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Foreign Debt and Third World Development: A Focus on Nigeria

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1.1 Introduction

For most developing countries (Nigeria inclusive) the issue of heavy external debt or what is usually referred to as the debt crisis and its management has come to be an integral part of their development crises. Though there is nothing really wrong with borrowing per se, as according to Todaro & Smith (2004: 606) it can be beneficial because it provides "the resources necessary to promote economic growth and development, it has costs. In recent years these costs have greatly outweighed the benefits for many developing nations". It is therefore not an issue of whether external debt is good or not that we looking at "rather it is the ability of the government to keep the public debt within limits, so as not to impede development or provision of social service for the citizens that is actually of concern" (Obi 2005 : 110).

For Nigeria as a nation, the issue of heavy external debt or the debt burden which brought the IMF / world Bank into it's management in 1982, is a phenomenon which many believe was clearly avoidable due to the enormous petrodollars the country has earned, but which regrettably the leaders have grossly mismanaged. From an insignificant external debt of N82.4 million in 1960, the country's external indebtedness grew to about $ 36 billion in 2005. In terms of debt servicing, Nigeria had a debt service ratio of about 1.56 percent in the 1970s. This increased from 4.3percent in 1961 to 10.1 percent in 1982. It remained in that bracket till 2005 when the country got a debt relief from the Paris club.

The debt relief which the Obasanjo government celebrated as the best thing to have happened to Nigeria in recent years, did not go down well with a sizeable percentage of informed Nigerians and even some foreigners and international non-governmental organizations (NGOs). They contend that the terms of the debt relief was no relief at all, instead it was a ripe-off an international scam (419 in Nigeria's local parlance).

It is these controversies surrounding the debt relief' that the study is essentially concerned with, though with an emphasis on the effect of the debt crisis on Nigeria's development. The study would try to trace the origin of the debt crisis, its causes, management, implications and the 2005 debt relief and its implications.

Understanding the Nature and Dimensions of Foreign Debt

As already stated, there is nothing absolutely wrong or new with a government embarking on borrowing which in the final analysis creates public debt. However what matters is the use to which the borrowed resources are put to.

However, beyond the issue of how the loans are utilized, there are other factors which would push a country into the debt crises. These factors according to Todaro & Smith (2004: 607) are:

1. When the accumulated debt becomes very large so that the Basic transfers turn negative as amortization rises relative to rates of new gross inflows;
2. The sources of foreign capital switch from long term "official flows" on fixed, concessional terms to short term, variable-rate private bank loans at market rates that cause the average rate of interest to rise;
3. The country begins to experience severe balance of payments problems as commodity prices plummet and the terms of trade rapidly deteriorate;
4. a global recession or some other external shock, such as a jump in oil prices, a steep rise in U.S interest rates on which variable rate private loans are based, or a sudden change in the value of the dollar, in which most debts are denominated takes place;
5. a loss in confidence in an LDCs ability to repay resulting from points 2, 3 and 4 occurs, causing private international banks to cut off their flow of new lending; and
6. perhaps most important a substantial flight of capital is precipitated by local residents who for political or economic reasons (e.g. expectations of currency devaluation) send great sums of money out of the country to be invested in developed country financial securities, real estate, and bank accounts.

A combination of the above six factors puts the country involved into a serious debt crisis thus witnessing a downward spiral of negative basic transfers, dwindling foreign reserves, and stalled development prospects.

In tracing the roots of the Third World debt crisis, Olukoshi (1990: 6-7) has argued that the history of the capitalist system is replete with crises. These crises follow phases of expansion and growth and come in various forms, most especially, the problem of realization of surplus value (i.e. inability to find market outlets) and the tendency for the rate of profit to fall. As a strategy for coping with the problem created by the realization problem and the tendency for the rate of profit to fall, multinational banking institutions and other financiers developed the international credit system with a view to ensuring that goods find markets and profitability is thus maintained. International financiers were initially reluctant to grant loans to third world governments.

However this changed with the rise in oil price in the 1973-1974 period. The members of the Organization of Petroleum Exporting countries (OPEC) invested much of their trade surpluses with international commercial banks. These banks now used these monies to extend credit to non-oil producing, poor developing countries.

Thus, the root of Third World debt crisis can to traced to the 1974-1979 period. This was the period when the OPEC oil price increase led many of these countries to embark on massive borrowing. Meanwhile the foreign commercial banks were already awash with the OPEC petro-dollars. They wasted no time in recycling these monies as loans to these poor countries. The OPEC surplus jumped from $ 7 billion in 1973 to $ 68 billion in 1974 and hit its peak in 1980 at $ 115 billion. The same time, the external debt of developing nations grew from $ 18.4 billion in 1970 to $ 635.8 in 1980 and $ 2.14 billion in 2000 (look at table 1 and table 11) Expectedly, just as the debt was increasing so also was debt- service payments. It rose from $25 billion in 1975 to $ 75 billion in 1975.

Table 1

Dimensions of the LDC Debt Burden, 1970-2000

	1970	1975	1980	1986	1990	1995	2000
Total external debt (billions of dollars)	68.4	180.0	635.8	949.0	1,182.3	1,808.9	2.140.6
Of which Africa	—	14.9	55.6	64.7	283.3	304.1	285.1
Debt-service payments[a] (billions of dollars)	11.0	25.8	102.4	128.0	140.5	237.5	315.2
Of which Africa	—	1.3	4.1	27.6	31.1	33.1	25.9
Debt-to export ratio[b] (percent)	99.4	76.4	81.9	154.5	178.6	136.9	162.0
Of which Africa	—	—	92.5	189.0	230.7	228.5	214.2
Debt-service ratio[b] (percent of exports)	13.5	9.5	13.2	20.9	9.4	27.5	25.6
Of which Africa	5.7	—	14.4	27.6	11.3	32.8	21.0
Debt-to GDP ratio[b] (percent)	13.3	15.4	24.4	36.4	37.8	40.5	39.5
Of which Africa	20.9	—	28.3	46.6	61.4	74.2	64.8

Sources: International Monetary Fund, *World Economic Outlook; 1998 and 2001* (Washington D.C International Monetary Fund, 1988, 2001), tabs. A-31, A-38, A-41 and A-42.
[a] Actual payments of interest on total debt plus actual amortization payments on long-tem debt.
[b] Ratio of external debt to exports of goods and services
[c] Debt service as a percentage of exports of goods and services. Excludes service payments to the IMF
[d] Ratio of external debt to gross domestic product (GDP)

Table 2

Debt and Debt Service in Twenty Selected Severely Indebted Countries, 1999

Country	Debt Outstanding[a] (billions of U.S. dollars)	Debt Service[a]		Debt Indicators	
		Percentage of GNI	Percentage of Exports	Debt-to-GNI Ratio (%)	Debt-to-Exports Ratio (%)
Angola	10.9	38.6	21.1	286	156
Argentina	147.9	9,3	75.9	56	456
Bolivia	6.2	6.1	32.0	37	193
Brazil	244.7	9.2	110.9	33	399
Burundi	1.1	4.1	45.6	96	]1,072
Cameroon	9.4	6.3	24.3	76	292
Ecuador[b]	14.5	9.2	25.7	76	211
Ethiopia	5.6	2.5	16.8	55	374
Guinea-Bissau	0.9	4.7	16.4	347	1,222
Indonesia	150.0	13.5	30.3	113	255
Ivory Coast	13.2	13.9	26.2	117	220
Madagascar	4.4	4.5	17.1	80	304
Malawi	2.8	3.9	11.4	84	246
Nicaragua	7.0	9.1	16.1	271	475
Nigeria	29.4	2.9	6.0	91	185
Peru	32.3	5.8	32.7	63	354
Sierra Leone	1.2	3.3	29.9	136	1,234
Sudan	16.1	0.6	6.5	172	1,717
Syria	22.4	2.5	6.4	146	377
Venezuela[b]	35.9	5.6	23.2	38	156

Source: World Bank, 2001 World Development Indicators (Washington D.C.: World Bank, 2001), tabs, 4.16 and 4.17.
[a] Debt, debt service, and interest include the use of IMF credit. Figures are based on actual paymen ts on the external debt in 1999. GNI stands for gross national income.
[b] Status changed to moderately severe debtors in 2001 but situation remains serious

It must be noted that despite these significant increases in debt- servicing obligations most of these debtor nations were able to meet up with their debt service payment in the 1970's. According to Todaro & Smith (2004: 611) this was made possible due to the international economic climate that prevailed during that period. More specifically, a combination of declining real oil prices as a result of inflation, low or negative real interest rates, and increased export earnings narrowed current account deficits toward the end of the decade and enabled developing countries to sustain relatively high growth rates averaging 5.2% during 1973 1979 through massive borrowing.

The good story did not last, as the second oil shock of 1979 completely reversed prevailing economic conditions that favored successful international lending. The net effect was that;

Developing countries faced an abrupt increase in oil prices that added to oil import bills and affected industrial goods imports. There was also a huge increase in interest rate caused by the import earnings resulting from a combination of slowed growth in the more developed nations and a precipitous decline of over 20% in primary commodity export prices. Moreover, developing countries inherited from the previous period a huge debt and debt-service obligation, which was made even more onerous by burgeoning interest rates and more precarious as a result of the bunching of short-term maturities (Todaro & Smith 2004: 611).

They contend that as if the above scenario wasn't bad enough:

during the entire period of debt accumulation, one of the most significant and persistent trends was the tremendous increase in private capital flight. It is estimated that between 1976 and 1985 about $ 200 billion fled the heavily indebted countries. This was the equivalent of 50% of the local borrowings by LDCs over the same period.

The LDCs simply found themselves in a quandary with very little options. These options were either to curtail imports and adopt more stringent fiscal and monetary policies, thereby distorting their development objectives and goals or resort to more external borrowing to finance their deficits. Most of them chose the easy way, which was the second option. The debt kept increasing and debt service obligations also kept rising, the debt crisis has started. As a response to the crisis, both the creditors and the debtors have worked out many strategies to contain it. These include Debt Rescheduling, Structural Adjustment Programmes, Debt Equity Swap, Debt-for-nature Swaps, and debt forgiveness. Needless to say that these strategies achieved little or even worsened the situation, as is the case with most nations that adopted the world Bank/IMF structural adjustment programme. It is among these countries that one can situate Nigeria

Nigeria's Foreign Debt Crisis

Nigeria's romance with external debt started from the immediate post-independence period. Thus the promissory notes Ordinance was enacted in 1960, followed by the external loans act in 1962. While a banking fund for loan redemption was established under the promissory notes ordinance. The external loans act required the external loans to be used for development programmes and also on-lending to regional governments. 1965 saw the amendment of the 1962 act, in order to broaden the use of the external loans.

Nigeria's external debt was N82.4 million in 1960, while it grew to N435.2 million in 1965 andN488.8 million in 1970. The external loans (Rehabilitation, Reconstruction and development) decree authorized the Federal Government to raise and use external loans of not more than N l billion for carrying out rehabilitation projects arising from the war and for on-lending to state governments.

Nigeria's debt stood at N263.4 million in 1972, N276.9 million in 1973, N322.4 million in 1974, N349.9 million in 1975, N384.6 million in I976andN496.9millioninI977.

It was the action of the Obasanjo government that attracted two "jumbo" loans in 1978 that marked the beginning of the Nigerian debt crises. Thus the 'jumbo' Euro-market loans tripled Nigeria's debt to Nl,265.7 million in 1978. Many scholars believe that these 'jumbo' loans opened the flood gates of other loans, which subsequently put Nigeria firmly in the debt trap. According Anyanwu .et al

In fact it did appear that from 1978 caution was thrown to the winds and the nation had to go into an external borrowing spree. For instance, between 1978 and 1983 a total of 37 loans were contracted by the federal government totaling N2, 854 million. Although under the constitution, only the Federal Government could borrow from abroad, many state governments successfully negotiated foreign loans and subsequently obtained federal guarantees.

Although the Obasanjo government took the jumbo loans for the reason of tackling the nations balance of payment problems resulting from the decline in oil prices, Olukoshi (1990) has argued that, "in fact the more carefully we consider the loans and the use to which they were put, the more inescapable is the conclusion that they simply provided the avenue for big-time borrowing from the international capital market. The crisis of 1977/78 which we mentioned earlier was a mild onSe which, as a matter of fact, did not require the refinancing of the country's short-term trade arrears

Though the 'jumbo' loans were supposed to be used for financing some very important industrial projects like the refineries at Kaduna and Ekpan- Warri, Pulp and paper mill at Jebba, Calabar and Iwopin, the Ajaokuta and Aladja steel plants, further port development and sugar projects in Gongola and Lafiaji, Mutallab (1987) has argued that "the repayment period of eight years, including a grace period of three years, gave every indication that the Nigerian leaders were not looking to the specific projects financed for repayment but the Nigerian economy at large". He further substantiated this argument by noting that the Lagos-Ibadan expressway, into which some N178 million of the loan was sunk, had by November 1985, seven years after the European loan was raised, yielded N100.8 million or 57.3 percent of its construction cost by way of toll-gate fees. Similarly althoughN229.5 million went into the Benin-Shagamu Expressway; the road was only opened to traffic in 1981. Furthermore, it has been pointed out that the Ovwian-Aladja steel complex which consumed Nl.26 billion in total investment has not produced above 18 percent of its full capacity. The picture for the Ajaokuta Steel complex, into which some N3.5 billion had been invested as at 1984, has not been dissimilar. Yet, the Federal government decided to negotiate a second Euro-market loan of US 1.45 billion on terms similar to the first loan and for basically similar projects.

The Obasanjo regime that took the first 'jumbo' loans also put in place some mild deflationary measures under the name 'low profile' to tackle the balance of payment deficit which stood at 1.3 billion dollars in 1978. Though these measures were not really enough to tackle the problem, but the uncertainty created by the Iranian revolution, which led to an increase in oil prices plus the 'jumbo' loans helped the Nigeria economy to recover quickly, so that by 1979 the country had bounced back with a foreign reserve of N3 billion which rose to N5.6 billion in 1980.

It was under the illusion of a resilient economy that Shagari and his NPN cohorts unleashed a reign of economic recklessness on the nation. Shagari relaxed the import controls initiated by Obasanjo, and equally increased government expenditure. At the initial stage all seemed well because oil which sold at 14.9 dollars per barrel in 1978, rose to 33 dollars per barrel in 1979 and 44.4 dollars in 1980. However, this was not to last.

By the end of 1981, and the beginning of 1982, the price of oil suddenly dropped, thus from a peak earning of 10 billion dollars in 1979, the country earned just 5.161 billion in 1982. Also the contraction in the world oil market equally affected Nigeria's output, per day in 1982.

` The effects of this decline on oil revenue was very severe. The country's GDP fell by 2 percent in 1982 and by 4.4 percent in 1983. The current account recorded a deficit of N4.9 billion in 1982 and N2.9 billion in 1983. The budget deficit for 1983 alone was N6.231 billion, representing more than 50 percent of total government expenditure. Furthermore, some 50 percent of the country's manufacturing output was lost as many factories, faced with acute shortage of essential inputs, either collapsed or scaled down significantly their operations. Many workers were retrenched from both the public and private sectors while inflation went out of control as a severe shortage of consumer goods and food items hit the economy.

In the light of the economic quagmire which the nation found itself, the Shagari administration, decided in April 1982 to implement some austerity measures in order to curtail the further slide of the economy. These measures were contained in the Economic Stabilization Act- 1982. The policy measures of the Act were aimed at controlling imports, introducing more discipline into the monetary system and narrowing the gap between public expenditure and income through cuts in government expenditure.

Needless to say that the austerity measures did not really reverse the down ward slide of the economy, since it only scratched the surface and did not go dip enough to solve the problem. The government not wanting to go to the international monetary fund (IMF) and the world Bank, decided to approach international financiers for a loan of 2 billion dollars in order to help it clear the backlog of trade debt and halt the decline of the nations creditworthiness. This move was not successful. The government then decided to withdraw N314 million and N170 million in Special Drawing Rights (SDRs) from its reserves with the IMF without requesting the IMF to take part in its economic recovery effort (Olukoshi 1990).

Despite the withdrawal of SDRs, the Nigerian economic crisis, was getting worse by the day. By October 1982, the country was a clear three months in arrears in settling its routine debts in Foreign exchange. Because of this, foreign bankers severely curtailed the confirmation of letters of credit, thus putting more pressure on the already battered economy. The government, now desperate for a way out, invited the IMF to send a study team to Nigeria to examine the nature and dimensions of the country's economic crises.

In April 1983, a full year after the government promulgated the Economic stabilization Act, it applied to the IMF for a loan of 2.5 billion dollars under the Extended Fund Facility (EFF). It also made another application for a world bank Structural Adjustment loan of between 300 million dollars and 500 million dollars. It equally appointed three major financial advisers- S.E Warburg and Co., Lehman Kuhn and Hazard Freres to assist it in its efforts to reach agreement with 30 western bankers on the refinancing of nearly 3 billion dollars in trade arrears owed in already confirmed letters of credit.

The IMF as is usual, accepted to grant the governments' loan request, but with some conditionalities. The key condition was the devaluation of the naira, which it saw as being greatly over valued. The Shagari government, being conscious of the impending 1983 elections refused to accept the IMF conditionalities especially as it relates to the devaluation of the naira. It argued that what the nations economy needed then was not devaluation. Since 'the fund insisted that Nigeria must accept her conditionalities, the loan talks could not make real progress. However, the government was able to conclude arrangements with 30 western Bankers for the refinancing of nearly 2 billion dollars in trade arrears by rolling over the trade debt and converting it into a loan, repayable from January 1984 and to last for a three year period. This respite was not complete since the major international banks stated that, they would not offer fresh commercial credits to the country unless the government reaches an accord with the Fund.

Also Nigeria's official creditors, particularly the US Eximbank and the British Export credit" Guarantee Department (ECGD) refused to insure exports to Nigeria until an agreement was reached between Nigeria and the Fund. It was indeed a most difficult time for Nigeria.

However, the Shagari government still insisted on not accepting the funds conditionalities, until it was booted out of office by the military in December 1983.

When the Buhari government came to power, the Shagari government which it sacked was already discussing with the IMF for a bail-out loan facility of2.5 billion dollars, as already stated. Buhari in February 1984, resumed the negotiations with the Fund. He accepted some of the recommendations of the fund like a reduction of budget deficits, an across the board wage freeze and a serious cut in public expenditure, however he bluntly refused to devalue the Naira, remove petroleum subsidy, Liberalize trade and privatize public enterprises. The regime believed such policies were not in the best interest of Nigeria and Nigerians.

The negotiations could not make any headway because of Buhari's rejection of these conditionalities and the Funds insistence that they must be implemented before any meaningful agreement could be reached. There was indeed a stalemate. Buhari's finance minister, Dr. Onaolapo Soleye made attempts to get the British government to plead Nigeria's position in the IMF, but it was gently rebuffed by Whitehall with the argument that the agreement with the Fund on their own terms was in Nigeria's best interest.

The governments attempt to raise a loan of about 1.6 billion Naira from Saudi Arabia equally failed because the American government dissuaded them from obliging Nigeria's request. It was out of this frustration that the regime's External Affairs Minister, Ibrahim Gambari described the IMF as " a bad doctor whose bitter pill did more harm than good to the patient. it is a bad doctor that prescribes the same medicine for every patient everywhere... that is precisely what the IMF seems to do" (cited in Olukoshi 1990).With intense pressure on the nations economy and the governments lack of success with the Fund, Buhari concluded arrangement with some of Nigeria's exporting countries for a counter-trade, through which it exchanged Nigeria's oil for consumer goods, raw materials and machinery. This further angered Britain because being an oil producer like Nigeria, and its North Sea oil being the same with Nigeria's Bonny light, it couldn't partake in the trade or it was equally afraid, that the barter system will displace its position as a major exporter of goods to Nigeria.

It was under this state of affairs that Babangida sacked the Buhari government in a palace coup on 27 August 1985. According to Olukoshi (1990) in many respects, the Babangida coup represented the outcome of a struggle in which those forces favouring the acceptance of the IMF and it's conditionalities gained the upper hand. Without doubt, the coup marked a watershed in Nigeria's drift towards an IMF - sponsored structural adjustment programme and although the implementation of the Funds conditionalities have had to be adjusted to the social and political realities of the country, few will dispute the fact that for the first time, since the country's debt crisis started, international finance capital found in the Babangida administration a regime that was finally ready to "play ball" on a turf determined by the IMF.

On coming to power, Babangida immediately declared a national debate on the IMF loan. Nigerians roundly rejected the loan. However, before the debate ended, the government had declared a 15 months state of national economic emergency, starting from 1 October 1985. Later on 12 December 1985, the government announced that based on the opinion of Nigerians as expressed in the national debate, it has rejected the loan. Despite this rejection, the 15 month economic emergency was a clear testimony of the governments intention to adopt the IMF conditionalities.

The 1986 budget proposals, by the government clearly adopted measures which showed it has adopted most of the funds recommendations, which Buhari rejected. Thus, the government reduced petroleum subsidy by 80 percent, adopted a policy of Privatization and Commercialization of public enterprises and trade liberalization. According to Olukoshi (1990), with the announcement of the Babangida administrations SAP in July 1986, not only had Nigeria finally embraced all the conditionalities of the IMF, a Second tier Foreign Exchange Market (SFEM) was introduced to produce a framework for the devaluation of the Naira. Later in September 1986, the Fund issued a formal endorsement of SAP, openly signaling to western creditors that Nigeria now had a clean bill of health.

That endorsement came about a month after Nigeria initialed a letter of intent for an IMF stand-by facility. Thus Nigeria's relations with the Fund became extremely cordial and with it the U.S equally endorsed the Babangida government. The government was now able to reschedule Nigeria's debt and equally got more loans. All these despite, the open rejection of the loan and its conditionalities by Nigerians. Talk about deceit as a state policy, which was clearly the hallmark of Babangida' s administration.

The US government under Ronald Regan in appreciation of the rapprochement with the Fund, had to cancel 82 million dollars Nigeria's Official debt and equally rescheduled another 274 million dollars until 1995. The U.S equally helped Nigeria in establishing the National Drug Law Enforcement. Agency (NDLEA) to help in fighting drug trafficking which also served as a transit point to the U.S.

Indicators of Nigeria's Debt Burden

It is not enough to say that a nation has a high debt burden just because of the total amount of its debt. Rather, it is more accurate to determine the burden using the Debt Service/Export Revenues Ratio or looking at the debt service as percentages of the GDP and Debt Service/Export Revenue Ratio.

Using the Debt Service/Export Revenue Ratio, it was 3.5 percent in 1970, 8.9 percent in 1982, 17.8 percent in 1983, 29.1 percent in 1984 and 33 percent in 1985 (Nwoke 1990). Debt service as percentages of the GDP was 0.6. In 1970, fell to 0.2 in 1980, rose sharply to 9.8 in 1984, representing an increase by 49 times that of 1980. By 1985, it was 33.2 percent and in 1995 it was 16.4% (Anyanwu et al 1997).

Due to the nations inability to service its debts promptly, accumulation of penalties; interests and arrears, have really contributed to the astronomical increase in her debt. According to Dr. Mansur Muhtar the Director-General of the Debt Management Office (DMO) an institution established in October 2000 to maintain comprehensive, accurate and timely records of the country's debt. "Between 1992 and 2000, principal arrears amounted to $10.31 billion, interest arrears of $4.45 billion and penalty or late interest $5.18 billion also accumulated. End- 2003 new arrears of $3.78 billion, $1.22 principal arrears, $ 0.2 billion in late interest (Muhtar 2004).

With an external debt of$32 billion about (Nl.33 trillion), the country's debt portfolio is about 20 percent of it's Gross Domestic Product (GDP) which is clearly very high.

Debt service requirement according to Muhtar, for 2004 was close to $4.3 billion, while projected annual debt service requirement for next five years average $2.5 billion. It is because of this consistently high ratios of debt stock and debt service in relation to total export earnings and Gross Domestic Product (GDP) over the past two decades, that has led to Nigeria being classified as a highly indebted poor country by the World Bank.

Another dimension to the country's debt crisis is the impact of exchange rate risk, which results from the continued depreciation of the Naira against other major world currencies especially the U.S dollars. Between 2003 and 2004, Nigeria's debt situation has increased by about $4 Billion due to the depreciation of the Naira.

Out of the $32 billion owed by Nigeria, the Federal Government owed 75% ($24.5 billion) while the 36 states owed the remaining 25% ($7.5 billion). The bulk of the debt is owed the Paris club, an informal group of creditor nations. This stands at $23.38 billion as at 2004. Of this amount Nigeria owed the United Kingdom $6.72 billion, France $4.15 billion, Germany $4.5 billion, Japan $3.95 billion and others $5.8 billion (Muhtar 2004). The remaining part of the debt was owed the London Club, a group of western commercial banks. .

A look at the current debt servicing by Nigeria shows that the Federal Government and the state governments in 2003 spent a total ofN229.56 billion in debt service. While the federal government spent N193. 63 billion, the states spent N35.92 billion.

The most disheartening aspect of the debt crisis is the fact that what the nation has paid in servicing the debt in the past is almost about four times what she actually borrowed and she is still highly indebted. In a shocking revelation at a forum on "Debt Burden and Poverty Reduction Strategies.

The Role of the African Union," in Abuja, the Director Portfolio Management in Nigeria's Debt Management office (D.M.O) Dr. Abraham Nwankwo stated that Nigeria had in the past 38 years paid about $42 billion to the Paris Club as interests and penalties on $13.5 billion loans to Nigeria. Despite this outrageous amount, the country still owes the club $25 billion which is mainly due to accrued interest. According to him the Paris Club had become a debt enhancing rather than debt reduction association. He further stated that The experience of Nigeria with the Paris Club arrangement, which is predicated mainly on debt. rescheduling, clearly demonstrates the jeopardy faced by African debtor countries- a trap of endless cycle of debt burden. Agreement with Paris Club provides rescheduling as a way of providing debt relief for debtors, but experience has shown that it only succeeds in keeping debtors in a vicious circle of heavy burden. (Nwankwo 2005)

It is therefore this institutional arrangement that makes nations spend as much as six times the value of the principal sum in debt servicing while still remaining highly indebted that is clearly at the root of the debt crisis.

In 2004, the Federal Government paid $1.8 billion out of a debt obligation of $6.3 billion, while the nations external debt which was $32.915 billion as at December 2003, has risen to $34 billion in December 2004. Out of a debt obligation of $7.8 billion in 2005, the Federal Government intends to pay $1.7 billion, of this amount the Paris Club will receive $1 billion, multilateral financial Institutions $432.8 million, promissory notes: $170.8 million par Bonds $90. I million and non Paris Club $11.2 million (Nwankwo 2005).

It is due to this frightening situation that made the President Chief Olusegun Obasanjo to lament that Nigeria's huge debt profile was militating against the countries march to economic development. According to him, the 1.8 billion US dollars paid as debt service for 2004 translated to about 11 times the recurrent budgetary allocation to health and about five times the recurrent budgetary allocation to education. Similarly, the USDI billion paid to Paris Club alone represents over 85% of the total Federal Government s recurrent-plus-capital budget for health and education or over 280% of the capital budget in these sectors. Even then, the actual debt service payment of USD 1. 8 billion made to all categories of external creditors was much less than what was due for the year, which was USD2.95 billion. This excluded arrears amounting to USD3.36 billion. This clearly illustrates that Nigeria's debt was un-sustainable.

Debt Relief and its Controversies

Though many Nigerian's were aware of President Obasanjo's interest in getting debt relief for Nigeria, only very few knew about the details of the pursuit, until the 29th of June 2005, when the Paris club issued the following press statement:

The representatives of the Paris Club creditor countries met in Paris on 29 June 2005 and expressed their readiness, consistent with their national laws and regulations, to enter into negotiations with the Nigeria authorities in the months to come on a comprehensive debt treatment. They took note of the economic reform program implemented by the Nigeria authorities since 2003 and of their willingness to take advantage of exceptional revenues in order to finance an exit treatment from the Paris Club. This announcement takes place after Nigeria has decided to renew closer relations with the International Financial Institutions. Creditors welcomed Nigeria's willingness to conclude policy support instrument (PSI) as soon as the board of the IMF, to pay all its arrears. Paris Club approves this new instrument creditors and to treat them equitably.

On this basis, this debt treatment would include debt reduction up to Naples terms on eligible debts and a buy back at a market-related discount on the remaining eligible debts after reduction. This Agreement would be phased in relation with appropriate IMF review under PSI. This exceptional treatment of Nigeria's debt would offer a fair sustainable and definitive solution to Paris Club creditors and Nigeria. The significant debt relief would ensure long-term debt sustainability and would represent an important contribution by Nigeria's Paris Club creditors to its economic development. It would also help Nigeria in its fight against poverty. Paris Club creditors are ready to invite Nigeria to negotiate in Paris as soon as it has concluded a policy support instrument with the IMF (Guardian 2005).

This was followed by a national broadcast the next day (30th) by President Obasanjo informing Nigerians of the debt relief. In the broadcast he stated by saying that:

It is with great joy that I address you on one of the pillars of success of this administration. It is the debt relief already announced. I address you on it for several reasons. First, it is important that, as always I bring to your attention issues of national importance second, it has far reaching implications, in a positive sense for our reform agenda. Third, we have collectively worked very hard for it and now that the results are evident,we should all savour it and draw strong lessons from the profligacy of the past.
Fourth, it vindicates the steadfastness, sacrifices and tenacity of this government in its struggle to win relief from the global community in order to give us the required breathing space to make more progress.
He further said that from the agreement;

What we have now been given assurance to expect by the Paris club is that Nigeria will clearits arrears of $6 billion of the $30 billion owed, following which there will be a stock reduction on Naples Terms while we will have to buy back the remainder. This will represent, for the first time, a total exist, if you like, total freedom from Paris club debt. The package in final terms that we are to expect would yield debt relief of about 60 percent on our current Paris club debt. We shall pay off the 40 percent balance through a buy-back operation. The total write off is close to $20 billion which compares very favourably with the recent $40 billion write-off of debts for the 18 highly indebted and poor countries of the world by the developed nations (Guardian June 31st 2005).

Going further he identified the factors that led Nigeria into the debt trap as “political rascality, bad government, abuse of office and power, criminal corruption, mismanagement and waste misplaced priorities, fiscal indiscipline, weak control, monitoring and evaluation mechanism and a community that was openly tolerant of corruption and other underhand extra-legal methods of primitive accumulation.The Presidents broadcast attracted a lot of well informed commentaries both from within and outside the country. While some were elated, most felt there was nothing much in it that calls for cheers. The first major issue that confronted analysts was why were the creditors very eager to suddenly grant Nigeria debt relief to the tune of $ 18 billion? So many reasons were proffered, but that of Chidoka in the Guardian Newspaper of 16 August 2005 was quite apt. According to him, there were basically five reasons, behind the action of the Paris club:

First, we give credit to President Obasanjo for his untiring advocacy and focused leadership he gave to the debt relief campaign. Beyond that, however, is a cocktail of circumstances that placed Nigeria at an unprecedented junction in history. The events are as follows: First is the increasing realization that poverty will play a major catalytic role in the dismemberment of Nigeria and the dire consequences it portends for Africa and terrorism. The United State intelligence report only confirmed that fear and Nigeria shouldcontinually cite that report to its advantage. Second is the increasing restiveness in the Niger Delta area and its likely impact on the world energy market. Third is the institution of the constitutional conference, which signaled to the whole world that the idea of Nigeria is not yet settled; therefore the need to keep foreign exposure to Nigeria minimal. The fourth is the huge foreign reserve Nigeria amassed coupled with the burgeoning excess crude oil account. This increased our ability to make a once and final payment for debt relief. The fifth is the uncertainty that pervades the 2007 election and its possible outcomes. Tangential to this is that the international financial system may never have it as good to have a President Obasanjo, who is a moderate believer in the Washington consensus and an Ngozi Okonjo-Iweala leading a team of reform-minded influential team of technocrats in the same government. The last time we had such was under General Babangida and the succeeding government swung to the opposite with a bigoted form of nationalism that usually finds fertile soil in Nigeria.

It must be pointed out that most people, who kicked against the debt relief deal, were not against Nigeria getting debt relief, since nobody likes the country remaining a debtor with all its attendant indignities; however what they quarrel with are the conditions, especially given the circumstances under which Nigeria became a heavily indebted nation. Banjo (2005:9) captured this well in his analysis. According to him;

It is pertinent here to recall that Nigeria's debt problem is connected to loans she received in the 1980s from the governments of fifteen countries (UK, France, Japan, Germany, etc) that formed the Cartel called “Paris Club.”

According to an Economist of the Brooking Institute in Washington, D.C, the problem is a reflection of a flaw in the Paris Club debt-restructuring process more than Nigeria's inability or unwillingness to pay. What we have here is a case of non-performing creditors, and where the creditors refused to perform because of the military rulers the loans were given to, a prudent borrower ought to hold their feet to fire.
He further argued that:

To expose the flaw, some historical perspective is requisite. In 1985, Nigeria's external debt was $19 billion, of which $8 billion was owed to the Paris Club creditors, $2 billion to other creditor countries e.g., Bulgaria, $8 billion to commercial creditors, and $1 billion to multilateral agencies (mostly the World Bank and the Africa Development Bank).

At the end of 2004, Nigeria's external debt was $36 billion. Of this amount, $31 billion was owed to Paris Club creditors, almost nothing to other bilateral official creditors, $3 billion to multilateral agencies, and $2 billion to commercial creditors. The appropriate question to ask them is this; why did Nigeria's Paris Club debt balloon by $23 billion over the past 20 years?

In answer to the question, he opined that:

In brief, the Paris Club creditors stopped advancing new loans to Nigeria because they dislikedthe country's military dictatorship some of whom signed for the loans. The bulk of the $23 billon increase represents interest arrears, interest changed on these arrears, and penalties that accumulated after 1992 when the Paris Club creditors refused to negotiate a debt workout for political reasons, compounded by adverse exchange rate changes. It is instructive to mention that less than $400 million of the debt represents post-1985 borrowing. Interestingly Nigeria has received virtually no new loans from the Paris Club creditors after 1992. On the other hand, she has paid almost $8 billion to these creditors since then. Yet, she still owes them $14 billion more than she did in 1992. Moreover, instead of applying Nigeria' payments to post -1985 loans to make these performing loans, the creditors have applied the payments against arrears and penalties.

Thus, the post-1985 loans continue to accrue their own interest and penalties without challenge from all the Ministers of Finance since 1985, including the World Bank agent, Okonjo Iweala (Banjo 2005).The debt relief terms simply implies, that Nigeria will be making a down payment of $12 billion to be eligible for the cancellation. This is simply suicidal for a poor country like Nigeria. The special Adviser to the UN Secretary-General on millennium Development Goals, Professor Jeffrey Sachs on a visit to Abuja reacted angrily to the conditions. According to him "The $18 billion debt cancellation for Nigeria is good but is less than good than it should be. The creditors are nasty and stingy. To extract $12 billion from a country with an annual budget of between $3 and $4 billion is callous. Why would they be demanding so much from a country where children are dying, millions are not in school and hunger and diseases pervades? They don't need the money but Nigeria needs it". (Daily independent September 29 2005).

In his own reaction, a former finance minister, Dr Chu SP Okongwu said that:

The international community-the Paris Club the London Club the IMF and the World Bank particularly-well know that they cannot get that kind of up front money from even richer countries like Argentina, Brazil, India and Mexico Indeed anybody getting that kind of money up-front should be prepared to extinguish an aggregate debt stock of $36, billion without imposing additional conditionality on the country. (Daily Independent September 2005).

In a more biting tone Mike Ikhariale a columnist with the Daily independent in an article titled; "The debt relief fraud: is it daybreak for our celebrants" queried why the President would celebrate the debt relief with some unattainable conditions which clearly have some serious repercussions for the nation. He explained presidents Obasanjo's attitude by the fact that for an administration. that was starved of glory, any little development, positive or negative that could be remotely associated with the acts or omissions of it's functionaries could just form the basis of a well Orchestrated jubilations parade more from the sorry standpoint that if no one applauds you, then it might be necessary that you do so yourself than a genuine sense of achievement".

For the Presidents efforts towards debt relief, he argued that:

I tried to explain that it is actually because we have failed as a nation that it became the national pastime to be pursuing debt forgiveness as if the only purpose of government is to beg for debt relief or outright forgiveness. This is aside of the fact that it is amongst bankrupts that the subject of debt forgiveness has much meaning because no well-to-do person would want to make a big deal out of his indebtedness. Unfortunately for Nigeria, the ability to plead for debt forgiveness has become a rock scientist achievementfor which national and international awards are being shamelessly laundered. (Daily Independent September 29 2005).

Apart from the issue of Nigeria parting with $12 billion two other issues regarding the debt relief that have also been agitating the minds of people are the IMF's Policy Support Instrument (PSI) which is going to demand more economic reforms from the government, and which naturally hurt the poor a lot, and the issue of how the savings from debt service which debt relief would bring about would be spent. The second concern, was to do with the fact that, Nigeria is been encouraged to use her excess crude savings to pay the $12 billion and be free from the debt overhang, so as to be able to us the $1 billion she spends annually on debt servicing to provide social infrastructure for the people who are in dire need.

Commenting on the above two issues, three NGO's in Britain, Jubilee Debt Campaign, Action Aid UK and Christian AID, in a joint Briefing paper, stated that:

As is been argued by a wide range experts including UN bodies and indebted country governments as well as civil society, these measures (PSI) have not only showed debt relief, but have often harmed recipient country economies. They have been more likely to protect the assets and interests of creditors than promote growth, poverty-reduction or stability. They also undermine democracy in poor countries by denying elected parliaments or civil society a say in important decisions, about how the country is run. We believe all debt should be cancelled without economic policy conditions attached. However it is critical that the money released from debt cancellation be demonstrably used for poverty reduction. Recipient governments (Nigeria in this case) should demonstrate to their own citizens that they are spending money in a sensible and fair way. (Daily Independent September 29:2005).

Which ever way one looks at the arguments which the debt relief has attracted, one thing that is clear is that though Nigeria seriously needs debt relief, the Paris Club terms can't be seen as something that calls for celebration the way President Obasanjo feels. Though Nigerians external reserve at as September 2005 stood at $26.9 billion, which is the highest figure Nigeria has ever recorded, it doesn't mean that the Nigerian government should feel elated, releasing $12 billion to the Paris Club for debt relief.

Perhaps it is the instant possibility of escaping from this vicious cycle that explains the Presidents elation which he exhibited in his nation wide broadcast, but then, despite the inherent advantages of breaking this cycle, Nigeria should have pressed for further concessions on more favourable terms based on two grounds.

First, there is no argument about the fact that most of the debts were odious. They were simply looted by few top government officials and of course with the collusion or knowledge of the creditors. Most of these loans ended up. in foreign bank accounts overseas and never entered Nigeria. The Nigerian populace, who never benefited from these loans and even those who were not born then, had been bearing the burden, these past years.

Secondly, based on what Nigeria has paid as debt servicing in the past, she has paid, more than three times what she borrowed. It was therefore, inhuman to still expect Nigeria to pay an additional $12 billion to be freed from the debt peonage. This is despite the fact that Nigeria is currently rated 158 out of 177 countries surveyed by the United Nations Development Programme (UNDP), Human Development Index (HDI). The Nigeria Government should have therefore argued like Professor Sachs that "they don't need the money but Nigeria needs it", if she will meet the millennium Development Goals (MDGs).

Conclusion

There is apparently no doubt that Nigeria got into the debt trap in the first place due to corruption, bad leadership and gross mismanagement of her oil wealth. However it must also be noted that without the complicity of the creditors, the debt situation would not have been as bad as it was before the issue of debt relief came up. It was clearly an irony of fate that Obasanjo who in his first coming as a military head of State led us into the debt trap in 1978, also brought us out of it, through a very costly and Western manipulated process.

Now that Nigeria has been manipulated to part with a whooping $ 12 billion to settle her odious debts, despite the fact that she needs this money far more than our shylock creditors, the next thing to do, is to make sure that Nigeria never treads the path of debt crisis again. The remaining part of this work would therefore be devoted to suggestions in this direction.

In the interim, the government should desist from further borrowing irrespective of how pressing the situation seems. This may seem unrealistic, but when it is recognized that most of the past borrowings were embezzled by corrupt officials and a part of it spent on white elephant projects that never added anything positive to the nations economy, the call for an embargo on other loans-becomes quite meaningful especially now that the country's external reserve is almost $60 billion dollars.

We have already pointed out in this study that part of the reason for Nigeria's debt crises was the mismanagement of the country's resources by successive regimes. A solution to the debt crises therefore is an enthronement of a regime of accountability in government. If the resources of Nigeria are very well managed, there will be little or no need for more borrowing and there would be enough funds to service the debts and avoid the problem of accumulation of penalties, interest and arrears which have helped in substantially increasing the debt.

There is also need to critically review the country's past borrowing's with a view to determining where they were spent, and even whether such funds were brought into Nigeria. All those whose fraudulent activities in the past helped to exacerbate the debt crises should be made to refund to the nations coffers, whatever they got from such fraudulent activities.

The government should also as a matter of urgency restrict the indiscriminate importation of all manner of goods into the country. Commodities that have local substitutes should be completely banned, while those that are clearly ostentatious should be restricted through high tariff. If this is effectively done, it would conserve scarce foreign exchange and reduce our import bills and short-term trade debts.

Foreign exchange transfers outside the country by multinationals, and importers, should be well monitored so as to minimize the resource losses through this channel.

Non-oil exports should be encouraged so as to broaden the resource base of the economy. If the country earns more foreign exchange through her exports, she would be in a better position to finance whatever development projects she intends to embark on without resorting to external sources which will invariably result in another round of debt crisis.

Also by encouraging the local manufacture of imported goods, especially with local raw materials, the government would have reduced imports, increased the economy's self reliance, create more jobs for the unemployed, and generally improve the nations economy.

Finally, now that the country has exited from the Paris Club, the next question remain whether the government would now spent what she saves from debt service on project that will impact positively on the welfare of the masses. From what one has observed, the government does not seem to be reasoning in that direction. It is more interested in plying up foreign reserves, enriching themselves while allowing the masses to wallow in poverty and despondency. It thus doesn't seem that the debt relief will actually lead to any meaningful improvement in the welfare of the masses.