDCs Debts".

Cohen, D. (1996). The Sustainability of African Debt. A Policy Working Papers Series 1621. The World Bank Washington D.C. July 1996.

Dike E.(1997) Understanding the economic dimension of external debt crisis Economic Dept. A.B.U. unpublished book.

Dournbusch, R. (1986) International Debt and Economic Stability in Debt, Financial Stability and Economic Policy. A Symposium Sponsored by Federal Reserve Bank of Akansas..

Eaton, J. (1992) Sovereign debt "Primer" World Bank Policy reach working paper WPS 855 The World Bank

El-Shabley M. And ThirWall A. P. (1981) Dual-Gap Analysis for Sudan World Development February 1981.

Ejaz C. And Zang H. (1995) Is Ethiopia's Debt Sustainable? Policy Research Working Paper Series No. 1525. The World Bank Washington DC.

Emenuga, C. (1994) Alternative Financing and Nigeria's External Debt: In African Debt Burden and Economic Development Nigerian Economic Society Annual Conference Papers.

Ezenwe U(1994): The African Debt Burden and Policy Options: In African Debt Burden and Economic Development Nigerian Economic Society Annual Conference.

Esser, Klaus (1990) Latin America in crisis Neo structuralism as an Economic Policy Response Economics Vol. 41 PP 39 - 61

Fashanu J. B. (Mrs) (1995) Managing Nigeria's Debt under Baker and Brady Plans. k Central Bank of Nigeria Debt Trends Vol. 1 No.1. Sept.

Greene. J. I. And Khan, S. M. (1990). The African Debt Crisis. Research Paper Series No. 3 Nairobi Kenya. African Economic Research Consortium (AERC)

Haynes: J. (1982) From Revolution to Pragmatism in Ghana. Politics No.7 Vol.2 October (1987).

Healey, N. M. (1990) "The International Debt Crisis Eight Years on" Journal of Regional Policy Vol. 10 No.2 1990.

Helleiner G. K. (1999) Sub-Saharan Debt Problems: Issues for International Policy. University of Toronto.

Hussain, I. And Rasheed F. (1994) Adjustment in Africa from country case study World Regional Sectorial Studies The World Bank

IMF Survey (1990). International Monetary Fund Washington DC.

Iyoha, M. A. And Iyare, S. O. (1994) Africa's Debt Problem in African Debt Burden and Economic Development Nigerian Economic Society Annual Conference.

Ikara, B. (1988). The Human Side of Economic Management in Nigeria. Keynote Address to the Fifth National Forum for Boards of Directors of Nigeria Public Enterprises Daula Hotel Kano Sept., 1988.

Irefin D. (1994) Nigeria's External Debt: Genesis Structure and Management Unpublished Work University of Maiduguri.

KASHIM IBRAHIM LIBRARY

Jackson, R. H. and Rosberg, C. G. (1982) Personal Rule in Black Africa, Prince Autocrat, Prophet and Tyrant: California University Press.

Kapil, K. (1995) Restructuring of Uganda's Debt: The Commercial buy-back Operation Policy Research Working Papers Series No. 1409. The World Bank January.

Korner, P. Mass G., Siebold, T. and Tetzlaft R. (1986). The IMF and the Debt Crisis: A Guide to Third Worlds Dilemmas. 2 Ed. Books London.

Laws of the Federal Republic of Nigeria (1987). Government Printer Lagos.

Lever, H. and C. Huhne (1984) Debt and Danger Penguin London.

473636

Nyerere, J. K. (1984). An Address in Development and Change Vol. 17 No.3 July.

Omoruyi, S. (1995) Role of Private Flow, Aid and Debt Relief Debt Trends C.B.N. Vol.1 No.1.

Ojo, M. O. (1994) African debt burden in historical perspectives in African debt burden and economic development Nigerian economic society annual paper

Olukoshi O. A. (1989). Origin and Dimension of Nigeria's External Debt. In Nigerian External Debt Crisis its Management Malthouse Press Oxford

Onah, F. E. (1994) External Debt and Economic Growth in Africa Debt Burden and Economic Development Selected Papers for Annual Conference of the Nigerian Economic Society.

Parfitt, T and Riley S. P. (1988). The African Debt Crisis Routledge 11 New Fetter Lane London.

Parfitt, T and Riley S. P. (1988). Nigeria the Circuitous Path to Adjustment in African Debt Crisis Routledge 11 New Fetter Lane London.

Parfitt, T and Riley S. P. (1988). The Nature of African Debt in African Debt Crisis. Routledge 11 New Fetter Lane London

Parfitt, T and Riley S. P. (1988). Zaire Debt in an Absolutist Kleptocracy in African Debt Crisis Routledge 11 New Fetter Lane London

Parfitt, T and Riley S. P. (1988). Sierra Leone Debt and Piscal Crisis of the State. Om African Debt crisis. Routledge 11 New Fetter Lane London

Parfitt, T and Riley S. P. (1988). The Politics of External Debt Direction in African Debt Crisis' Routledge 11 New Fetter Lane London.

Philip, S. (1989). The Problems of Forecasting Debt Servicing Difficulties. In Third World Debt; The Search for a Solution Edited by Graham Brind Edward Elger Publishing Limited England.

Quentin, P. (1987). "Nigeria's Debt Problems – Causes and Solutions An Outsider's View Financial Times London.

Richard, B. (1990). The IMF and Paris Club Debt Rescheduling; A Conflicting Role? Working Papers Series No. 128 Institute of Social Studies Hague the Netherlands May.

Rockerbie, D. W.(1994). Did the Debt Crisis Cause Investment Crisis? Journal of Applied Economics Vol. 26 No.7.

Sweet, L. M. (1987) Currency Composition of Developing Country Debt the Impact of Dollar Depreciation Research Paper No. 8702 New York Federal Reserve Bank of New York.

Terter, N. (1984) Lets not panic about third World Debts Havert Business Review Nov. – Dec No. 6.

Times Magazine (1984). Times International London. May 1984

Thirlwall, A. P. (1989). Growth and Development with Special Reference to Developing Economic 4th Edition Macmillan Education London.

Todaro M. P. (1994) Economic Development 5th Edition New York – London Longman London.

Uniamikegbo, S.O. (1994) External debt burden an investigative analysis of Nigerian experience in African debt burden and economic development Nigerian Economic Society Annual Conference

Usman, I. (1995): Issues of Debt Management Strategy for Africa: In Debt Trends C.B.N., Vol. 1 No.1. September.

Van, W. And Daniel Oks. S (1995) Mexico after Debt Crisis: Is Growth Sustainable?

Walton DC (1989): Sources of stagnation in sub-Saharan Africa. World Development Vol 12 No1.

West Africa (1979) West African Magazine December.

KASHIM IBRAHIM LIBRARY

World Bank (1996): Nigeria Poverty in the Mist of Plenty the Challenges of growth with inclusion. A World Bank Poverty assessment populations and Human Resources Division Report No. 14733 UNI.

World Bank (1994): World Development Report The World Bank Washington DC.

World Bank (1994): Sub-Sahara Africa from crisis to sustainable growth: Long Term Perspective Studies The World Bank.

APPENDIX A

GLOSSARY OF DEBT TERMS

The following definitions apply throughout the chapters "Official" and "Private" refer to the source of the foreign loans. Official loans are from multilateral organizations (including the IMF) and from foreign governments. These loans are either made directly to the government of the borrowing country or guaranteed by it or its agencies when made to a third party. Private loans are from private sectors including foreign parent companies and their affiliates, suppliers, financial markets (such as commercial banks) and other sources. These private loans may or may not be guaranteed by creditor or debtor governments and agencies. Public and publicly guaranteed" refer to loans from both Official and Private Foreign sources that are made to or guaranteed by the debtor government or its agencies. All loans from foreign official sources are public or publicly guaranteed. Some loans from foreign private sources are made to, or guaranteed by, the debtor government or its agencies (those are labeled "private guaranteed"). .Some loans from foreign private sources are not "public or publicly guaranteed" (these are labeled "private non-guaranteed").

Concessional loans carry a grant element of 25 percent or more (based on standard 10 percent discount rate). Non-concessional loans carry a grant element of less than 25 percent. Long-term loans have an original or extended maturity greater than one year, while maturity on short-terms loans is one year or less. Gross disbursements are from commitments of long-term external loans by official concessional, official non-concessional and private sources. Gross disbursements of official non concessional loans include IMF purchases (total drawings on general Resources Accounts plus drawings on enlarged access resources and all special

facilities of IMF during the year specified). Disbursements under the IMFs Trust Fund and Structural Adjustment facility (SAF) are classified as concessional.

Amortization is the actual payments (including repurchases of drawings from IMF as defined above) of principal made in foreign currencies, goods or services on outstanding long-term official concessional. Interest payments are actual payments made in foreign currencies goods, and services to various lenders described above on interest obligation due on disbursed debt and on commitment charges due on undisbursed debt (when information available) that is on long term official concessional, official non concessional and private loans. Total external debt service payments include the sum of amortization interest on loans.

Net flows: represents all disbursements of oan and short term loans net of all repayments of principal on long and short term loans.

Net transfers : are net flows less interest payments

Interest Options: Allows the use of interest rate as a base for a spread. Particular importance is London inter bank offer rates (**LIBOR**) used commonly as the reference interest rate with 1 or 1-5 percent spread above **LIBOR**. There are cases when the spreads are below **LIBOR**.

Interest Remitting This involves the extension of interest repayment intervals which enables a country to postpone one or more interest payments.

Interest Recapitalization: This implies addition of an over due interest to the principal or outstanding loan.

Currency Re-denomination: Under this arrangement, a debtor country may be allowed to convert the currency of its debts to other currencies with lower interest rates with a view to reducing debt service payments.

Bilateral Agreements: These are agreements negotiated between debtor and creditor nations which established the moratorium interest rate. Interest rate on rescheduled debts under the agreed minute are negotiated bilaterally between creditor and debtor nations.

Cut-Off Date: An agreed date after which original debts are eligible for rescheduling. The date precedes the first and subsequent rescheduling exercise and more importantly, credit or debt incurred after that date is serviced in full as and when due.

Consolidation Period: A period in which debt service payments or current maturities for rescheduling fall due at the beginning of the period may precede or conclude with the signature date of agreed minute and terminate with an IMF arrangement.

Consolidated and non consolidated Debt: The portion of debt service rescheduled and the portion of debt that has to be paid according to the terms of original contrast respectively.

Current Maturities: Debt service payment on non consolidated debt or unscheduled debt due during consolidation period.

Grace period : The period during which only interest is paid on rescheduled debt.

Prepayment Period: The period during which rescheduled debt is to be repaid.

Maturity Period: This is the grace and repayment period. In most IMF facilities, a maximum of 10 years is usually granted to middle-income debtor countries while longer periods are granted to low-income countries on case by case basis.

Suppliers Credit: Private firms in developed countries advance credits in the form of commodities or at times technical services based on times depending on bargaining strength of importing developing country.

Buyers Credit: These are credit granted by exporters to importers, usually with short

maturities

Official Export Credits: They are credits guaranteed by government credit agencies such as Nigerian Export Import Bank (NEXIM), Export Import Bank (EXIM) of USA and Hermes of Germany.

Re-lending: This takes place when a foreign currency loan has been repaid in local currency but unremitted owing to insufficient foreign currency by the CBN. If such money, called "blocked funds" is lent to another investor in that locality it is referred to as relending.

Debt for Equity: This involves the sale of external debt at favourable discount for equity participation in domestic enterprise.

Debt-For-Cash: Here, the conversion proceeds are not capitalised but used for local loans repayment, local for payments or a working capital.

Debt-Debt-Swap: This involves a change of one creditor for another without changing the terms of payments.

Debt-For-Debt-Swap: This refers to an external debt that is re-denominated in local currency.

Debt-For-Development : Funds from debt conversion are used for specific development projects of private voluntary organizations such as trusts, foundations and multilateral organizations.

Debt-For-Nature: The proceeds from debt conversion are used to support conservation programmes, project wildlife, forests and other natural resources.

NEGATIVE NET RESOURCE TRANSFER

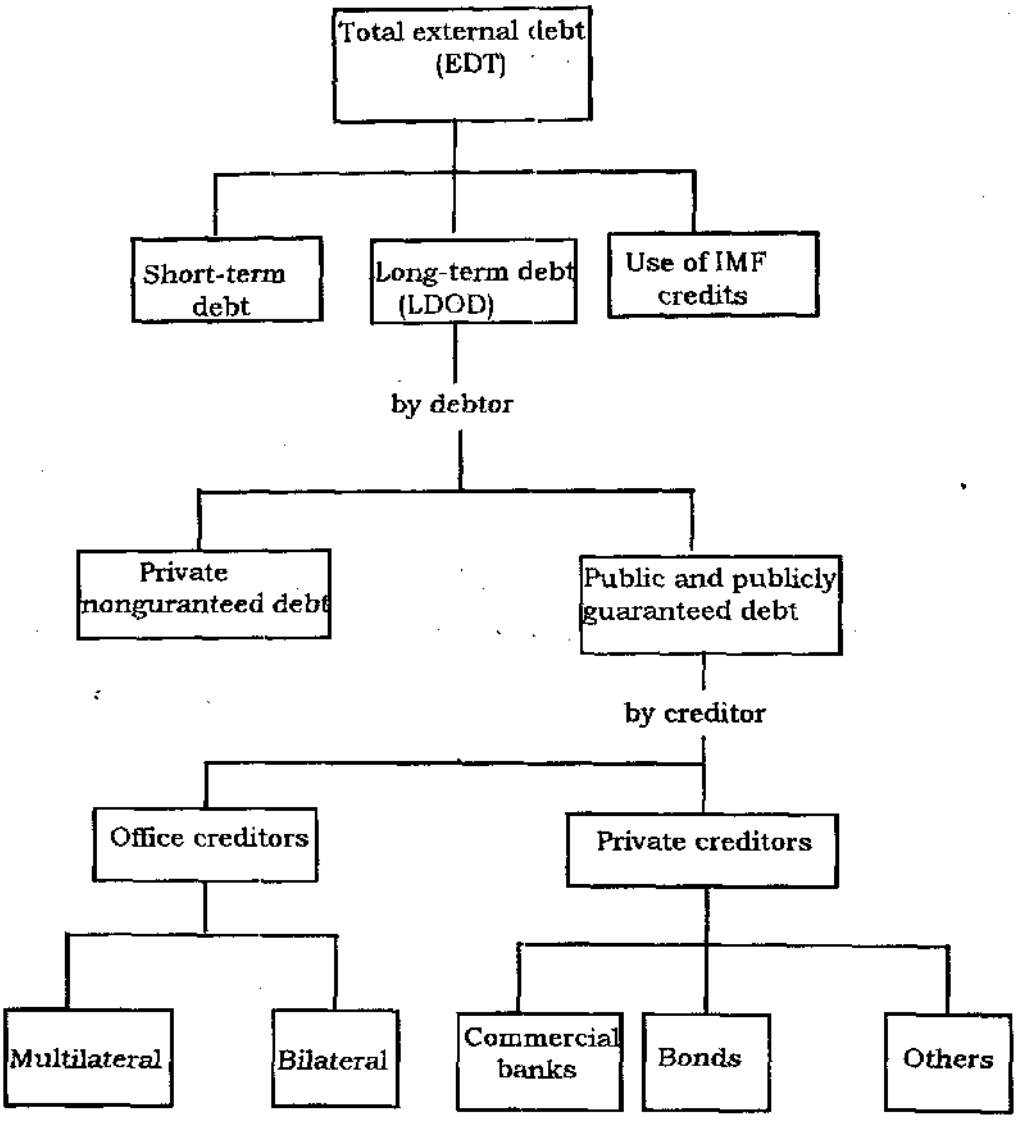
Negative net resource transfer is one of the economic consequences of the debt crisis.

As a result of heavy debt servicing and other processes, a country transfers more financial resources abroad (to the creditor nations) than it receives from abroad.

The basic transfer of a country **(BT)** is defined as the net foreign exchange inflow or outflow related to that country's external borrowings. **BT** measured as the difference between the net capital inflows and interest repayments on the existing accumulated foreign debt. The net capital inflows in turn is simply the difference between the gross inflow and organization on past debt. The importance of the **BT** lies in the fact that it represents the amount of foreign exchange a particular country is gaining or loosing each year from international capital flows.

Appendix B

Debt stock and its components.



Appendix C

Aggregate net resource flows and net transfers (long-term) to developing countr

