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Nigeria, external debt management : debt equity conversion option

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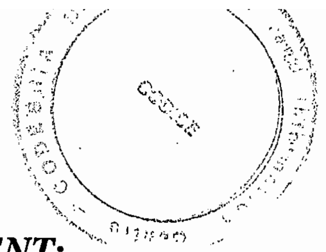

NIGERIA, EXTERNAL DEBT MANAGEMENT: DEBT EQUITY CONVERSION OPTION

BY

HUSSAINI MAIRIGA TAHIR

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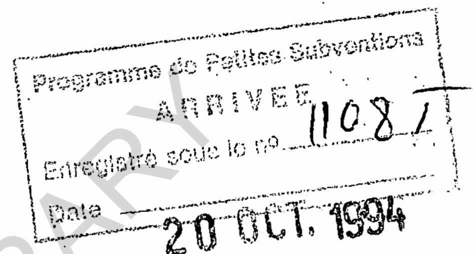

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BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, UNIVERSITY OF JOS, NIGERIA, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTER OF SCIENCE (M.Sc] DEGREE IN ECONOMICS.

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OCTOBER, 1993

DEDICATION

This Research Project is dedicate to my parents:

ALHAJI TAHIR SULAIMAN

AND

HAJIYA HAUWA NASARA TAHIR
And my Twin Sister

MALLAMA HASSANA YUSUF

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HUSSAINI M. TAHIR

October, 1993

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A B S T R A C T

Before 1978, Nigeria was considered "Underborrowed" by the International financial creditors. But ever since 1978, when Nigerian government took its first jumbo loan the country's external debt has continued to grow at a geometric rate. This has caused a lot of concern both within and outside the country, given the ratio of exports earning to debt payments (debt service ratio), which has significantly affected the share of the national income that could be committed to the productive sectors of the economy. The adoption of **IMF** inspired programmes like Privatization, SFEM and even Debt equity conversion can all in the large measure be traced to the external debts situation of the country.

Measures such as debt refinancing, rescheduling and increased loan facilities have been adopted in this period of structural adjustment. Debt equity conversion scheme is the new vogue in International finance sold to most Less Developed Countries (LDCs), Nigeria inclusive to manage their external debt. Increased loan facilities remain the most worrisome given that substantial part of new loans are from the International Capital Market (ICM) noted for its higher and variable interest rates and shorter maturity obligation. It is in view of this, that embargo on new loans and deversification of sources of borrowing away from the **ICM**, become imperative.

This research analyses the debt equity conversion scheme as a strategy for the management of Nigeria's external debt. It is our contention that the scheme cannot solve the country's external debt problem(s) but would aggravate them through new forms of dependency. The longrun costs of the scheme will more than outweigh the shortrun benefits of the scheme. However, given the determination of the government to pursue the scheme despite its shortcomings, extreme caution must be exercised in order to prevent foreigners from taking over the strategic and 'Commanding heights' of the economy the result of which may lead to

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serious political and economic costs. Of all forms of debt conversion, Debt for peso is highly recommended for adoption given its overiding benefits and minimal cost(s) relative to other forms.

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CHAPTER ONE

1. INTRODUCTION:

The 1980s have been years of formidable economic difficulties for Nigeria as indeed for other sub-Saharan African economies. These economic problems manifest themselves in terms of worsened balance of payments deficits, high rates of inflation and unemployment, declining national output levels aggravated by inadequate supply of imported industrial imputs and the subsequent low level of capacity utlilization in the industrial sector and a frightening crime problem made most serious by growing economic harship (**Osagie, E, 1987**). Crushing external debt burden on the part of most Third Wold countries is probably the most pressing issue in contemporary international economic relations.

Minerals and agricultural products usually form the bulk of exports of developing countries, in many cases accounting for 80 percent or 90 percent of export earnings. Because of the mono cultural nature of the economies of third world countries, it has been argued that developing countries undoubtedly suffer from shorter term - fluntuations in terms of trade, as world prices of manufactures and primary products periodically diverge **(Furness, E L (1983)**.

A second contention is that developing countries suffer from the instability of primary product prices erratic changes in supply occur because of the influence of weather, disease, pests and so on. Demand too can be erratic because a moderate change in the economic activity of Industrial countries can have a marked effect on purchases of primary products. At the same time price elasticities of demand and supply tend to be low. The combination of erratic shifts in supply and demand with low price

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elasticities implies considerable price fluctuation unless stocks can be readily accumulated and run down as occasion requires. But for many primary products, storage is difficult and costly and is handicapped by lack of capital. This often underlines the importance of the marketing boards and the establishment of International Commodity agreement in stabilizing world prices.

Again, developing countries often lack the technical means for neutralizing the effect of external disturbances on domestic economic activity, so that acute instability of export earnings can imply acute instability in the general levels of incomes, flunctuation in the flow of essential inputs with serious consequences for the maintenance of employment and growth.

It is sometimes contended that the major difficulty is not so much that primary products prices in general are unstable, as that developing countries tend to be too dependent on too few products and too few markets. Gambia for example, is singularly dependent on the exports of groundnuts, Ghana on Cocoa, Mauritus on Sugar, Egypt on Cotton and Ethiopia on coffee. Developing countries are therefore extremely vulnerable to the market situation in one or two products, so that a price-fall in one product has less chance of being offset by price rises in others.

These situations has increasingly widened the balance of payments deficits because of high imports that exceed exports of the developing countries. The increasing need for foreign capital to help correct the situation has worsened the problem because of the difficulty in the management of exports necessary for payments of debt. Rising repayment

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and interest obligations have also complicated matters.

Furness (1983), has therefore rightly noted that in principle, balance of payments problems of developing countries have been intensified by rising interest charges on foreign credit, by trade restrictions imposed in advanced countries, by the habit of teing 'aid' which prevents the recipient country from seeking the most suitable and cheapest sources of supply, and by the acute instability of export earnings.

During the period of early 1970s the level of Nigeria's external debt outstanding was not only relatively low, but also the bulk of it **(about 78%)** consisted of bilateral and multilateral loans. Such loans are usually provided on concessionary or 'soft' terms - payment period is much longer **(up to fifty years)** and the interest rates are lower. Thus debt servicing did not pose any serious problem during the period **(Sanusi J.O., 1987)**.

A turning point was however reached in 1978. As the oil boom collapsed and the oil glut surfaced, the presssure on government finances led to the first borrowing from International Capital Market **(ICM)** of the "jumbo" loan of $1.0 billion for balance of payments support. Being a loan from private sources it attracted higher interest rates while the maturity period was shorter. At the end of 1978, the level of total debt outstanding increased more than two-fold from the preceeding year's level of N1,265.7 million. Since then many more loans have been raised and still been raised in the private capital market as funds from the bilateral and multilateral institutions dwindled. This caused remarkable shift in the structure of the debt outstanding and a consequent increase in the debt burden **(Sanusi, 1987)**

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One particular unwholesome development during the period 1979-1973 was the indiscriminate way in which some state governments resorted to borrowing from external sources to finance all sorts of projects. Such loans which did not bear federal government guarantee were usually borrowed at high interest rates from the international capital market. At the end of 1985, such loans amounted to N477.4 million.

Sanusi has noted that the risk involved in this type of borrowing is that it tends to involve the country's Credit Worthiness in the likely event of default on the part of the state governments. **(Sanusi. J.O, 1988).**

For long, Nigerians sheild away from admitting that there was a debt problem, let alone discuss how to manage the outstanding amount rationally. And for much longer the authority did not even know how much the country owed. This complacent attitude could be traced back to the decade of the seventies when it was believed, regretably so, that the country was not only "underborrowed" but awash in resources and as such a good risk. The frenzy with which Nigerians were spending and the huge public sector spending programmes buttressed their conviction. Many a Nigerian realised that there were abundant resources but few appreciated the critical problem of management.

The sum total of the external debt of a country at a given period can be defined as an accumulation of its total liabilities both contractual debts **(mostly medium term and long term obligations)** and non-contractual debt (**mostly trade related and shorterm as in the case of Nigeria) (Olokun. I.A, 1989).**

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Abdulkadir Ahmed, the Central Bank of Nigeria's Governor has defined Debt management as "a cousclous and carefully planned schedule of the acquisition, deployment and retirement of external loans acquired either for developmental purposes or to support the balance of payments. It incorporates the estimates of foreign exchange earnings, the sources of external finance, the projected returns from the investments the loan has financed, the repayment schedule and the debt service burden. It also includes an assesment of the country's capacity to service existing debt and a judgement as to the desirability or otherwise of countracting further loans". **(Ahmed.A, 1986).**

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External debts did not become an issue of major economic importance in Nigeria until the early 1980s. In fact Nigeria did not experience any debt servicing problem until 1983. The external public debt of Nigeria increased from N49.8 million in 1960 to N175.4 million in 1970, N365.1 million in 1977, N1,252.1 million in 1978, N17,290.6 million in 1985. In otherwords, Nigeria's external debt increased by an average rate of 13.4 percent per annum between 1960-1970, 11.0 percent per annum between 1970-1977 and 65% per annum between 1977-1985. As at September 1987, following the massive depreciation in the exchange rate of the Naira, the value of Nigeria's external debt stood at N81.6 billion. And at the end of 1990 Nigeria's external debt stood at US $31.534 billion compared to a figure of US $29.120 billion recorded as at the end of September 1989 **(Ojameruaye. E.O, 1987 and Okongwu. C, 1991).**

It is clear that the rapid increase of Nigeria's external debt started towards the end of the 1970s precisely in 1978, when the government resorted to the Eurodollar financial market for loan contracting. Since most of the loans contracted came from the

the International Capital market (Private Sources), they have carried higher interest rates, shorter maturities and shorter grace periods. The consequence of this has been a severe bunching of amortization (ie principal) and interest payment since 1984 and a worsening of the debt crisis.

Therefore, since the early 1980s Nigeria like many other developing countries, has been caught in a debt crisis in the sense that she has been unable to service her huge external debts according to the terms orginally agreed upon with her creditors. Since this period, Nigeria has not only become a market borrower but has been a member of the heavily indebted countries.

Debts had to be rescheduled in 1986 because the debt service obligations falling due that year alone came to nearly 70 percent of export earnings This trend was expected to continue as a result of the bleak future for earnings from sales of Crude petroleum. As the difficult times persisted, planning in Nigeria suffer a very serious set back for non-implementation given the fact that it is predicated on oil revenue (Okogu.B, 1988).

Nigeria was caught up in a dilemma as regards the way out of the quagmire. It was a choice between the Devil and the deep blue sea. A choice that involved meeting contractual obligations of debt repayments and of course sacrificing economic development or in the alternative, use the scarce resources to promote growth.

This problem which arose as a result of the monocultural nature of the Nigerian economy, coupled with the attendant distortions in the Nigerian economy necessitated the introduction of the Structural Adjustment Programme (SAP) to correct the regidities in the economy. Some of the objectives of SAP include: the restructuring and the diversification of the

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Nigerian economy so as to achieve economic recovery by removing the nation's economic rigidities.

The debt equity conversion option was adopted to help redress the nations debt problem especially through the achievement of capital inflow, hence economic growth and development.

Debt equity swap is a scheme whereby debts are swapped or converted to equites. It is a system whereby a given amount of public debt is bought by a foreign potential investor at a discount from the original creditor. The investor will then sell the debt instrument to the debtors' Central Bank at an agreed rate in local currency. The investor then invests the redeemed value in an appropriate project in the indebted country.

OzoEson (1987), has noted that the inclination towards Debt equity conversion strategy by most LDCs, Nigeria inclusive, can be explained thus: On the part of creditors, the increasing spate of default by third world debtor nations presents the option as one way of making good what already appears like a certain bad debt. As for the debtor nations, themselves, the option proposition is usually seen as one way out of difficult situation.

IMPORTANCE OF STUDY:

Given the alarming growth of external debt in most third world countries - Nigeria inclusive, the risks of default and also the increasing incidence of debt service difficulties on debtor nations, economists - Local and International have been provoked to develop considerable interest in foreign debt problems and the necessary strategies of solving them. One of such developments is the debt equity conversion.

External debt has become an issue of major importance in international economic relations since the late 1970s and early 1980s. Between 1974 and

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and 1983, developing countries' outstanding external debt increased five fold to about $810 billion. Between 1978 and 1987, the debt increased from $400 billion to $1000 billion.

The ratio of total external debt to total exports of all debtor developing countries increased from about 132 percent in 1978 to 180 per cent in 1986 while the debt service ratio increased from 18.7 per cent to 25.5 percent during the same period **(Ojame-ruaye.E.O, 1987).**

Hence, external debt obligations became a major consideration in the management of the domestic economy Ozo-Ezon (1987), has noted for example, that, the adoption of IMF inspired programmes like privatization, SFEM and even Debt equity conversion can all in the large measure be traced to the external debts situation of the country.

STATEMENT OF PROBLEM(S)

Generally, the external indebtedness of a country becomes a problem when the burden of servicing the debt becomes so heavy and unbearable that it imposes intolerable constraints on the economy and on the development efforts of the authorities. In such circumstance, the bulk of the foreign exchange earnings is earmarked for servicing of the debt and at times, and worse still, drawing on new loans may be needed to servicing existing debts. In such a situation, only a small proportion of total foreign exchange earnings is available for financing of economic and social projects.

In Nigeria, the increase in the level of debt coupled with harder borrowing terms meant that an increasing proportion of export earnings was set aside to meet debt service payments. Thus during the period 1978-1983, the annual average debt service

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payment increased to N513.8 million, and increased further to an average of N2,953.6 million between 1984 and 1986. As a proportion of Nigeria's export earnings, the debt service payment increased from 0.7 per cent in 1983 to 33.2 per cent in 1985 before declining to 29.4 per cent in 1986. It has been pegged at not more than 30 percent in the 1991 budget. The fall in the debt service ratio in 1986 was due more to the maratorium on interest payments which the London club of creditors granted to Nigeria with effect from April 1 1986 **(Sanusi. J.O, 1987).**

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

Therefore it has been aptly put that the central problem facing both debtor and creditor nations is "how can debtor countries achieve balance of payments viability and return to a normal debtor-creditor relationships in a manner that would promote sustainable economic growth, open and growing trade and International Monetary Cooperation" **(IMF/World Bank, 1987).**

After attempts to solve the debt crisis by the introduction of various austerity measures between 1982 and 1986 proved abortive the federal government was compelled to introduce a World Bank Supported Structural Adjustment Programme in July 1986. Debt equity conversion option as an instrument of the adjustment programme was adopted in November 1988. Debt equity is seen in terms of solving the resource gap problem, quite apart from being an attempt to reduce the debt burden. The introduction of debt equity in the foray of international debt management

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can be traced to Latin American economists of Brazil, Mexico etc. Its acceptance by several other third world countries is a pointer to the fact that the debtor nations are no longer in a position to repay their foreign debts. **(Mohammed U, 1989).**

The acceptance of the scheme also derives from the recognition that foreign investment can make an important contribution to growth and development.

OBJECTIVES OF STUDY

Since the adoption of debt equity programme by Nigeria in November 1988, divergent views have emerged on its likely implications on the economy in terms of economic recovery, hence growth and development, capital inflow and other objectives of national economic growth and stability. This research aims at analysing the likely implications of this policy option. It is particularly concerned with the critical review of the implications of the programme on the external debt management objectives of the country and general economic growth.

The research intends to explore and analyse the following areas:

(a) The usefulness of the debt equity programme in the government's attempt at achieving economic recovery within the context of the structural adjustment programme;

(b) To critically analyse the implications of the programme as a policy option in the management of Nigeria's external debts and

(c) To examine the likely implications of the programme on general socio-economic development of the country.

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SOURCES OF INFORMATION

The debt equity conversion concept is a most recent one, and it is still gaining currency. Therefore this research relied so much on journals, seminar papers, Newspapers, Magazines and other sources. This dearth of information in any way does not render this research fragile as valuable, resourceful and richer information were recorded from these sources.

METHODOLOGY

In this research, we will concentrate on theoretical issues since the effects of the debt equity conversion programme are yet to manifest themselves fully. Another problem is the paucity of adequate and reliable data necessary for quantification and testing. We rely heavily on secondary data for inference on the implication of the programme on Nigeria's Socio-economic development. The research, therefore, serves as a contribution to the on-going debate on the programme.

LIMITATION(S) OF STUDY:

Limitations arise in any research work out of the scarcity of available materials and resources and readily available literature as well as limitation due to scope of study. The former problem arose as a result of the newness of area of study as the programme is still gaining currency.

The study is limited to the analysis of the debt equity conversion as an option to the external debt management techniques and its likely implications on the Nigerian economic growth and development.

RESEARCH PROJECT OUTLINE:

This research project aims at furthering the debate on the debt equity conversion as a tool of external debt management and its likely implications on the Nigerian economy. Firstly, we begin by

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way of introduction, highlighting the evolution of the Nigerian external debt problem as a preclude to the adoption of the debt equity conversion programme.

The second chapter reviews and analyses literature on the debt equity Conversion Scheme highlighting the different forms which the debt equity could take. The third chapter mainly discusses the background to Nigeria's external debt, sources and structure of the debts and the attendant crises associated with the debt.

The fourth chapter discusses the various debt management options suggested for managing external debts, Nigeria's external debt management experience. The concept of debt equity conversion as an instrument of the SAP, its practical application in Nigeria and its implications are discussed here too.

The fifth chapter analyses the implications of external debt management on the Socio-economic development of the country. The sixth and final chapter provides the Conclusion and Recommendations.

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CHAPTER TWO

LITERATURE REVIEW

In chapter one, we have shown that Nigeria's economic difficulties as manifested in the country's balance of payments deficits over the years, rising inflation, unemployment and the debt burden has been precipitated by the rising interest charges on foreign credit, trade restrinction imposed in advanced countries, and by the acute instability of export earnings among other factors. We further noted that prior to 1978 when Nigeria went to the Euro-dollar money market for the first time for a $1.0 billion loan, the country remained largely under borrowed and debt burden was not the country's problem. Since then, Nigeria have continued to borrow from the International Capital market whose loans are noted for high and variable rates of interest and shorter maturity period. This coupled with the global oil glut and indiscriminate borrowing by different levels of government in Nigeria has contributed largely to the worsened debt burden on the country.

By 1985, Nigeria has been classified among the 15 heavily indebted countries. Nigeria has since become a debtor nation.

In realization of these problems various strategies were adopted to help redress these problems. Debt equity conversion is the recent strategy adopted under the structural adjustment programme (SAP) to manage Nigeria's external debt problem.

In this chapter, we review documented literature on the different forms debt equity conversion can take. We analyse the merits and demerits associated with each form. We finally suggest the appropriate form which should be adopted in Nigeria.

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2.0 LITERATURE REVIEW:

The economic rationale for external borrowing seems to rest on the belief that such foreign capital would be used to build up domestic production capacity though such debts may, in the short run, actually increase the net deficit in the balance of payments. Apart from this, foreign capital would also promote productivity growth at certain 'point' in the economy. However the capacity to repay borrowed capital requires apart from the need to expand export capacity and/or raise productivity in the economy, a certain administrative capacity. **(Dike E, 1989).**

First, the fiscal system must be capable of gathering enough revenue to service the loan, and this requires that resources must be reallocated so as to transfer the debt service abroad. Second, simultaneously, the state must have the capacity to shift resources from consumption to capital good products, and/or from imports to domestic goods. That is, foreign resources must be channelled into sectors which lead to economic transformation.

The above requirements have been summarised in the dual gap analyses: not only must export capacity exceed import capacity, savings must exceed investment as well. For a country to amortise its external debts without recourse to new loans, it must be capable of transfering capital abroad **(loan servicing)** and still be able, simultaneously, to meet its internal development objectives. **(Dike. E, 1989)**

Payments **of** principal and interest on accumulated debts use scare foreign exchange and therefore, limit current import capacity. For this reason, special attention is usually placed on the impact of current levels of debt on development both for the short and longrun. As the size of the debt grows, so also the requirements for debt service.

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For the shortrun, the capacity to repay foreign debts is predicated on one's foreign exchange position and on the shortrun balance of payments prospects, including changes in the foreign exchange flows caused by the debts themselves.

A debt service crisis is then said to exist when a country can only amortise its foreign loans with an unduly large fraction of its export proceeds and/or with the aid of new foreign loans. The debt crisis arises largely because foreign capital has not been used productively at certain strategic poles of the domestic economy, or loans have been used to import consumer goods which do not add anything to expansion in production capacity **(Dike, E, 1989).** In the 1970s through the 1980s, the debt burden was hardly pressing, for one thing, most third world countries were capable of generating sufficient current trade surpluses to service their not so heavy external debts. By the beginning of 1980s a combination of developments in the international economy - low commodity prices, high real interest rates, recession in the industrial economies and in many instances internal macro-economic policies in the Third World Countries themselves, generated a situation whereby present levels of external debts could not be reconciled with present levels of growth in these countries.

Table I shows the broad debt indicators for Third World as a whole which has continously deteriorated since 1980. By 1986, the total external debts of developing countries had run into an estimated sum of \$753.4 billion. Total external debt of developing countries rose 6 percent in 1990 to a record \$1.34 trillion **(Business Times, 24-12-90).** On the average, the ratio of debt to exports stood at 144.5 per cent, meaning that those countries could not service their external loans without recourse to

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further external borrowing. For these countries interest payments alone began to claim upwards of 11 per cent of export earnings, and the value of external debts exceeded one-third of their G.N.P.

Ojameruaye **(1987)**, has noted that Nigeria's external debt increased by an average rate of 13.4 per cent per annum **(p.a)** between 1960-1970, 11.0 per cent **(p.a)** between 1970-1977 and 65 per cent p.a between 1977-1985. In 1974, the country's external reserve could pay for 13 months' import bill but by 1983, Nigeria could only pay for a month's import bill. Thus by 1983, it was neck deep in an external debt crisis - she could no longer pay the principal and interest on huge external debt according to the terms originally contracted. **(Ojameruaye. E.O,1987).**

Reasons for debt accumulation in Nigeria include large fiscal deficits through expansionary monetary and fiscal policies in the LDCs, inflation and recession in the industrial economies, downward trend in commodity prices which worsened the terms of trade, and the maintenance of inappropriate exchange rate systems. Additional source of worry concerned the fact that limited multilateral flows necessitated a recourse to credit from the International Capital Market **(ICM)** with shorterm maturity and grace period as well as floating interest rates.

In the summer of 1982, Mexico declared that it was no longer in a position to meet its foreign debt commitments. Ever since then, several other countries had been into similar problems, and the World Community had been awakened to the realities of an external debt crisis. Under the aegis of the International Monetary Fund, the creditors were compelled to accept deferment and other rescheduling terms and to promise a fresh flow of loans. Given the circumstance, the International lending banks

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found themselves with enormous lending portfolios of which no repayment could be undertaken in the immediate future (**Dalil .A, 1987**).

Various strategies have been recommended, and in some cases, tried to deal with the debt situation. These have included refinancing and rescheduling as well as generalised schemes entailing for instance, debt write-off by the banks.

Dalil (1987), further noted that debtor countries have basically three approaches for getting out of the debt crisis. These include:

(a) they could decide to repudiate further debt repayment obligations;

(b) another extreme is to try to meet all debt obligations as and when due;

(c) negotiations could be entered into with the creditors for the debts to be restructured or some other debt management schemes could be jointly worked out.

It has been observed that the first solution is rather infeasible. The country concerned could be declared "in default" by the International Financial Community which would stop all further lending to it or even confiscate or auction its assets all over the world. Also, the effects of debt repudiation on the world financial community could even be more devastating by leading to bank and business failures, recession etc (**Akinfesi. E.O, 1987**). And Abubakar Dalil has noted that even Fidel Castro who pioneered the repudiation plan meets his country's debt obligations quietly without any attempt to repudiate them. (**Dalil A.A, 1987**).

The second option also appears to be something of an uphill task mainly because a good number of the debtor countries had bunched up their debts

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in no time so that debt service obligations are either equal to or more than Current export earning capacities. It would certainly be suicidal economically to commit all of a country's current export earnings to debt servicing; except inflows of new money are guaranteed (**Akinfesi, E.O, 1987**).

It has also been observed that the third option of mutually resolving the debt crisis by the creditor and the debtor nations has really been in vogue for some time now. **(Akinfesi, E.O, 1987).**

First is the so called 'Case by Case' approach, the features of which had included the balance of payments support provided by the IMF debt restructuring and concerted lending to the debtor countries by way of new money. Restructuring has involved the refinancing or rescheduling of debt service payments in arrears and or future debt service payments.

Refinancing may involve a rollover of maturing debt obligations or the conversion of existing or future debt service payments into a new medium term loan. Rescheduling implies arrangements for postponing repayments, with new materials, periods and interest rates applying to the deferred amounts.

Also, Western governments and Central Banks have taken measures aimed at improving the economic structure of debtor countries, firstly by providing bridging loans and later by negotiating through the Paris club about debts under category of export insurance. Additional innovative elements in the country by country approach have included the extension of the. rescheduling period from one year to several years ie (**Multi-year Rescheduling Agreements** started with Mexico in 1982, a shift in the role of the IMF **(Ehnanced Survellance)** and increased role of the World Bank through policy based lending geared to the debt problem.

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It has been noted that the Case by Case approach has had some success in softening the crisis situation of 1982-83, although two other goals remained to be attained; which include:

(a) a recovery in normal markets access (**Spontaneous lending)** and

(b) a recovery of balanced economic growth in the countries.

Another major initiative was introduced by the secretary to the U.S Treasury, James Baker III in 1985. The "Baker Plan" which is a programme for sustained growth was aimed at fifteen large debtor countries. The idea revolved around the development of an adjustment policy which would generate economic growth and development in the countries concerned through the injection of new funds from outside. Thus the private banking community (**ie the Commercial Banks)** would have to grant new loans totalling US$20 billion between 1986 and 1988 to the fifteen most indebted countries including Nigeria. Unfortunately, evaluation has shown that since the launching of the Baker plan in October 1985, Western Banks have not only been reluctant to lend but have actually reduced their exposure to the fifteen countries of the Baker plan except Mexico which got US $7.7 billion of new money in March 1987 after nine months of intensive negotiations. **(Akinfesi. E.O, 1987.**

Because of these problems, other types of solutions had to be devised which have included the capitalization of interest payments, the conversion of debt into equity and the conversion of debt into exit bonds without new money obligations.

Hugo J. Hahn has noted that International practice in the area of debt equity conversion perhaps was first started by the commercialization of the reparations debt of the German Reich after the first

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World War. The German reparations were set at 132,000 million gold Marks without considering how the sum was to be raised and transferred; this soon led to considerable arreas of payment and then the realisation that reparations of debt must take into account German economy's capacity to pay. **(Hugo. J.H, 1986(.** Also after the second World War, at the Valta - Conference the Allies agreed that they would not impose cash payments upon the axis powers and their allies after the end of the second world war but would require payment in kind and the dismantling of heavy industry.

I.I. **Gabriel** has also noted that the first legislation containing provisions on debt equity swap is the Brazilian Profit Remitance Regulation of 1965. Article 50 provides that the superintendency of currency and credit may authorise the following conversion into investment of the principal loans registered or any sum whatsoever including interest, that may be remitted abroad. Article 50 **(Section 1)** of the same regulation stipulates that the conversion mentioned in this Article may be conditioned to the realization of exchange operation on paper. Section 2, authourises the superintendency of currency and credit "to authorise and adopt special procedures to permit rapid examination of application made for regular registration". **(Gabriel. I.I, 1987).**

Brazil has been identified as the first country to permit debt conversion since 1982 for the purpose of recapitalization through the provision of the credits. However it has been contended that the true pioneer in the field of debt conversions is actually Chile, which officially developed a comprehensive framework for formalising transactions of this type by May 1985. Ever since a number of countries have evolved similar programmes for the implementation of this new technique. Prominent among the countries

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are Mexico (April 1986), the Philippines (August 1986), Ecuador (Dec. 1986) Argentina (April 1987), Venezuela (April 1987) and Nigeria (November 1988) (Akinfesi. E.O, 1987).

Frans D. Van Loon has observed that; in all forms of debt conversion, a hard currency loan is purchased on the secondary market for hard currency, at a substantial discount. The loan is then repaid (actually repaid) by the Central Bank of the debtor country in local currency for virtually the face of the loan, but subject to very strict conditions. The sort of condition attached to the utilization of these local currency proceeds determines the type of debt conversion. The essence of debt conversion is the repayment in local currency by the central bank on certain conditions. The steps which usually preceed the repayments - where the original owner of the claim (debt) sells it at a discount to another creditor - do not change anything in the liability of the debtor. For the borrowing country or Central Bank, it makes no difference wether bank A, bank B or investor C is the owner of a foreign currency claim on it, the liability remains unchanged, according to the terms of the original (or usually subsequently restructured) loan agreement. The liability of the debtor government changed only when the creditor agrees with the debtor on the cancellation of the foreign currency liability against some form of local currency pay out. When the foreign currency debt to be cancelled is part of a syndicated loan, it will usually be necessary to obtain the prior agreement of the other creditors before such a partial prepayment in local currency/cancellation can take place. For this reason most debtor countries have by now included provisions in the agreements they reached with foreign commercial banks about the restructuring of debt which allow such partial pre-payment in local currency (Van Loon. D.F, 1987).

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Debt equity conversion could take the forms of Debt for equity conversion, Debt for Debt, Debt for cash, Debt for peso and Debt for Export. These forms of debt conversion form the basis of discussion in this chapter and each form is been reviewed.

It should however be noted that of all these forms, the debt for equity conversion has been widely applied by most developing countries who have under-taken debt conversion programme. It is therefore not surprising that the literature on other forms remain scanty.

2.1 DEBT FOR EQUITY CONVERSION

Debt for equity conversion is a scheme whereby debts are swapped or converted to equities. It is a system whereby a given amount of public debt is bought by a foreign potential investor at a discount from the original creditor. The investor will then sell the debt instrument to the debtors' Central Bank at an agreed rate in local currency. The investor then invests the redeemed value in an appropriate project in the indebted country " **(Federal Ministry of Information, 1988).**

J.K. Onoh has noted that the immediate concern of a creditor is to recover all his loans or at the worst lose only a part of it. Through debt equity swap, the creditor hopes to minimise his loss and everything being equal to use his future gains from the arrangement to offset any past losses resulting from discount of his promissory notes. The creditor may also opt to invest in equities because of the superior nature of equities over bonds **(in terms of appreciation in Value and greater dividend). (Onoh J.K, 1987).**

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And on the side of the debtor (**Nigeria for example)**, debt equity conversion is considered attractive because over 90 per cent of Nigeria's external debts are all sovereign or sovereign guaranteed debts which the Nigerian authorities are not in a position to settle now or in the near future because of poor receipts. At a discount of 30 percent of the face value of promisory notes, Nigeria might save about 30 percent of the face value of her debt.

According to Ozo-Eson, the category of investors that usually engage in debt swap are of two types. We have the Unit investors and the consortium investors The former refers to individual investors that buy debt papers from original creditors at a discount and use the proceeds in buying shares in the debtor nation's economy while the consortium investors come as a group like the big corporations **(Ozo-Eson. P, 1987).**

The consortium investors are increasingly sprouting in Latin American countries. The banks form an investment company and inject into it an agreed portion of the debt they are owed by a particular country. The fund then exchanges the debt, at a discount, for shares in existing private sector companies within the country concerned or in newly privatized companies. Within the past two years, three of these debt for equity funds have been formed in Brazil, two in Chile and one each in Venezuela and the Philippines. All are in the region of US $50 million to US $100 million and have been relatively successful **(Lapper. R, 1990).**

.The experiences of some developing countries with Debt equity conversion as analysed by Akinfesi explains the different mechanics of Debt for equity conversion. **(Akinfesi E.O, 1987)**

Chile has been described as one of the first few countries to formulate comprehensive foreign investment laws allowing for debt conversion and

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also tied thus to its privatization programme later in 1986/87. A mechanism has actually been evolved for converting external debt into local debt instruments that are sold in local capital market and the proceeds invested locally. Eligible investors can be the original holders or purchasers of external debt who can also include Chilean residents or nationals. The main steps involved in converting external debt into local debt are the following:

(a) a foreign holder of external chilean debt summits the debt to the issuing public entity which exchanges it for a local Peso-payable debt instrument of equal face value;

(b) the investor sells the local debt instrument in the local market, usually at a discount and the proceeds of this sale are then used for local equity investment in a specified project. Under the amendments introduced in 1985 and 1986, the Central Bank's Compendium of Rules of International Exchange permitted a chilean resident investor a free scope for the use of local curreny proceeds from debt conversion except to remit the returns from the investment externally. A non resident investor is, of course allowed to undertake direct investment and repatriate the capital after ten years while dividends could be remitted after four years at the rate of 25 per cent a year.

Under the current Privatization Programme in Chile, the shares of state enterprises not made available to Company employees or to the pension funds are placed on the stock exchange at fairly low values. The proceeds from debt conversion can be used by the seller to purchase undervalued equity in state enterprises. It has been estimated that during the first seven months of 1986, debt conversion amounted to US $330 million out of which US $200 million was due to transaction by Chilean

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resident investors. Under chapter 18 of its compedium of Rules, the Central Bank of Chile maintains a quota on debt conversions by residents which was reduced recently from US $60 million to US $40 million monthly. By this the Central Bank of Chile aimed to check the effects of debt conversion on domestic money supply and exchange rate.

Since the latter 1970s, Brazil has encouraged debt for equity swap through tax incentives. A proposal for debt conversion is however considered and approved by the Central Bank on Case-by-Case basis. Local investment of the Converted debt has been mainly in operating Companies and financial institutions but current Brazilian regulations do permit the use of brokered debt. Investors that are eligible to invest could be local or foreign holders of the debt. Two main steps are involved in the Brazilian debt conversion: firstly, a request for debt conversion is submitted to the foreign capital registration Unit of the Central Bank of Brazil once an approval by the Central Bank is received, the investor formally register the investment with the Government and a "Voluntary" foreign exchange contract is simultaneously entered into through an authorised exchange bank within 15 days. The currency of investment is, of course, Cruzado which is the local currency.

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Increased encouragement was provided in 1983 when the Brazilian government introduced cash payment of between 5 and 10 per cent of the face value of principal or interest on loans or long-term import financing. Records indicate that by the end of 1985, debt for equity swaps had totalled US $1.3 billion, with an additional US $600 million was expected to have been swapped during 1986. By February 1987, Brazil was proposing to negotiate with its creditors a proposal for capitalization of interest payments which would essentially convert a temporary maratorium into a formally agreed policy

of interest relie. Creditors would be asked to accept a portion of total interest payments due (**perhaps as much as 50%)** in Cruzados so reserved for reinvestment in Brazilian enterprises

Debt Conversion in Mexico has since taken the form of debt-for-equity swaps on which holders of public sector Mexican debt, could convert debt into equity holdings of Mexican enterprises (i.e) new projects expansions and privatized Companies). The amount of debt so converted is of course regulated by the Ministry of Finance and Public Credit. After being restricted initially to foreign bank investors, foreign companies which purchased the debt in the secondary market were recently allowed up to 15 per cent ownership in Mexican companies in exchange for an equivalent amount of foreign debt repayment, until January 1988, no remittance of Profit or repatriation of capital was allowed under the recent debt re-organization agreement reached with commercial bank creditors. The Mexican Authorities were contemplating the introduction of a mechanism which would enable Mexican residents participation in the debt conversion programme. By the end of July 1986, Mexico had achieved twenty three debt-for-equity transactions totalling US $300 million rising to a projected US $700 million by the end of 1986.

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According to the "Operating Manual for the Capitalization of Credits and substitution of Public Debt by Investment", the holder of restructured Mexican Public Sector debt may apply to the Ministry of finance and Public credit for a conversion of the debt. The Ministry then decided on whether to approve the application and on the amount of discount to be charged at the time of conversion depending on probable benefits to the Mexican economy. Such discounts could vary from 3-8% with the lower discount charged to new projects exporting over

80 percent of its output. For approved conversion the Central Bank provides local currency in exchange for the foreign denominated loans excluding the discount.

Holders of Philipine Government debt **(ie foreigners or residents),** may invest directly **(or through a Fund)** in the equity of Fillipino Corporations. in which case they get involved for a fairly long period of time. Circular IV of the Philippine Government governs such investments. The main steps involved in coverting an external debt into local debt as follows: a debt holder perceives an opportunity to take an equity position in a Filipino Corporation. The opportunity may be due to fresh capital requirement for existing ventures, divestment of non performing companies by local banks, investment is considered vital, for example, an investment in an export oriented company, it is regarded as a schedule 2 investment by circular IV while all others are schedule 3 investments. Presently, schedule 2 investments require purchase of Philippine Government Notes **(PINS)** which, for reasons of their relatively recent origin, could require the investors to buy them in the open market before they can invest.

The Philippine Investment Note (PIN) which can be regarded as the latest idea on the debt equity scheme, was born as a mechanism to break the deadlock in the rescheduling of that country's debt whereby estimates had shown that, by reducing the spread on the interest rate, a 15 year rescheduling would save Philippines about eight cents for every dollar rescheduled which is about $100 million a year. Under the PIN scheme, potential investors in the Philippines would be attracted since they would avoid the 5 per cent to 10 per cent which Central Bank charges on the converting dollar debt into pesos under the conversion scheme. By end March 1987, progress had been made on the Philippine debt-to equity programme since deals worth US$70 million had been approved which some other US $275million were pending. The Philippine

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scheme did not allow for stock market investment Indeed, virtually all the projects have been for gree field schemes or expansions in preferred economi sectors on the pure debt for equity swap, however there have been proposals for investment in th Philippine stock market.

In Argentina, the debt equity swaps programm which has been worked out permits the conversio of Agentine debt into equity, provided that investor match on a one to one basis, converted debt wit "fresh" money. The realised fund would then b used to invest in growth - oriented projects. Elligibl investors, namely, foreigners and Agentine nationals, can be from the private sector or official institutions. However, the latter can only invest 50 per cent of the fresh money component. Foreign creditor banks were expected to be the principal investors in the debt-conversion scheme.

In terms of the stages involved, an investment project is first submitted to the Ministry of Economy for review and approval in accordance with the April 1987 debt to equity guidelines and foreign investment laws; a bid is then submitted to the Central Bank for the allocation of amount of debt permitted for conversion in a given month **(Action process was schedule to begin in August, 1987).** The proposed level of debt permitted for conversion would be $1.9 billion; once the allocation is recovered, foreign debt and "fresh" money are converted to local currency and then invested into a project in form of equity or longterm debt financing. It has been provided that once a debt has been converted it cannot be repatriated for at least 10 years.

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In Nigeria, Debt Conversion Committee which is the main organ for establishing and implementing the debt equity conversion scheme established clear and concise approval criteria and procedures, reviewed and approved applications and transactions within reasonably specified time, and monitored and reviewed the programme's progress and investment projects approved under it. Elligibility for participation is for foreign debts restricted to Central Bank of Nigeria dollar enominated promissory notes used under the CBN circular of April 1984 and promissory notes issued by the Federal Ministry of Finance and Economic Planning. Priority areas for eligible investment transactions include:

i. Investment in production processes, especially in agriculture and allied fields and export and raw material production where at least 80 per cent of raw materials which serve as input are locally obtained.

ii. Investment in areas where employment will be provided for a large number of people

iii. Investment in areas where existing inventions and discoveries in Nigeria in the field of new machinery, products and processes and capable of being adopted to suit the country's need are being fostered.

Other aspects covered by the nation's Debt conversion programme include protection for foreign investment so that investors benefit from approved status on the issue of tax treatment and repatriation of dividends and capital, the establishment of a definite pattern of application procedure for prospective participants, the introduction of a conversion procedure and a pattern of monitoring. **(Fed. Min. of Information, 1988).**

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Debt for equity was first practicalised in the country in November 1988 when foreigners brought in promissory notes worth $450 million: tendered for the debt equity conversion. **(Central Bank of Nigeria, 1988)** and, the budget and planning Minister in his 1991 budget breakdown remarked thus: "A total of 73 applications for debt conversion worth $1.1 billion was received from January to November 1990 as against 52 applications amounting to $333.3 million in the corresponding 1989. The total number of applications received since the inception of the scheme in 1988 was 205, valued at $3.2 billion, with the total value of debts cancelled at $495.6 million. The Debt Conversion Committee disbursed N1.7 billion on approved projects in the economy. Of this amount N1.6 billion actually went into circulation while the balance of ₦186.8 million was invested in domestic government securities." However the Minister announced the suspension of the programme in view of its negative monetary effects on the economy. **(Okongwu C. 1991).**

It has been reported that about N120 million of Nigeria's debts in different currencies would be redeemed at the 20th auction of the Debt Conversion Committee on May 31st 1991; indicating the renewal of the programme. **(Guardian Financial Weekly, 11-5-91).**

2.2 DEBT FOR DEBT

It is a scheme which involves the change of creditors originally holding the debt instruments of a particular debtor nation. They may under the terms of agreement allow for some participation amongst themselves in respect of particular debt.

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2.3 DEBT FOR CASH:

Under this scheme, debt instruments in the forms of promissory notes are usually sold to an investor by a private or public sector enterprise at a discounted price redeemable in local currency. The proceeds realised for this scheme are not used for capitalization purpose. They are not productively invested. Rather they are used as a working capital or in the alternative used for loan repayment (locally) and/or for local tax payment obligations of the original title holder.

In Nigeria, a total of $32.4 million worth of promissory notes have been redeemed in Naira through this form of debt conversion. The Nigerian authority suspended the redemption of such notes because of the need for superior arrangements in debt conversion **(Sanusi. J.O, 1987.**

2.4 DEBT FOR PESO SWAP:

Under this arrangement, the participants involved are Nationals of a particular debtor country dealing directly with the government. As a starting point, they buy their country's debt paper in the secondary market for debt and later use their foreign resources to retire the debt instrument at the agreed sum.

2.5 DEBT FOR EXPORT

This involves exchange of exports for debt obligations. It is almost analogous to counter-trade agreement, except that in the case of debt for export the proceeds are used to cancel external debt obligations of the same magnitude with the value of the exports .

2.6 ADVANTAGES AND DISADVANTAGES OF EACH OF THE ABOVE FORMS:

The government and the proponents of the debt equity conversion programme often adduce likely benefits that could accrue to the economy as a result

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of its adoption. Generally and especially with respect to debt for equity conversion, likely advantages include increased foreign investment, reduction in the debt level, savings for the economy; increased employment, improved external trade position and non-inflationary growth.

For debtor government, it organises debt conversion in such a way that it optimises the effects for the nation to attract foreign investments to the desired sectors of the economy, improves the financial position of domestic companies, stimulates exports, assists in repatriating flight capital, the gorvernment wants the conversions to take place on conditions which allows it to keep precise control on their monetary effects **(inflationary pressures)**, and if possible, to realise some income for itself.

For creditor banks, debt equity conversion allow them to improve the quality of their loan portfolio according to their own criteria and risk perception. It also allows them to use their blocked funds to obtain equity in a local Company.

For corporations operating in debtor countries, they use the debt equity conversion to cut down on the cost of their investments in these countries. Because of the very substantial (20 – 70 **per cent**) savings in the hard currency cost of such investment, debt conversion techniques are in fact stimulating additional investment into the debtor countries.

For individual investors, the more immediate reward is the perspective they may be attracted into funds which specialise on equity investments – preferably stock exchange listed equity investments in companies located in countries where a debt equity conversion system exists. **(Van Loon.D.F, 1987).**

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Opponents of the debt equity conversion programm see the danger it posses to the economy in the longrun as overwhelming and therefore capable of outweighing the shortrun marginal benefits of the programme. These dangers include the realignment of the less developed countries' economies into the realm and structure of imperialism strenghtening of foreign participation and control in the Nigerian economy, weakened strength of the state and the local capitalist class, capital flight, increased protection of international capital, Repression of labour, dependent development and the reproduction of dependence and pressures on the monetary and fiscal policies.

It suffices here to enumerate the advantages and disadvantages of the debt for equity conversion as these were discussed in greater detail in chapter four.

Specifically, the advantages and disadvantages of the other forms of debt conversion include:

Debt for Debt conversion encourages the sharing of risks and at the same time diversifying benefits among creditors since under the terms of agreement allow for some participation amongst themselves; in respect of a particular debt. It also constitutes a form of debt reduction for the debtor country.

This form of debt conversion is incapable of promoting economic growth and development.

Debt for cash conversion is beneficial only to the extent that it constitutes debt reduction and savings for the economy.

However, it constitutes a great disadvantage to the economy since the proceeds realised from the conversion are not used for capitalization purposes. It has an adverse effect on the monetary policy of the debtor country because of the increased supply of money into the economy (ie redeemed cash). It is therefore incapable of promoting economic growth

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and development.

Debt for Peso is advantageous to the economy not only in terms of reducing the country's debt level, it also encourages the repatriation of flight capital hence promotes investment.

However, the main problem of this type of debt conversion is the limitation in number of participants. Nationals of a country are often reluctant to repatriate their foreign exchange.

Debt for export; allows for exports of goods which otherwise would not easily take place and it allows for new additional exports. It also leads to debt reduction and savings for the debtor country

This form of debt conversion signifies transfer of resources only and hence does not lead to economic growth and development.

Of all these forms, debt for Peso Swap remains the most beneficial, though its success largely depends on the readiness of the country's nationals to bring in their foreign currencies Its cost(s) remain most minimal relative to other forms of debt conversion programme. We strongly recommend that this form of debt conversion should be adopted in Nigeria. It is in the light of this, that the operation of the domicilliary account by the Central Bank of Nigeria remains commendable.

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CHAPTER THREE

3 NIGERIA'S EXTERNAL DEBT

It has been observed that because they have immature and underdeveloped capital markets and institutions, developing economies must attract foreign funds to make up for the shortage of domestic savings in order to finance capital investment programmes, the development of local industry and to relieve the shortage of foreign exchange. Therefore foreign borrowing allows a country to develop economically and overcome these two critical shortfalls, savings and foreign exchange **(kettell and Magnus, 1986).**

The amount that any country ought to borrow is however governed by two factors. Firstly, how much foreign capital the economy can absorb efficiently and secondly how much debt it can service without risking external payment obligation problems.

This chapter analyses the background to Nigeria's external debt linking the debt to the nature of the economy. We further discuss the sources and structure of Nigeria's external debt showing the implication of these on the growth of Nigeria's external debt. The genesis to Nigeria's debt crises is also highlighted and some remedies to the debt crises are proferred.

3.1 BACKGROUND TO NIGERIA'S EXTERNAL DEBT:

External debt can be seen as a repayable obligation that has either a maturity of up to one year to five years (**short-term**) or a maturity of five to ten years (medium term debt) or even a maturity of over ten years (long-term debt) is owed to foreigners or non residents and which is repayable in foreign currency. Such external debt can be private non-guaranteed (external obligation that is non guaranteed for repayment, by the Government) or publicly - guaranteed (external obligation of private debtor that is guaranteed for repayment

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by the government) or public (external obligation of a public debtor like the federal or state government). **(Anyanwu, 1988).**

External borrowing comes from three major sources: bilateral, multilateral and international capital market. Bilateral loans come mainly from governments (intergovernmental loans provided directly or indirectly through agencies of aid-giving countries) such as the nations of Western Europe, United States of America etc. Multilateral loans consist largely of drawings on the resources of the World Bank Group for project financing. These two sources usually come on "soft" and concessionary terms and have relatively longer maturity and low rates of interest. International Capital Market and Euro-Dollar market loans consist of resources from foreign financial markets (private banks, publicly-issued and privately-placed bonds as well as contractor finance, supplier credit etc) carrying higher rate of interest and more stringent repayment conditions. In particular, the Euro-Dollar loans have variable interest rates and are both between 1% and 2% above the London Inater-bank Offered Rates (LIBOR) **(Anyanwu 1988).**

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Up till the 1970s, Nigeria pursued conscious and conservative borrowing policies. There were legislative procedures governing borrowing especially since independence **(1960)** - promissory Notes Ordinance of 1960; External Loans Act of 1962, the 1965 Amendment Act. These authorised the Federal Government to raise external loans for articulate development programmes and also for on-lending to regional/state governments. These restrictions explain why external debt commitment did not constitute much of a burden on the Nigerian economy in the 1960s through the 1970s. In recognition of the rehabilitation and reconstruction requirements after the civil war (1967-1970), the External Loans Act was expanded to allow

for raising external loans within the range of N1 billion for rehabilitation and reconstruction purposes. Decree No. 30 of 1978 expanded this upper level to N5 billion. A critical examination of the above legislations reveal that they provided policy guidance especially about the size, direction, source and uses of foreign loans meant to supplement the country's development efforts **(Ayodele. S, 1989)**

And Sanusi has noted that the size of Nigeria's external debt was very low in the period up to 1977. Even at the end of the Civil War in 1970, Nigeria's external debt outstanding was only N488.8 million (US$684.3 million). Thereafter, external debt declined shaply to N234.5 million ($308.9 million) in 1971 and then rose only gradually to N496.9 million ($762.9 million) at the end of 1977. Up to this period, debts were largely to supplement domestic resources for the provision of infrastructural facilities and agricultural projects **(Sanusi J.O., 1988)**.

Thus, outstanding external debt up to 1977 was less than half a billion naira. The emergence of the oil glut in the international crude oil market in 1978 with the attendant strains on the balance of payments, external reserves and government finances, Nigeria for the first time went borrowing in large chunks and shorter maturities from the international capital market (ICM) at higher and variable interest rates. A number of ICM jumbo loans were negotiated in 1978 and 1979 for balance of payments support purposes and for the establishment of a domestic industry. Many more such ICM loans were raised, especially as funds from bilateral and multilateral institutions became increasingly inadequate to the needs of government. Consequently, ICM loans rose rapidly from N1.0 billion in 1979 to N5.5 billion in 1982 and to N40.5 billion in 1987, when it constituted 40.2 per cent of total external debt.

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International capital market loans account for N207.2 billion, representing about 70 per cent of Nigeria's external debts now estimated at N297.9 billion (**Guardian, 20-7-91**).

Apart from the high degree of the country's dependence on oil revenue which was first noticed in 1978 and later in 1981 when there was a drastic slump in oil demand and sales which forced the country into the ICM and its loans, others have argued that the demand of industrial countries for all Nigerian products did not grow as per capital income did. The prices of non-oil commodities in the world market were also on the downward trend. While the prices for Nigeria's exports fell the prices of imported manufactured goods rose astronomically. Imports of machinery and equipment, raw materials technology and skilled manpower led, to growing deficits in the balance of trade. **(Ikpo E, and Edodi. U.U, 1989).**

As Olowononi has rightly noted, even in years that balance of trade surpluses occurred, there were balance of payment deficits as the country spent more overseas than it earned. The balance of payment deficits even on current account had thus become chronic by 1986. The basic problem was not the existence of balance of payment deficits in themselves but how to finance these deficits. **(Olowononi ,G.D, 1989).**

Background to Nigeria's external debt has been examined in terms of the accumulated trade arreas which emerged in 1982 and as a manifestation of the country's debt crisis. As Sanusi noted, subsequent debt service difficulties had led to the refinancing of some of the arreas. Total trade arreas grew rapidly from N2.0 billion in 1982 to N47.6 billion or 47.2 percent, consituting the single largest source of debt. **(Sanusi, 1988).**

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Other reasons that could beattributed to Nigeria's increasing external debt problem include the neglect of Agriculture, the expansionary fiscal and monetary policies of the different tiers of government and the attendant borrowing spree of all governments. These and other factors are explored in detail in the fourth section of this chapter.

3.2 NATURE OF THE NIGERIAN ECONOMY:

For the past two decades now, the Nigerian economy has experienced persistent weakness, which is fundamentally structural and which began to show signs by the close of the 1970s, but has become very visible by the early 1980s. Precisely by 1981, the economy began to show signs of serious structural defects, triggered off in the first place by both the collapse of the world market price as well as the decline in the volume of crude oil exports due to the glut that developed in the market because of the world wide economic recession of the early eighties. **(Olaloku F.A., 1990).**

Mohammed **(1989)**, see the Nigerian economy in terms of its neo colonial nature characterised by features of this neo-colonial Structure Manifested in the areas of Production, distribution of goods and services and pervasive dependence on the International Captalist System. Another Striking feature of the Nigeria economy was the near absence of linkages between the sectors of the economy. In spite of the enormous wealth accrued to Nigeria between the period 1973-1976 and 1979-1980, consequent upon the oil boom, no sound industrial and agricultural base that could have ensured effective linkages were built. There was still over reliance on imported inputs resulting in a low value added content in tradeable goods.

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It was this development that rendered the country increasingly unable to earn enough foreign exchange to sustain what by that time had become a flood of imports. In consequence the country's balance of payments position worsened as a result of huge deficits and which necessitated heavy drawing down of the country's foreign exchange reserves.

For the past few years, total output in the economy as measured by the Gross Domestic Product (GDP) has been declining and all the indicators of the major sectors of the economy signalled serious deterioration in the country's economic performance. **Table II** shows the sectoral Distribution of Nigeria's GDP 1959-1988.

Agriculture, which includes livestock, forestry and fishing is the sector from which the nation expects so much in terms of the provision of employment opportunities, self reliance in basic food production, foreign exchange earnings and industrial raw materials. These expectations have not been realised given rising food prices, growing food import bill (until recently), declines of the traditional export crops, and rural urban migration.

Although the sector employes about 70% of the nation's labour force, its contribution to the GDP has steadily declined from 70% at independence in 1960 to 45% in 1976 reaching the lowest at 19.86%, in 1979/80. Its **rise** began increasing slowly to 26% in 1985. **(Nwanko G; 1986).** The contribution of agriculture to GDP increased from N26.1 billion in 1989 to N26.2 billion in 1990 representing about 4.2 percent overall increase for the year. **(Okongwu 1991).**

Despite the fact that the agricultural sector has major potentials which are not being fully exploited in the large and expanding domestic and foreign markets for agricultural products, abundance of

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land and human resources and availabilty of improved technology, it suffers major constraints in the shortage of qualified manpower. These are in such key areas as, inadequate supplies of agricultural inputs, inadequate extension services, inadequate supporting physical infrastruture such as feeder roads, water shortage and marketing facilities, inadequate agricultural credit and debilitating land tenure system.

Olaloku and others have concluded that the serious economic implication for the Nigerian economy of the decline in the relative importance of agriculture is not only the loss of an opportunity to use the sector to accomplish the economic development objective of self sufficiency in food production but also the loss of a chance to create a virile and diversified export structure for the avoidance of the present high degree of vulnerability of a one - commodity economy to external shocks such as the collapse of world oil prices. This is quite possible if successive governments had invested part of the oil wealth of the 1970s in expanding the productive base of the sector and providing appropriate incentivies to farmers **(Olaloku etal, 1979)**.

In a report, the World Bank has noted that the neglect of the sector and the emphasis placed on food importation paid out of the foreign resources from crude oil exports that should have been expended to procure more of development imports, proved a great source of disincentive to local farmers resulting from lower prices of imported foods **(World Bank, 1981)**.

Therefore, it can be concluded that the policy measures adopted to arrest problems of the agricultural sector, failed because they were not implemented with the necessary vigour, dedication and commitment which such policies require.

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In tne Manufacturing sector, output has also been on a steady decline. Manufacturing sector experienced a relatively rapid growth rate during the period 1960 - 1984. Its contribution to G.D.P. was 4.8% in 1960. The sector grew by 11.5% annually between 1970-71 and 1972/73 and by an annual compound rate of 15.6% between 1974-75 and 1977/78. The relatively rapid growth rate of the Manufacturing Sector is mainly due to the post independence vigorous policy of industrialization undertaken by the government to diversify the productive base of the economy in the face of the longterm deterioration of the terms of trade of the country's major primary export products, namely Cocoa, Palm products, groundnuts, Cotton, Rubber among others. **(Olaloku, 1990).**

However, the growth rate of the sector declined in the late 1970s and particularly since the early 1980s. This has mainly been attributed with the acute shortage of intermediate inputs, industrial raw materials and spare parts resulting from the stringent control and regulation of imports via import licences. The non-availability of imported raw materials for manufacturing resulted in the complete shut down of some plants and in some cases to very low capacity utilization ranging between 15 and 25 pe cent. Consequently the output of domestic manufactured products declined by 13.4% in 1984 compared with the decline of 4.7% in 1983, and the contribution of manufacturing to the GDP which increased from 7.42% in 1980 to 13.26% in 1983 declined to 11.4% and 11.75% respectively in 1984 and 1985. **(Nwanko G.O, 1986.** The manufacturing sector is estimated to have achieved a real growth rate of 7.3%, contributing a value added of N7.3% billion during the year 1990 as against N6.8 billion in 1989. **(Okongwu, 1991).**

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Import - Substitution industrialization strategy has been adopted by successive governments in the National Development plans. This was aimed at saving foreign exchange and the generation of more foreign exchange earnings since the programme involved the production of imported manufactured consumer products locally and the export of same. But the programme turned out to be import dependent industrilization method.

And Olaloku (1990), has noted that the structure of manufacturing in this country developed right from the beginning with this external dependence bias, thereby exercabating the economy's characteristic vulnerability and fragility to external shocks. And inspite of the fact that manufacturing now contributes over one tenth of the GDP and despite the almost quarter century of incentives and protection accorded it by the government, the sector has failed to provide a commensurate contribution to the country's export earnings. Thus the objective of export diversification through the export of manufactures remains yet as unachievable.

The importance of the Mining and Quarrying Sector derives principally from the fact that it is the engine and mainstay of the economy, in the immense mineral resources available including petroleum which accounts for over 80% of the nation's foreign exchange earnings and 95% of the exports. However the sector's contribution to GDP has also been on the decline over the years. In the petroleum sub-sector, which accounts for about 99% of value added in this sector, output has declined steadily from an average of well over 2.0 million b'pd in the late 1970s to an average of just over 1 million bpd; presently.

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The contribution of the sector to the GDP rose steadily from 13% in 1969/70 to 29% in 1974/75, thereafter, it flunctuated downwards reaching the lowest at 15.65% in 1982 from when it rose progressively to 19% in 1985. An assesment of the performance of the economy in 1990 shows that for crude petroleum, an estimated real growth rate of 12.4% in the contribution by the sector from N10.3 billion to N11.6 billion between 1989 and 1990. **(Okongwu C.1 991).**

However, the continuing glut in the international oil market and the consequent collapse of oil prices have seriously and adversely affected operations not only in the sector but also in the rest of the economy on the sector. The external sector has deteriorated economically for example, as a result of depressed crude petroleum exports, given the presence of a continously rising imports hightened by the over valued exchange rate of the Naira being largely reflected in huge balance of payments deficits that has since characterised the country's external payments position since 1981.

The relatively huge foreign exchange reserves that were accumulated in the 1970s which reached a relatively high level of some N5.5 billion by the end of 1980, was drawn down heavily to finance deficits. The country's foreign exchange reserve fell to a low level of N78.5 million in 1983. **(CBN,1984).**

The stringent control measures that have so far been taken since 1982 to reverse the foregoing development with a view to restoring external economic balance, have been very severe on the other sectors of the economy. Thus the performance of the domestic economy has, to a large extent been conditioned by developments in the external sector.

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Another striking feature of the economy is the domination of economic activities by foreign capital. The operation of several transnational corporations have constituted a formidable drain on the Nigerian economy. It was in realization of the negative consequences of these operations on the Nigerian economy that the government responded by selling part of its shares in industries to domestic private investors to enhance domestic ownership control. The indigenization programmes of the 1970s were therefore introduced to ensure the Nigerianization of ownership and control of certain categories of industries.

Onimode and others claimed that although the indigenization programme of the 1970s was designed to widen opportunities for local enterprises and to raise the level of intermediate and capital goods production, it only succeeded in intensifying the capital accumulation processes for few Nigerians and their foreign collaborators. The debt equity conversion programme we believe will increase the intensity of foreign domination of the economy and erode totally what is left of the economic nationalism partially achieved through the indigenization programme. **(Onimode. B. et al 1983).**

Other features of the Nigeria economy include pervasive dependence on a commodity - oil which has exposed the economy to varying degrees of vulnerability to external shocks as a result of the flunctuating nature of oil prices, the government as the prime mover of the economy, rising deficits as a result of growing expenditure in the face of declining revenue and over-invoicing among others.

The rising government deficits can be attributed with the oil glut in 1978 and the weakening of the International oil market since 1981 which resulted into severe burden on government finances, exerting a continuing increase in budget deficits; the increase

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in government expenditure on white elephant projects which are not productive etc. **Table IV** shows the relationship between government revenue and its expenditure from 1979-190. Apart from 1979 and 1986, when surpluses were recorded, all other years were in deficit. The implication of this has been rising inflation and unemployment levels and mounting debt problem in the economy for the past years. This explains why all government measures aimed at curbing these problems remain a mirage.

Akor noted that out of the N80.4 billion meant for imports of goods and services, only N20.1 billion truly went for the purpose between 1975 and 1984. The remaining N60.3 billion was expropriated through over invoicing. **Table V** shows the trend and magnitude of our invoicing 1975-1984. During the same period, Nigeria withnessed the phenomenal growth of its external debt from N17.8 billion in 1983 to N21.4 billion in 1984. **(Akor M.E, 1987).**

It is against the background of the problems highlighted so far that, the Babangida regime introduced the Structural Adjustment Programme in 1986 aimed at restructuring the economy by removing the economic regidities that have truncated the gr wth and development of the economy.

3.3 SOURCES AND STRUCTURE OF NIGERIA'S EXTERNAL DEBT:

Nigeria's outstanding external debt in 1970 was N488.8 million. This was made up of N59.8 million or 12.2% shorterm trade arreas arising from the civil war while N429 million or 87.8% was medium and longterm. Much of this, including the shorterm debt was paid off in the course of 1971 with the result that the outstanding debt at the end of 1971 amounted to only N214.5 million. Debt outstanding pro-

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gressively increased to N263.4 million in 1972, N322.4 million in 1974 and N349.9 million in 1975. By 1980, it has increased from N1,265.7 million in 1978 to N1,866.8 million. **(Anyanwu, J.C. 1988).** Total outstanding external debt increased to N17,290.6 million and N42,229.5 million in 1985 and 1986 respectively. By the end of October 1987, it had hit the mark of N93,781.28 million. This October 1987 level represents more than fifty times its 1980 level. **Table III** – highlights the magnitude and structure of Nigeria's external debt 1970-1989. At the end of October 1990, Nigeria's external debt has increased to US$31,534.3 million **(Okongwu, C 1991).**

As noted earlier, three major sources of Nigeria's external debt can be identified. These sources are: Bilateral, Multilateral and International Capital markets **(including Euro dollar market).**

The trend of Nigeria's external indebtedness can be divided into three: First, the early post independence years of 1960s during which the contractor finance was the major source of external loans. For instance Federal government external public debt outstanding under contractor finance was 25.5% of the total in 1968, 26.5% in 1970 and 12.6% in 1974. These loans were generally shorterm with high interest payments **(Obadan. M, 1987).**

The second period was a shift to Bilateral and Multilateral loans which were generally longterm carrying relative low interest rates. These were obtained in a package which normally included technical aid and conditions that must be fulfilled before a prospective borrower country could have access to such loans. **(Osagie, 1987).**

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The third phase beginning from 1978-1990 could be distinguished by borrowing from International capital market particularly the Euro dollar market. The debt was largely shorterm, carrying relatively high interest rates and always tending to produce bunching in repayment schedules of foreign loans.

Before the 1978, most of Nigeria's axternal debt particularly in the early 1970s came from Bilateral and Multilateral sources noted for soft and concessionary terms, relatively longer period of repayment **(up to 50 years)** and low interest rates. With the emergence of the glut in the international crude oil market in 1978 and the attendant strains on the balance of payments, external reserves and government finances, Nigeria, for the first time had recourse to borrow in larger chunks and shorter maturities from the International Capital market (ICM) at higher and variable interest rates.

For balance of payments support purposes, the establishment of steel industry and especially as funds from bilateral and multilateral institutions became increasingly inadequate to the needs of government more ICM loans were contracted. Consequently ICM loans rose rapidly from N1.0 billion in 1979 to N5.5 billion in 1982 and to N40.5 billion in 1987, when it constituted 40.2 per cent of total external debt. **(Sanusi J.O. 1988).** An important feature of the loans from ICM was the dominance in 1982, of refinanced and unrefinanced trade areas. Total trade arreas grew rapidily from N2.0 billion in 1982 to 47.6 billion or 47.2 percent, constituting the single largest source of debt.

Between 1972 and 1977, the trend for bilateral loans showed that it accounted for 50% of Nigeria's external debt. The trend changed in 1978, with increased borrowing from Euro dollar market.

Osagie has noted that loans from International Capital market and those in the form of financial

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and unrefinanced trade arrears represented 84.5%, 85.9% and 72.7% of total foreign debt in 1982, 1984 and 1985 respectively. Loans from International financial markets grew from an average of 50% of total outstanding in 1978 to 63.78% in 1979. The ratio of bilateral lending to total outstanding debt however, declined sharply from 16.82% in 1978 to 3% in 1985 **(Osagie. E, 1987).**

It can be concluded therefore that the size and structure of Nigeria's external debt is highly related to the source of the debt contracted. Private international lendings, especially from the Euro dollar markets have always exacerbated the debt burden of the country. The maturity - mix, (short terms) and accompanying high and variable interest rates of this type of loans have continue to pose increasing difficulties to the country's debt repayment obligations.

3.4 DEBT CRISIS IN NIGERIA:

We have analysed from the preceeding section the sources, structure and magnitude of Nigeria's external debt. The causes of Nigeria's debt problems include both domestic, and external factors over which the Nigerian authorities have no control. This situation creates inherent weaknesses in both the structure and management of the Nigerian economy as diccussed in section II of this chapter.

The origin of the debt crisis in Nigeria has been traced to the transfer problem which arose in connection with the increases in oil prices imposed by the Organization of Petroleum Producing Countries **(OPEC)** of which Nigeria is a member at the end of 1973 and in 1979/80. One very important effect of this was that the increased oil prices entailed a drastic redistribution of incomes in the international economy. The export incomes of OPEC Countries increased considerably but this corresponded to decreases in incomes for the Oil Importing Countries.

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The decrease in incomes had to be borne primarily by the large industrial countries that imported the larger quantities of oil, but many less developed countries that imported oil were also severely hit by this redistribution of income. **(Kettell and Magnus, 1986).**

After the second oil shock in 1979/80, however, the transfer problem reemerged in a rather different light. Initially, international creditor banks responded by continuing to supply funds in a large scale to debtor nations. As the environment changed, especially as regards higher interest rates, poorer export opportunities for LDCs and a stronger dollar, and as banks began to pull back from International lending, the anomalous situation arose in which debtor countries began to export capital to creditor countries and banks. In otherwords, debt service obligations excceeded the amount of new loans forth – coming hence the emergence of debt crisis. **(Kettell and Magnus, 1986).**

Osagie has noted however, that the current Nigerian foreign debt problem, as well as its domestic counterpart, did not emerge on its own but is really the symptoms of a serious disease arising from the nature of the Nigerian political economy which predisposed important actors in the economy to behave in a particular way to the detriment of the national economy **(Osagie, 1987).**

Other origins of the debt crisis in Nigeria as aptly outlined by Osagie are discussed as follows:

Decline in Official Development Assistance. In the Nigerian case, official development assistance receipts declined from $43.0 million in 1978 to $33.0 million in 1984. A significant contributory factor is the perception of Nigeria by the major donor countries as an oil rich member of OPEC which does not need development assistance finance. The decline of this type of foreign finance in the face of rising

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demand for foreign currency forced Nigeria to the Eurodollar money market distinguished by relatively high interest rates and early maturing obligation which led to the severe bunching of amortization and consequent debt problems.

Procyclical lending parterns: The major international banks with large deposits with them by the Oil booming countries, go out of their way to seek prospective borrowers whom they lure into borrowing. However, after the collapse of commodity booms, debtors found it difficult to service outstanding loans and the major international banks were reluncٰtant to extend additional loans to them. Nigeria's experience in the 1970s and the 1980s fits this pattern. The collapse of crude petroleum prices in the 1980s compounded Nigeria's debt servicing problem.

Foreign exchange Leakages. A major weakness in the Nigerian economy is its excessive foreign orientation which predisposes producers and consumers to import what can be easily produced with local materials. The situation is compounded by widespread over-invoicing of imports and contracts denomination in foreign exchange during the period of import licencing and foreign exchange control regulations in order to build up private stocks of foreign currency balances abroad. There were instances of transfers abroad of large sums of foreign exchange ostensibly to pay for imports of non existent imports. This trends and over spending on foreign services also put upward pressures on Nigerian expenditure of foreign exchange beyond her earnings and contributed to creating the current debt crisis.

In a survey carried out by the Bank for International settlements (BIS); it has been discovered that debt simply financed "flight capital" ie private residents, who fearing political instability and inflation, had acquire foreign exchange and transferred

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it out of the less developed countries (**Time, 1983**).

Meltzer has argued that, the policies of the IMF, spread the debt problem from one country to another by imposing rules of adjustment that make little sense when applied to many countries. The fund encourages countries to contract imports and expand exports while at the same time requiring lower inflation as a condition of obtaining loans. The first effect of anti-inflationary policy is on output, so output and imports fall in response to these policies. Since one country's imports are someone's else's exports and given the high level of Interdependence of LDCs economies, they are harmed by each other's policies - many countries have lost markets for their exports and needed to borrow from the IMF. **(Meltzer, 1983)**.

Osagie further noted that debtor countries are encouraged by the World Bank and the IMF to borrow abroad to support implementation of structural adjustment programmes. These International financial institutions also encourage countries to borrow from private financial markets which in turn require an IMF - issued clean bill of health certificate from the borrowing countries. The destabilizing procychical nature of financing by the private banks and the global dimension of the debt problem, expose developing countries to serious debt servicing problems. (**Osagie, 1987**). **Table VI** shows the Debt service profile of Nigeria between 1986 - 1990.

It is in the light of the negative consequences of the IMF/World Bank inspired structural adjustment programme adopted in Nigeria since 1986 that it has worsened the debt problems of Nigeria. Debt restructuring **(refinancing and rescheduling)** and increased loan facilities provide only a temporary relief and signify the postponement of the doomsday. Debt equity conversion would only lead to increased dependency of the country on the International Capital in the longrun.

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Griffin has noted that the origin and growth of Nigeria's and the third world debts can be traced to large fiscal deficits through expansionary monetary and fiscal policies, inflation and recession in industrial economies, downward trend in commodity prices and the maintenance of inappropriate exchange rate system. **(Griffin, 1988).** Borrowing to finance non tradeable projects has exercabated the debt problems of Nigeria. Loans were and are still being used to finance Urban Social renewal, social infrastructure, and the development of purely administrative facilities which far from saving foreign exchange for maintenance and repairs.

And, Kettel and Magnus (1986) has noted that, although actual conditions differed widely among individual countries, there was apparently inexorable growth in budget deficits in much of the developing world. For the oil, developing countries as a group, the median fiscal deficit as a proportion of GDP, which averaged 3% in the late 1970s, increased steadily to nearly 6% in 1982. These deficits resulted in strong inflationary pressures and weakening balance of payments positions. They were associated with large external borrowing - much of it at short term raising debt service obligations to unprecented levels in relation to both GDP and exports of goods and services. In many countries current account deficits eventually became so large as to exceed reasonable financial posibilities. Nigeria's external Debt outstanding and total Debt Service 1970 - 1989 is shown in **Table VII.**

The policy response of the industrialised countries to rising oil prices had helped to exercabate the debt situation **(Griffin, 1988).** The resulting consequences can be categorised into three:

i. a rise in real rate of interest to unprecendented level;

ii. a contraction in the growth of world trade and in the export market of developing countries, and

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iii. especially after the first Mexican debt crisis in 1982, a sharp reduction in external credit to developing countries.

It has been noted that high interest rates have effectively shortened the life of loans and as the debt crisis became more serious creditor banks did not roll over some short term debts and in some cases, did not replace maturing term debts with new credits. **(Kettel and Magnus, 1986).** For the largest twenty four LDCs borrowers, there was a net inflow of funds (gross inflows minus gross outflows, including interest) of around $25 billion in the first half 1978. By 1981, the net inflow was zero and by 1982-1983, the average net outflow was around $15 billion. In 1984, non OPEC countries in Latin America made interest payments on their foreign debt of around $30 billion, while banks' net claims fell by nearly $8 billion despite new loans in the context of rescheduling.

Table VIII shows Nigeria's principal Debt and Debt service ratios 1980-1987.

Debt management in Nigeria has been compounded by the structure of the debts from the Euro-dolllar market as highlighted in the preceeding section of this chapter. Debt crisis in Nigerian context must therefore be seen in terms of the agreed terms with its creditors. It is noteworthy that the London club of creditors **(one of the International Financial Creditors)** has recently blacklisted Nigeria contrary to the speculation that Nigeria's clean bill of health from the IMF can allow it to borrow freely from the London Club. The club was said to have taken the decision following Nigeria's unilateral decision last year to cut down the interest rate of its estimated five billion dollar debt owed the club which was contracted at LIBOR plus one per cent to a flat rate of 3 percent **(Guardian Financial Weekly 7-1-91).**

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It is in the light of this, that embargo on new loans from this source and diversification of external borrowing sources to reduce increased debt burden becomes imperative.

3.5 REMEDIES TO NIGERIA'S EXTERNAL DEBT:

The debt problem of Nigeria has significantly affected the socio economic development of the country which manifests itself in inceased debt service, capital flight, balance of payments deficits, unemployment, inflation, low productivity of industries due to inceeasingly low capacity utilization among others. Therefore in highlighting how the external debt problem can be better contained, Anyawu, has made a distinction between short and medium term measures on the one hand and long-term measures on the other **(Anyawu, 1988).**

The short and medium terms measures/recommendations constitute largely of how to effectively implement to Nigeria's overall benefit, the various strategies embodied in the Structural Adjustment Programme (SAP).

Lawrence, (1986) has noted that with respect to the rescheduling exercises, a superior method should be to negotiate (cooperatively) for fixed interest payments but variable amortization schemes. The nation should seek multi year reschedulings rather than the year by year basis. Moreover, African debtor nations should come together, form a Union and collectively bargain with their creditors' associations rather than face such associations at the London and Paris clubs individually in the rescheduling exercises.

Anyanwu 1988 has observed that such a strategy strenghtens the bargaining position of African nations when asked to implement short-sighted and counter productive policies as obtained in the Cartagena group of Latin American debtor nations.

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There should be increased restrictions on indiscriminate incuring of new debts. External finance should be used for now as a last resort only for projects of the highest priority and only when similar results cannot be achieved by other domestic means with reasonable sacrifice. This will go a long way to curb the incessant borrowing of external loans by all tiers of government which committed the nation to payment of enormous debts.

Shortcomings in economic management need to be rectified to ensure that the proceeds of foreign borrowing are used productively. Foreign borrowing in many cases has been traced to the sustenance of consumption, capital flight and poorly managed investments. Even where productive investment occurred, it is clear that economic policy adjustments were neither significant nor prompt enough. When there is doubt about the duration and intensity of an internal shock (e.g. rapid rise in the money supply) or an external shock (such as OPEC price flunctuations), policy makers should take action more promptly to adjust the balance of payments (by some combination of devaluation deflation controls etc) rather than by continous financing (largely by borrowing). **(Kettell and Magnus, 1986).**

It should be evident that foreign borrowing to pay for debt servicing, or for growing domestic budget deficits or for oil imports cannot be sustained in the absence of radical economic reforms designed to generate higher export revenues, tax revenues or energy savings.

There is an urgent need for a complete reorientation of the socio-political and economic values among Nigerians such as to appreciate the need for and importance of patriotism and nationalism, the absence of which has and will continue to subvert all efforts at remedying the country's staggering external debt problems.

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Attempts to achieve a longterm solution to the external debt problem should include vigorous promotion of the nation's export trade and drastic reduction in her merchandise imports. Since imports financing has accentuated the size of short term indebtedness which provoke the debt problems, the reduction of luxury and non-essential imports is a necessary accomplishment. **(Anyawu, 1987).**

Kettel and Magnus **(1986)** has noted that since many Bank lending decisions were made on the basis of erroneous assumptions, or inadequate information, every effort designed to improve the volume and quantity of information about project feasibility, economic conditions in debtor countries and bank exposures deserves a high priority. Anyawu has therefore rightly posits that it is time for the country to seek for"locking in interest rates", because the principal vulnerability of the nation is to an open-ended burden of higher interest payments in the event that international interest rates rise, since the nation owes floating rate debts. Nigeria should intensify efforts at securing some element of interest rate fixation in her negotiations with banks since it is possible on a market basis to convert floating rate debt to fixed rates. **(Anyanwu, 1988)**

It has been reported that following a recent agreement between Nigeria and the London club of creditors the country has started another round of negotiations to enable it acquire $1.56 billion American zero coupon which is equivalent to 30 percent of the country's $5.2 billion London club debt. It is believed that Nigeria will not be paying a seperate interest to the American treasury other than the accepted 6.25 per cent payable to the club **(Guardian Financial Weekly 18/3/91).**

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This is commendable since it will reduce the country's debt service burden both in the short and longrun. It may also be profitable if the values of these coupons continue to appreciate to maturity date.

It is important for an adequate and continous assesment of the nation's Debt servicing capacity be undertaken before external loans are contracted. This is in order to achieve a reasonable level of domestic savings and to prevent the net transfer of capital out of the country through a high level of debt service.

As Cline (1987) has noted it is necessary that the capital of the World Bank and other Multilateral banks be expanded; thus enabling the country to reverse the present structure of its external debt in favour of the concessional loans of these institutions.

Projects to be financed with external loans must be properly appraised and their technical feasibility, financial viability and economic desirability ascertained beyond every reasonable doubt before the funds are committed. Thus budgetary controls and financial accountability must be re-established in the public sector by making it mandatory for government departments, ministeries and parastatals, to publish their audited annual accounts within the first quarter of the end of their respective fiscal years. This would help restore financial discipline within/to public sector and thus minimise the misapplication and waste of funds and provide the up to date data necessary for meaningful policy discussions and efficent external debt management.

There is increased need for deversification of the country's export to deemphasise the overriding importance of oil and reduce its unpleasant fluctuating effect on the economy. We must increase export of processed agricultural products, minerals and

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subsequently, industrial products (**through export substitution and focussing particularly at the African Continent)** to enable us acquire the foreign technology, skills and capital goods we require for our development on our terms. The spirit of self reliance should be cultivated by all Nigerians.

It should be noted that serious longrun economic policies do not depend on the availability of natural resources such as oil. Natural resource availability is by no means a necessary or sufficient condition to create, over time, a sustained process of wealth accumulation because of exhaustable nature of natural resources. It is in the light of this that, export diversification becomes inevitable.

It can be seen that measures relating to the Debt equity conversion option to external debt management and of the direction of foreign investment appear to be missing here. This is a deliberate attempt as we intend to highlight these measures in the final chapter of this research.

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CHAPTER FOUR

4 NIGERIA'S EXTERNAL DEBT MANAGEMENT: DEBT EQUITY CONVERSION UNDER SAP.

(Rolph, 1957) has defined Debt management as the establishment of the conditions of issue and redemption of Public Securities. It involves the process of administering the National Debt, ie providing for the payment of interest, and arranging the refinancing of maturity bonds. In otherwords, debt management is seen as any official action, by the Central Bank as well as the treasury, designed to alter the quantity and kinds of a national government's debt obligations outstanding.

Thus debt management is the administration of the National Debt, providing for loan repayment, payment of interest and arranging the refinancing of maturing bonds. it also involves raising loan at the cheapest interest rate and the consideration of debt servicing capacity of the nation. **(Adedeji, 1984)**.

And according to Anyawu, (1988), in the modern economy, with the development and emergence of the welfare states, other objectives in debt management include anti-cyclical or stabilization objective, economic growth, refunding; equity in income distribution and the exertion of minimum negative effects. Management of debt problem, thus arises because debts have to be repaid with interest wether in the short, medium or longrun. Hence a decision to contract external loan involves earmarking a portion of the borrowing nation to forego at some state, some of its purchasing power, which could otherwise be used for consumption or investment. This underlines the fact that the debt service capacity of the borrowing nation has to be carefully considered in contracting the different types of external loans.

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In Nigeria, both the Central Bank and the Federal Ministry of finance manage the external debt on behalf of the nation.

Against the objectives of debt management outlined above, the Nigerian authorities have adopted various management tools in order to manage the country's debt over the years. These management tools include foreign exchange and trade controls, embargo on new loans, statutory provision of maximum level commitments, issuance of directives by the federal government, refinancing of trade arreas rescheduling and the current debt equity conversion which form the basis of this research.

This chapter aims at analysing the different International debt management options proferred for the management of the international debt crisis given its threat to the international financial system. Nigeria's external debt management experience as outlined above is also discussed. Debt equity conversion option to external debt management is seen in terms of an instrument for the achievement of the objectives of the IMF/World Bank inspired Structural Adjustment Programme and its practical application in Nigeria is highlighted. The likely implications of the debt equity conversion on Nigeria's economy are also examined in this chapter.

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4.1 DEBT MANAGEMENT OPTIONS:

Given the magnitude and global dimension of the debt problem and its attendant threat to the international financial system, different management options have emerged from different parts of the world.

Solutions for the debt crisis range from doing nothing (ie let the free market operate) to a complete restructuring of the International monetary system **(Via Bretton Woods II).** Between these two extremes lie a range of alternatives some dealing with

with repayment of capital and some repayment of interest. **(Kettell and Magnus, 1986).**

It should be noted that some of these debt management options have already been discussed in the opening part of chapter two. These include the case-by-case approach, the Baker plan and the Repudiation option. Of these options, the case-by-case approach has been widely accepted and recommended by the IMF on three main propositions. **(Kettel and Magnus, 1986).**

Firstly, it argues that the circumstances of individual debtors are highly varied, in terms of the size of their economic adjustment needs, their capacity to adjust and the features of their external debt. Thus, the right solution for one country may be no solution at all for another.

Secondly, it argues that there is need for equity among debtors and among creditors. The case-by-case approach it is then argued, permits a keener focus on the need and responsibilities of each debtor country and creditor institution .

Finally, it suggests that while if seems unlikely that public funds could be mobilized on the scale required for any sweeping attack on the debt problem in general, it has proved possible to attract the financial support of certain governments and central banks for individual creditor institutions.

Alternative international debt solution proposals can be divided into those which affect the principal outstanding and those which seek to affect the interest burden **(Kettel and Magnus 1986).**

Nearly all the proposals in the first category have a common element, namely some type of bailout of the international commercial banks. Most of the proposals involve the creation of new funds (or guarantees) through national or international institutions to secure the loans previously made to the developing countries.

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However, these measures might lead to increased international liquidity and hence inflation. They may also lead to the encouragement of bank mismanagement. Some of the proposals affecting the principal outstanding are discussed below.

The Rohatyn plan argues that as in most schemes, the banks' old loans would be swapped for guaranteed, tradeable paper - in this case, for longterm, low interest bonds, issued by an IMF or World Bank affiliate or other agency, which would in turn supply massive debt relief to the LDCs. The agency could help debtor nations establish revenue streams tied to exports that would be used to service the bonds. Bank losses incurred either through such comprehensive rescheduling or from external write-offs may leave lenders with insufficient capital, requiring central banks to become investors of last resort.

The major difficulty with the Rohatyn scheme is that it does involve losses for banks while still leaving assets frozen until a reasonable secondary market is established.

The Kenen plan proposed by professor Peter Kenen of the Princeton University argues for more modest debt relief and pays more attention to creating a workable secondary market. It centres on international Debt discount corporation (IDDC) designed to make a "once only" offer to the banks for their LDC loans at 10% discount. In the interests of consistency and to create a standard trading instrument, the IDDC would publish Standard terms for doing business with debtors. It would extend maturities and use five of the ten cents on the dollar extracted from banks for debt relief.

The IDDC would exchange bonds for developing country loans, discounted according to their relative riskiness. Only loans to those countries with IMF programmes and which recognise the corporation as successor claimant to the bank, would be eligible.

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The problem with the Kenen plan as with the Rohatyn model is that the schemes dont address themselves to the real issue, namely how to get real money to these countries, rather than dealing with existing debts.

The Mackworth Young plan has two stages. In the first as an interim measure, the banks would seurrender, at full value, their locked-in loans to some arm of the Bank for international settlements (BIS), the IMF, or a new agency in exchange for non-interest bearing bonds. This would free them of the need to fund the debts. Later, in the second stage these bonds would be convertible into guaranteed quadraple - A - rated bonds bearing interest, which would be tradeable on a secondary market, but on conversion the banks would mark their securities to market **(ie value them at the going market rate).** The two stage approach allow the banks to defer any write-down until their capital ratios permit.

The plan suffers from the same limitation as suggested for both Rohatyn and Kenen plan.

The Bailey plan proposes that banks continue to receive interest on their loans so that they will not have to write down their assets (as they must if they receive lower-than-market interest rates). But in place of principal repayments, debtors would issue an indexed contract called an "exchange partici-pation note" guaranteeing the banks a fixed percentage of their foreign exchange receipts. These certificates would be fully negotiable.

This proposal does attempt to gear rescue plans to the LDCs' ability to pay, but again it would cut bank earnings. Also, the measurement of "ability to pay" becomes problematic.

The Leslie plan gives support for a rediscount solution. A rediscount facility, it is argued, would enable the commercial banks to mobilize a part of their medium-term debt, which has arisen as

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a result of rescheduling, with their central bank or other appropriate body on the basis that the proceeds were used to create fresh lendings. The rediscounted debts would come off the balance sheet of the commercial bank and thus no longer require appropriate liquidity and prudential capital support. They would possibly still need to be treated as contingent liabilities since, if the debt was unpaid, then a write off would altimately have to take place in the books of the commercial bank as the original lender. The rediscount would cover the full lenght of the maturity and appropriate arrangements would have to be made covering the interest factor.

A similar proposal is the Meir-Preschany plan. However the World Bank rather than Central Banks would take problem debts off the banks' balance sheets, while the banks retain the risk. The debts should be converted into the long-term loans or bonds.

Yassukovitch plan suggests that all loan recently negotiated between banks and troubled debtors should be converted into IMF facilities and IMF should replace the lead banks as agents - so commercial banks are removed from direct involvement in adjustment programmes. Bank exposure should then be redistributed over twenty years to a consotium of Central Banks and export credit agencies in industrialised countries, regional development banks, the IMF and the World Bank.

It has been noted that the common feature of these plans is the removal of bad debts from the balance sheet of the lending banks so as to stabilize their position and provide them indirectly with new liquidity.

However, the plans has been criticised on the ground that they are dangerous in the shortrun in as much as they would be likely to precipitate the very crisis they aim to avert. They are counter

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productive in as much as the longterm side effects, even assuming an immediate crisis is avoided, would make the cure worse than the disease. Implementing them would be very likely to damage the reputation of lending institutions, whose real or supposed management errors would be clearly revealed, and at the same time ruin the credit of the debtors whose solvency troubles would be highly exposed.

Other proposals include the wallich plan which entails the creation of a bank lending insurance fund. It stresses two options, insurance of specific loans and insurance of loan portfolios of banks. It suggests that the insurance fund could be designed to guarantee payments of principal or interest or a combination of the two.

However, an insurance plan might "reduce the discipline of the markets", might lead to subsidization of weak participants by strong ones - or of private interests by the public, or it might be viewed as a bailout for banks.

The lever plan suggests that export credit agencies of the industrialised countries create a central agency which would maintain a measured flow of funds to the developing countries. On the basis of the IMF advice, the agency would notify central banks of developing countries, that individual export credit agencies would ensure bank lending to cover a given current account deficit.

The attraction of the lever scheme is its close link with international trade promotion. However the difficulty lies in deciding who should fund the agency.

The Bolin plan is similar to the lever plan while the Laulan plan emphasises not the outstanding debt of debtor countries but gives priority to new debt. This increases the magnitude of debt in the longrun.

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Professor Alan Meltzer suggested that the debtor countries should exchange part of the outstanding debt for equity shares that the government control. The exchange would lighten their debt burden and improve the quality of the banks' claims. The Meltzer plan which is now widely accepted and applied by LDCs Nigeria inclusive, forms the basis of this research.

Proposals affecting interest emerged out of the increasing importance of interest costs for debtor countries. It has been widely accepted that each 1 percent fall (rise) in interest rates reduces (increases) debt payments by US $4 billion **(BIS,1984).** Therefore various schemes have been put forward to alleviate the impact of interest rate increases on debtor countries.

Interest rate capping is better described as a form of automatic rescheduling. Assume all sides agree that interest payment should not rise beyond 10% on LDC debt, but then that all market interest rates rise to say, 11%. The banks then have to fund their deposits at 11%, thereby reducing their cash flow. Capping many take different versions.

Under one version, we assume that the difference is not just lost, ie Latin America refusing to pay for the cap at some later date. If it does so refuse, this would essentially amount to default under any sensible banking rules. The question, is therefore, how to amortise the loan. The simplest way is to do just that, add the difference in interest to the life of the loan as capital repayments (ie the interest is capitalised). In this system the country is automatically rescheduling.

Another version is to set up a special reserve account which is credited with the interest difference when the market rate is above the cap. If the market rate then falls below the cap at a later date, the cap would remain and the difference be automatically used to pay off the reserve account.

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This scheme is currently popular.

The Economist plan: Although the IMF has long had a compensatory financing facility (CFF) that grants loans to commodity exporters if their foreign exchange earnings fall because of factors beyond their control - a slump in world sugar prices for example, high American interest rates have gouged much out of the export earning of some big borrowers. The plan therefore suggested that America could make some amendment by supporting the establishment of a special interest rate compensatory facility in the IMF, similar to the successful commodity one, to help Latin America meet an extra of $1.6 billion a year. It has to pay banks every time interest rates in New York when there is a rise of 1%. If commodity prices fall, poor exporters then have the right to draw more from them then the IMF, if world interest rates rise, poor debtors should also have the same right. Disbursements of funds need not require conditionality.

However, it is feared that the moral hazards of all compensatory finance would still apply.

The Hudson institute plan suggests that interest rates should be fixed in real terms while principal repayments increase in line with inflation. This would reduce interest service in the early years of a loan and increase principal repayments in later years. Such a reloading of loans could help debtors match their revenue flows to their financing obligations more closely.

Although this plan signify debt relief in the shortrun, it means increased debt and debt burden (both **interest payments and capital repayments in the longrun hence the recycling of the debt crises** which the plan aims at rectifying in the first place. This is further vindicated by the fact that prices are known to be flexible upwards but rigid downwards.

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The list of proposals is not altogether exhaustive, as new proposals continue to emerge. But the most current and increasingly accepted by debtor nations is the debt equity conversion programme.

The next section highlighted Nigeria's external debt management experience.

4.2 NIGERIA'S EXTERNAL DEBT MANAGEMENT EXPERIENCE

The Central purpose of external debt management is to match a country's foreign borrowings (size and terms) with overall economic performance and ability to pay while leaving sufficient margin for unforseeable development needs to avoid balance of payments crisis. This involves enforcement of established procedures as to who can borrow abroad, a satisfactory system for registering approved foreign loans, adequate administrative follow-up to monitor their utilization and the timely payment of interest charges or principal repayments as and when due. **(Ahmed. A, 1987).**

Given Nigeria's increased external debt and its biting burden, various techniques have been adopted by the government in order to correct the situation, especially in the 1980s. However before this period, earliest measures adopted include foreign exchange controls and statutory provision of maximum level of commitments.

One of the earliest control measures adopted was the regime of exchange control. The main strength of the regulatory tool is contained in the exchange control Act of 1962. Exchange control is seen as a machanism by which a country seeks to mobilize and centralise its foreign exchange resource and ration such resources for the settlement of international transactions in accordance with the priorities of the country.

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The objectives of the exchange control policy include:

(1) to enhance an improvement in the balance of payments position and the maintenance of reserves consistent with external stability;

(2) to ensure maximization of foreign exchange receipts from all available sources;

(3) optional utilization and allocation of foreign exchange;

(4) to rekindle confidence in the international community and the external payments system of the country. **(Ahmed A, 1985).**

The regime of exchange control is supposed to perform the above listed objectives, and in particular to arrest depletion of foreign exchange resources of the country.

In Nigeria, the system of exchange control regulations and licencing has been in vogue since 1962. The major exchange rate policy change aside from the "Crawling peg" approach to depreciation of the naira that characterised the period 1983, up to the middle of 1986, has been the second tier foreign exchange market which started operation on 29th September 1986. It is the operation of this market that is supposed to help determine the eqilibrium rate of exchange for the naira in relation to other foreign currencies as the rate of naira in relation to other foreign currencies as the rate of exchange hitherto was considered unrealistic or over valued **(Abdullahi S.H., 1987).**

Statutory provision of maximum level of commitments started to be established immediately after the civil war in 1970 when it became necessary to raise some external loans to support the rehabilitation and reconstruction of the war-damaged facilities. At this time also, the government was concious of the optimal level of indebtedness. Consequently, there was the promulgation of Rehabilitation, Recon-

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struction Decree 1970 which limited the level of indebtedness to a maximum of N1.0 billion. Decree No. 30, of 1978 was promulgated in 1978, raising the ceiling to N5.0 billion. This ceiling has been in vogue since then. **(Sanusi J.O, 1987).**

Following the lapses of the exchange control measures and the increasing external debt burden on the economy manifested in chronic balance of payments deficits; the Federal Government issued a directive asking each state government not to exceed a maximum of N200 million limit as external loan outstanding. Moreover, state governments were to ensure that they maintain financial prudence by not utilizing more than 10% of their revenue on debt service. **(Anyanwu, 1988).**

As a further response to the deteriorating balance of payments of the country and worsening debt crisis; the Economic stabilization Act of 1982 was enacted. It empowered the president to issue orders to deal with the balance of payments crisis.

The main thrust of the Act was to restrict imports and raise additional revenue for government. Among the provisions of the Act were the raising of import duties, the placing of a number of import items under import licencing regulations and the imposition of some excise duties on a number of local manufactures and the banning of some import items **(Fed, Rep of Nig, 1982).**

In spite of the Economic Stabilization Act of 1982, continued massive outflows of foreign exchange amounting to N1,539.4 million in 1982 and N244.8 million in 1983, the inability of some state governments to pay salaries regularly, continued retrenchment of workers and intensification of inflation were signals indicating the failure of Economic Stabilization. The failure was further marked by the decision of the Shagari and the two succeeding military administrations to approach international financial institutions for addition loan (Osagie,1983).

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The Buhari Administration in 1984 employed more draconian measures to stabilize the economy. Massive retrenchment of Public Sector Workers, tightening of exchange control and import licencing measures and harsher punishments for foreign exchange crimes were employed to stabilize the economy.

Embargo on new government borrowing abroad was also employed in 1984. However certain exceptions were granted in respect of on-going core projects that were considered to be in the overall interest of the economy. However such loans were however, to be on soft term. The policy was to remain in force for 1985 and 1986 **(Sanusi, 1987 and Anyanwu, 1988).**

Another debt management technique adopted in Nigeria is the refinancing of shortterm trade debts (trade arreas). It refers to a strategy for transforming shortterm debt obligations into longterm ones. The first refinancing agreement was reached in July 1983. Under the agreements, a total of $2.112.0 million or N1,584.9 million worth of letters of credits were refinanced, with six months of grace and repayment period of thirty months beginning from January 1984. Interest was fixed at 1½ percent above **LIBOR.** Full repayments of the refinanced a: were completed in July, 1986. **(Onoh. J.K, 1989).**

Despite this refinancing, the arreas continued to mount and hence increased the nation's level of external indebtedness. In addition, the chances of opening new lines of credit became narrower and further reduced the level of economic activity. To secure further debt burden a decision was reached in 1984 to refinance the remaining arreas particularly those on open account, bills of collection and unconfirmed letters of credit through the issuance of promissory notes. In this regard, the terms of agreement included the payment of interest at the rate of 1% above LIBOR with effect from January 1984, maturity period of six years including a grace period of

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two and half years and the redemption of the promissory notes in fourteen equal quarterly instalments with effect from October, 1986. The notes were to be redeemed in naira (local currency), based on terms to be agreed on with the Nigerian Government.

Following the acceptance of the terms of the agreement to the uninsured creditors, a total of $3,186.5 million worth of promissory notes were issued. A total of $32.4 million worth of these notes have been redeemed in naira. However, the authorities have temporarily suspended such redemption exercise because of some problems and abuses until thorough assesment was made. It was expected also that after verifications and reconciliations, a total of about $4.6 billion worth of claims would be covered by the refinancing exercise. **(Sanusi 1987 and Anyanwu 1988).**

Most of the previous strategies which spilled over were incorporated into the SAP. Thus under the SAP three principal external debt management strategies were adopted, viz: Refinancing, Rescheduling and New loan facility agreements. A fourth strategy was introduced in 1988 the debt - equity swap option or the debt equity conversion scheme. Negotiations are continuing during the remaning period of the SAP to refinance remaining trade arears that have fallen due. **(Anyawu, 1988).**

Rescheduling refers to the renegotiation of the terms of an outstanding debt which depends on an agreement with the IMF to become effective. **(Oyejide et al, 1985).** When a long term debt is rescheduled only the terms of relevant maturities change, giving rise to a different projected debt service stream, while the status of outstanding liabilities remain. If the associated interest payments are rescheduled, a new loan is assumed to be committed and disbursed (in principle), and the liability position is adjusted accordingly.

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The introduction of second tier foreign exchange market in September 1986, encouraged Nigerian creditors and international financial institutions such as the IMF and the World Bank to join in serious discussions on Debt rescheduling and structural financing programme for the Nigerian economy. By the middle of October 1986, negotiations had yeilded results. Nigeria's medium-term loan provided by the creditors of the London club and totalling $7.5 billion (N12.2 billion) was rescheduled whereby debts maturing between 1986 and 1987 were granted four years period of grace starting from April 1986 to March 13, 1990. During these 4 years period of grace, only interest payments on due debts would be serviced. Payments of the principal sums would be deferred to 1990 with repayment schedule spreading over six years. The terms are spelt out in periods and corresponding percentage of debt to be repaid on due period, starting from

1st April,1990–1st April, 1991 – 5%; 1st April, 1991 – 1st April 1992 – 15%; 1st April 1992 – 1st April 1993 – 20%; 1st April 1993 – 1st April 1994 – 20%; 1st April 1994 – 1st April 1995 – 20% and 1st April 1995 – 1st April, 1996 – 20%. **(Onoh J.K, 1989).**

According to the agreement, all debts expected to fall due between 1988 and 1989 would be renegotiated at a later date and possibly under more favourable conditions depending on how Nigeria performed in the interest payments during the immediate two years' of grace out of the four granted to Nigeria under the terms of the agreement. Under the financing agreement, Nigeria would pay every month $50 million in the last quarter of 1987 immediately following expiration of the 9 months grace period starting January 1, 1987. The outstanding balance will be settled on equal monthly instalments starting from 1st of January 1988, and spreading over three years. **(Anyawu, 1988).**

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Another content of the package is the provision of a fresh one year loan (new money) totalling $320 million with the option of automatic conversion after one year ie from January, 1988 to medium term loan and with three years of grace and four years of amortization period. Repayments are to be made on equal yearly instalments.

Rescheduling negotiations with the Paris club of official creditors began in December 1986 with regard to $6.8 billion debt relief rescheduling of principal and interest on medium and longterm debts due between October 1, 1986 and December 31, 1987, as well as other short term claims of insured creditors on arrears up to December 31, 1983.

Proposals were also made to uninsured creditors holding the Central Bank promissory notes to reschedule the debts over 22 years including a grace period of 2 years. The proposals also stipulated that no further reconciliation of debts yet unmatched would be undertaken, though this does not extinguish the right of claim by the creditor on the naira holding with the importer provided the debt is authentic and accepted by the importer.

These proposals were finally accepted on January 14, 1988. The worth of the promissory notes issued was $3.25 billion, although there were claims totalling $9.8 billion. The central bank of Nigeria had declared that up to N2.6 billion worth of claims proved impossible to match and many others were found to be duplicate and erroneous **(Anyanwu, 1988).**

In 1990, following the bilateral agreements signed/to be signed a total of US $10.93 billion has been consolidated with the Paris club in the two Paris club rescheduling arrangements; and with respect to debts owed to the London club, an application was made to the steering committee of the London club of commercial creditors in March 1990, requesting for the exchange of Nigeria's debt with

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30 year par bonds denominated in United States' dollars at an interest rate below the market rate, with the objective of limiting annual debt service to the banks to about $200 million **(Okongwu, 1991).**

The New Loan facility involves the procurement of new external loans either for trade support, export development or as a stand-by facility. Consequently, Nigeria secured a total of $4.52 million Trade Policy and Export Development loan from the World Bank in 1986/87 - used mainly to finance S(FEM). This was to be favoured by quick disbursing loans in 1987 and 1988, which along with project lending, will substantially increase the nations external loans into 1988. The World Bank commitment to Nigeria was therefore, expected to rise to at least $800 million per annum over the period. With respect to the IMF, Nigeria had been granted a stand by arrangement of SDR 650 million **($780 million).**

Additionally, Nigeria secured a new loan facility of $320 million from the London club as signed in London on November 23, 1987 along with the rescheduling agreement. This new money was expected to be released instalmentally from February, 1988. This amount which was regarded initially as a one-year loan would be automatically converted into a medium term facility on the first business day of January 1988. This would be accompanied by a three year period of grace and four years amortization. **(Anyanwu, 1988).**

The provision of the new money was however, tied to the satisfaction of two conditions:

(a) the endorsement of Nigeria's economic programmes and performances by the IMF and the World Bank; and
(b) non default of the country's agreements on medium term and letters of credit obligations.

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There has been continued rise in the amount of new money coming to Nigeria because of the country's ability to meet the above stated conditions.

The debt equity conversion strategy which is the currently adopted in the country has been thoroughly treated in the last three sections of this chapter. We analyse the strategyas an instrument of the Structural Adjustment Programme, its practical application in Nigeria is also reviewed and its apprai-sal finally undertaken.

However (**Sanusi, 1987**) has noted that, overall, the debt management strategies adopted prior to 1980 were appropriate and if they had been strictly followed, the debt problem of today would not have been so serious. The civilian administration's approach during 1979-1983 was more of a moral suasion as directive on the ceiling of N200 million as the total indebtedness outstanding for each state government was not supported with the law.

Furthermore, the Federal Government itself resorted to indiscriminate borrowing to financing all sorts of projects without serious consideration of its ability to service these loans. As a result, there was rapid growth of the level of commitment. Embargo on further borrowing only signified crisis management. Also, the Government was unable to ensure that the value of import licences issued did not exceed the budgetary provision/foreign ex-change earnings hence accumulated trade arreas before 1986.

Recent debt relief devises such as refinancing and rescheduling, though very much relevant as strategies to ameliorating the current debt service burden, nevertheless do not provide a permanent solution to the debt problem.

The implications of Nigeria's external debt management strategies on the Socio-economic development of the country are discussed in chapter five.

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4.3 DEBT EQUITY CONVERSION OPTION AS AN INSTRUMENT OF SAP:

The Babangida approach at reviving the Nigerian economy may be considered in two phases.

The first phase (1985-1986) coincides with the period of national economic emergency distinguished by absolute reductions in Public Sector Salaries.

The second phase (1986-1988) introduces an IMF/ World Bank sanctioned SAP whose objectives are to diversify the productive base of the economy in order to reduce dependence on the oil sector and imports; to achieve a fiscal balance of payments viability over the medium term, to lay a solid foundation for non-productive investments in the Public Sector; improve public sector efficency and intensify the growth potentials of the private sector to attract fresh foreign loans **(Osagie E, 1986).**

The main elements of SAP are:

(a) Strenghtening of demand management policies;
(b) Adoption of measures to stimulate domestic production and broaden the supply base of the economy;
(c) Adoption of a realistic exchange rate policy through the establishment of a second tier foreign exchange market (SFEM):
(d) Rationalization and restruction of the tariff regime in order to aid the promotion of industrial diversification;
(e) Progressive trade and payments liaberalization;
(f) Reduction of complex administrative controls and fostering reliance on market forces;
(g) Adoption of appropriate pricing policies for public enterprises; and
(h) Retionalization and commercialization/privitization of public sector enterprises **(Federal Government of Nigeria, 1986).**

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The core policies of the SAP involve measures to:

(a) Correct for the serious overvaluation of the naira through the setting up of a viable second tier foreign exchange market. Coupled with adjustments to the official rate and aimed at a convergence of the two rates as soon as possible;

(b) overcome the observed public sector inefficiences through improved public expenditure control programmes and the rationalization of the parastatals; and

(c) Relieve the debt burden and attract a net inflow of foreign capital while keeping a lid on foreign loans **(Okongwu, 1987).**

In line with government effort to relieve the debt burden, various strategies have been adopted. These include the refinancing of trade arrears, rescheduling and increased loans facilities which have been discussed in the previous section. Debt equity conversion has also been adopted and it forms the central basis of discussion in this section.

As noted elsewhere, debt equity conversion involves the "Conversion of debt at face value and at prevailing exchange rate for the currency of the debtor country – the proceeds are designated as registered capital investment of the creditor in the debtor country and used strictly for financing an entirely new company, expanding an existing one, recapitalizing portfolio investment **(Sanusi, 1987).**

It implies the replacement of foreign debt for foreign investment.

Debt equity conversion is seen, therefore as a stragegy whereby the country's debt burden is reduced or minimised. As a tool of the structural adjustment programme, it aims at attracting foreign capital for increased investment hence bridging the resource-gap problem in Nigeria.

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Debt equity conversion has been adopted by many LDCS especially Latin American countries of Brazil, Chile, Argentina e.t.c. Nigeria is one of the hesitant countries to embrace the essence of the scheme.

The IMF has been at the forefront of recommending Structural Adjustment for the LDCS claiming that most LDCS suffer from balance of payments deficits and debt problems because of their resource gap problem and hence they need to foreign foreign capital to bridge the gap. However a look at the SAP since its introduction in Nigeria in 1986 shows that it has had a devastating effect on the country.

The introduction of the second tier foreign exchange market (S)FEM now FEM has led to the massive devaluation of the naira by over 900 per cent. The naira exchanges for about N9.36 to $1 instead of about N1 to $1 it exchanged in the previous years before the introduction of (S)FEM in 1986. **(Business Times, 22/6/91).**

The removal of subsidy has also affected the different sectors of the economy negatively; this coupled with the depreciation of the naira has raised cost of materials (inputs, consumer goods e.t.c.) thereby affecting (lowering the standard of living of) the Nigerian populace.

The much expected foreign capital inflow has not be achieved also; despite many incentives offered foreign investors by the government. This can be traced to the nature of the Nigerian economy and its low relative absorptive capacity ie high political instability, low level of infrastructures, poorly organised and less sophisticated capital market among others which scare foreign capital .

It has also been noticed that even if the debt equity conversion scheme was capable of lessening the debt burden in the shortrun, it may generate another foreign exchange crisis in the longrun, as foreign investors used their enhanced economic power to repatriate profits, devidends and capital. (Ojameruaye E.O. 1987).

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Furthermore, it has been noted that an importan aspect of the debt equity conversion relates to th potential size of market and absorptive capacity For instance less than 2% on the average of the tota external debt of five countries (Argentina, Brazil Chile, Mexico and Philippines) among the few wh have implemented those schemes have been convertec (**Sanusi, 1987**). In Nigeria, only about $495.6 millior have been converted as at the end of 1990, which has had significant adverse monetary effects on the economy that led to the temporary suspension of the programme.

Conversion on a large scale, it is feared, may involve a radical shift in the ownership structure of the enterprises in Nigeria. Much as the government would try to convince us that it is in firm control of the situation, care must be taken in the implementation of the scheme; as this fear is not altogether negligible.

A review of the objectives of the debt equity conversion has shown that it is clearly in line with the set objectives of the structural adjustment programme (SAP). And as earlier noted, "the adoption of IMF inspired programmes like privatization, SFEM and even Debt equity conversion can all in the large measure be traced to the external debts situation of the country". **(Ozo-Eson, 1987).** It can therefore be safely concluded that Debt equity conversion is an instrument of SAP and an integral part of it.

4.4 PRACTICAL APPLICATION OF DEBT EQUITY CONVERSION IN NIGERIA

The federal government adopted the structural adjustmen programme in 1986, the aim of which is to restructure the economy by removing the nation's economic reigidities. The debt equity conversion was adopted in 1988 as an option to help redress the nations debt problem especially through the attraction of capital inflow, hence increased foreign investment, economic growth and development.

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In Nigeria, some of the objectives of the De equity conversion scheme are:

(a) To improve the country's external position reducing the stock of outstanding foreign denon nated debts;

(b) to improve the economic climate so that it attactive to foreign investors and serve an additional incentive for the repatriation capital flight.

(c) to encourage the creation and development export oriented industries so that the country export base is diversified.

These were to increase the country's acces to appropriate technology, external markets and benefit and encouragement of the development of export oriente industries, enable the re-establishment of credit lines giving rise to new investment which stimulates economic growth and dwindling employment rate **(Federal Government of Nigeria, 1988).**

Debt conversion committee, which was the mai organ for establishing and implementing the schem established clear and concise approval criteria an procedures, reviewed and approved applications and transactions within reasonably specified time; and monitor and review the programmes progress and investment projects approved under it.

Elligibility for participation was for foreign debts restricted to Central Bank of Nigeria dollar denominated promissory notes issued under the CBN circular of April 1984 and promissory notes issued by the Federal Ministry of Finance and Economic planning

Priority areas for eligible investment transaction include:

(i) Investment in production processes especially in agriculture and allied fields and export and raw material production where at least 80 percent of raw materials which serve as input are locally obtained;

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(ii) Investment in areas where employment will be provided for a large number of people;

(iii) Investment where existing inventions and discoveries in Nigeria in the field of new machinery products and processes, capable of being adopted to suit the country's needs will be fostered.

Other aspects covered by the nation's debt conversion programme include protection for foreign investment so that investors benefit from approved status on the issue of tax treatment and repatriation of dividends and capital, the establishment of a definite pattern of application procedure for prospective participants, the introduction of a conversion procedure and a pattern of monitoring.

Debt equity swap (conversion) was first practicalise in the country in 1988 when foreigners brought in promissory notes worth $450 million tendered for the conversion. This involved bidding for the debt swap so that the highest bidder or the most satisfactory bidder wins **(UBA, 1988)**. Each of the bidders presented his/her own proposal where discount rate was given. Forty million US dollars ($40m) or N213.3 million worth was tendered by the Central Bank of Nigeria in November 1988. The CBN received about forty (40) applications worth $187 million.

Seven applications were considered successful and one was partially successful. All the successful applications were valued at US $23.9 million. Partly due to the large applications and the keen competition between the foreign investors, the CBN gave a cut-off discount rate of 36 per cent while the highest discount rate given by the foreign investors was 58 percent hence the CBN gained considerably and it was able to save N83.73 million **(CBN, 1988)**.

The Budget and Planning Minister while analysing the 1991 budget particularly on the Debt conversion programme stated thus: "A total of 73 applications for debt conversion worth $1.1 billion was received

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from January to November 1990 against 52 applications amounting to $333.3 million in the corresponding period of 1989. The total number of applications received since the inception of the scheme in 1988 was 205 valued at $3.2 billion with the total value of debts cancelled at $495.6 million **(Okongwu, 1991).**

In a report **(National Concord 24-4-91)**, the government was said to have paid successful redemtors N2.005 billion for the shaving off N2.077 billion from the country's $33 billion foreign debt. The plum of the disbursements went to the manufacturing sector which got N800.49 million leaving a sum of 101.2 million outstanding to the sector as at April, 5, 1991; this was followed closely by gift and grants at N357.712 million; Agriculture got N307.5.7 out of redeemed debt of N569.034 million due to the sector; Hotel and Tourism received N221.324 million out of N408.552 million redeemed value due to the sector. Disbursement of N191.038 million went for debt for debt conversion and building and construction had N118.632 million.

It should be noted that disbursements to successful redemptors is in consonnance with the provision of section 4.11 of the guidelines on debt conversion programme in Nigeria which provides that "naira proceeds of the converted promissory notes or debt instruments will be kept in blocked accounts and released in tranches on application to the beneficiary's bank account depending on the cash need of the project.

Furthermore, the Central Bank has earned N6.6 million on 19 auction of the guidelines which guaranteed the Bank 2.5 per cent interest on the transaction value of the debt converted. The country has skimmed off an estimated N1.8 billion as a result of generous discounts offered by the creditors. **(National Concord, 24-4-91).**

At the 20th auction (1st June 1991) bid totalling $50 million were made but all failed , with the highest bidder offering a discount of 38 per cent. The failure

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has been attributed to the minimum discount rate s by the central bank (about 40%) which made it cheap for potential investors to buy local currency on th autonomous market than to enter the auction (Busine Times, 17-6-91).

The 21st auction of the Debt conversion committe was expected to hold on June 28, 1991. Th debt offered for redemption was denominated in foreig currencies, with discounted value of N120 million (Guardian, 14-6-91).

The implications of the debt equity conversio on the Nigerian economy are highlighted in the nex section.

4.5 IMPLICATIONS OF DEBT EQUITY CONVERSION ON THE NIGERIAN ECONOMY:

We have seen in the preceeding sections, how the debt equity conversion came to be an instrument for achieving objectives of the SAP especially as regards reduction of the debt burden and the attraction of new foreign capital, and investments for economic growth. Furthermore we saw the practical application of the debt conversion programme.

In this section we intend to highlight the implications of the programme on the Nigerian economy. The likely benefits and dangers to the economy are therefore highlighted

LIKELY BENEFITS:

The government and the proponents of the Debt conversion programme has adduced likely benefits that could accrue to the country and to the economy as a result of its adoption. These benefits include increased foreign investment, increased employment, reduction in the debt levels, savings for the economy improved external trade position of the country and non-inflationary growth.

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Debt equity conversion, it has been argued could open up opportunities for private investment in the country. The Nigerian stock exchange market has recently achieved a link with Rueter International Information Network. Information on quota prices of Nigerian securities, Stock exchange index, the dividends earned by the various securities, the price earning ratios and other information which a foreign investor requires in order to take a decision on wether to acquire Nigerian issued securities or not or wether to dispose of those Nigerian securities already in his portfolio or not, are now readily available to both domestic and foreign investors. With the internationzation of the Nigerian stock exchange it is very likely that more foreign investments will take place at the market **(Onoh J.K 1987).**

Furthermore, (Oresotu 1988) has argued that given the available production capabilities in the Nigerian economy, the amount of investment goods and other resources required to exploit the opportunities opened up by the structural adjustment programme are so vast that a large component of foreign investment was needed. Hence this could be achieved through debt equity conversion. **(Oresetu, 1988).**

A reduction in the level of sovereign and non sovereign international liabilities is considered an immediate benefit of the debt conversion programme. Debt conversion it is argued, contributes to reduction in the overall burden of the debtor country. By the end of 1986, verified shorterm debts stood at approximately \$6.2 billion. The verified amount constitutes about a third (⅓) of Nigeria's GDP of 1986. Nigeria's total external debt of approximately \$18.631 billion as of 1986 constituted over 160% of Nigeria's total GDP for 1986. In effect, if Nigeria should securitize all verified shorterm debts, then the level of the country's external indebtedness would drop to about \$12.4 billion and that would be a major relief to the over burden economy. (Onoh J.K, 1987).

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In debt servicing, not only are the principal sums and interest incomes repaid but post maturity interests also accumulate, exerting even greater pressure on the debtor country's meagre foreign exchange proceeds. Debt equity conversion, it has been argued allows heavy discounting of debt at the secondary market. The 30% discount of the face value of Nigeria's debt traded in dollars constitutes a savings for Nigeria. Such savings could be channelled to heavy productive sectors of the economy for growth and development.

As noted earlier, the country is reported to have skimmed off an estimated N1.8 billion as a result of generous discounts already offered by the redemptors who see the scheme as an ingenius means of reducing the waiting period of their credit to the country. **(National Concord; 24-4-1991).**

Debt equity conversion could enhance revenue generation to government. The Central Bank has already earned N6.6 million 19 auctions of 21 so far carried out, by the grace of a provision of the debt conversion guidelines which guaranteed the Bank 2.5 per cent interest on the transacted value of the debt converted **(Ibid).**

Debt equity conversion could help improve the external trade position of the country when new investments are channelled into substituting or export oriented sectors. This would reduce imports and increase exports and competitive ability of export goods, increase foreign exchange earnings, hence improved balance of payments situation.

Furthermore, if the gains from the discounting of debts are properly utilised, a part of external liability will translate to domestic assets. The economy will expand, more income and employment will be generated. The quest for new investible outlet will lead to the discovery of new business opportunities. **(Aikoye M, 1989).**

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The fear of securitization of debt as a contributor to exccessive monetary expansion and inflationary pressures has been discounted by the proponents of the programme. They were of the opinion that the percentage contribution to GDP and employment by securitised debts would outweigh any additional inflationnary presesure that could arose from monetary expansion traceable to debt securitization. If the conversion is directed at productive sectors, and since the government monitors the conversion and pay in bits, inflationary spiral would be avoided or curtailed. **(Onoh J.K 1987).**

It is important to note that as rosy as these benefits appeared, they are shortrun in nature and therefore costly. A wide opening up of the stock exchange to the foreigners could lead to the domination of the economy by them because there are tendencies that they would acquire the best securities and control the economy.

Also, due to the limited absorptive capacity of the Nigerian economy, it cannot withstand equity conversion of a sizeable volume and without worsening the level of inflation in the country. It was in view of this problem which arose that the Minister for Budget and planning announced the temporary suspension of the conversion programme in December 1990. Furthermore the amount of the country's equity which could be capitalized through the programme remain insignificant relative to its debt. At the end of November 1990 only $496.6 million debt has actually been cancelled through the programme.

DANGERS TO THE ECONOMY:

Various disadvantages and likely dangers to the economy has been adduced to the adoption of the debt equity conversion programme in Nigeria. These include the stranghtening of foreign participation and presence in the Nigerian economy, the intensification

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of capital flight, weakened economic strenght of the state and the local capitalist class, dependent development and the reproduction of dependence, increased repression of labour and pressures on monetary and fiscal policies.

It is important to fully grasp the fundamental fact that debt equity conversion like debt rescheduling are both taking place within the context of an adjustment programme that is informed by the Multilateralist perspective of the IMF. This perspective does not give any priority to the overriding interest of Third World nations but aims at a drastic realignment of their economies into the structure of imperialism.

It has also been argued that immediate impact of debt equity conversion would be the strenghtening of foreign participation and presence in the Nigerian economy. Depending on which part of the economy is opened to foreign participation, there would have to be a relignment of the existing relations between state, foreign capital and domestic capitalist. The new guideline that permits equity participation by banks, which are controlled and partially owned by foreign capital, has discretly opened otherwise closed sectors to some foreign participation. Such participation facilitates foreign control of the Nigeria economy given the existing argument that transfer of shares under the indigenization exercises gave little effective control to state and local partners of international banks. This does not preclude the representation of both state and local partners on boards of such Banks **(Steve A, 1988)**. And as Beckman has noted "representation does not rule out fresh modes of collaboration between international capital and representatives who may be bought over".

Furthermore, it should be noted that the Debt conversion committee (DCC) which was set to pave way to debt equity conversion has already recommended that foreigners could possess 80 per cent equity participation of some 22 enterprises in schedule 4, of the Nigerian Enterprises Promotion Decree. These enterprises include basic

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iron and steel industries, the automobile industries, basic industrial chemical, organic and inorganic products, manufacturing products among others. And as (A.Ahmed, 1988) has noted that, already investments in industries like jewellery, clothing, clock repairs and rice milling which used to be exclusively reserved for Nigerians are now opened to foreigneers for a maximum participation of 40 percent. The implication of this is that the debt equity conversion programme could reserve the ownership structure of enterprises to pre 1972 position. It represents the erosion of our hard earned economic nationalism achieved via the Nigerian enterprises promotion decree of 1972 and 1977 as amended. **(Olowononi, 1989).**

Another serious disadvantage of the debt equity conversion strategy is the intensification of capital flight. Given the strenght of international capital within the Nigerian economy as manifested in the structure of industries (investments) and given the import dependent character of her industrialization, it is reasonable to assume that the economy would experience capital flight through over/under invoicing by multinational firms as they embark on envisaged 'high priority' projects. The expansion of international capital within the Nigerian economy and the effect of capital flight is likely to reproduce the problem of debts. The debt equity conversion strategy is thus very likely to lead to a reversal of the gains of economic nationalism and move the country in the direction of dependent development.

Steve, (1988), has noted that the new mode of operation of International capital within the Nigerian economy would to a large extent be determined by the interest of international capital. This is so because, Nigeria remains a debtor nation trying to solve her debt problems in the least offending way to imperialism.

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This gives a lot of leverage to her powerful creditors, who control finance and export guarantee, with regard to the mode of debt equity conversion. The Nigerian state's reproduction especially under the present administration, has come to hinge on the support given by international capital and institutions that defend the interests of the same ie the World Bank e.t.c. Therefore, the state can be expected to advance the interest of international capital even when policies as regards international capital participation in the Nigerian economy are self-imposed. A case in point is the logic that informed the rigorous and pro-IMF SAP, despite its supposed Nigerian parentage.

Dependent development is likely to reproduce the problem of dependence in new forms and at a higher level where the gains that are supposed to be derived from exports **(as a result of capitalization of debts)** are offset by the costs of importing inputs used in production. This is likely to happen in Nigeria given its import dependent nature and its inelastic export demand.

Debt equity conversion might put upward pressures on the monetary and fiscal policies of the country. Debt conversion financing may be through the banking system or the private sector by sale of bonds. Banking involvement brings about inflationary pressures because of process of money creation and hence rising money supply. An IMF recent survey for example has shown that in Argentina, Brazil, Mexico and Philippines, the conversion of as little as 5 per cent of outstanding debt to commercial banks led to an increase of 33 to 59 percent of domestic money supply **(Aikoye M.A, 1989)**.

In fact, it is in realization of similar problem as a result of debt conversion in Nigeria that informed the recent suspension of the programme by the authorities.

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Financing debt to equity by drawing on domestic capital market through sale of bonds to the private sector could put significant upward pressure on domestic interest rate. High interest rate directly or indirectly raises cost of production and further investment, encourages capacity under-utilization, raises unemployment level and hampers growth in the economy. On the fiscal side, the drawing on domestic capital market, wether through consolidated banking system or the private sector will increase domestic currency debt service obligation of government with consequent rise in the domestic interest rate to a level probably higher than interest rate charged on external loan.

The recent move by the government ie pegging interest rate at 21% from about 30 percent is a vindication of the above outlined points.

Having seen the merits and the likely dangers of the continued operation of the Debt conversion programme in Nigeria, we are inclined to conclude that the programme is not a viable option for Nigeria's external debt management.

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CHAPTER FIVE

5. IMPLICATIONS OF NIGERIA'S EXTERNAL DEBT MANAGEMENT ON THE SOCIO-ECONOMIC DEVELOPMENT OF THE COUNTRY:

In section 4.2 we highlighted the various debt management strategies which have been adopted by governments in Nigeria since after independence. These debt management strategies include foreign exchange and trade controls, the Economic Stabilization Act and the Stringent Austerity Measures. Other strategies that have been adopted under the Structural Adjustment Programme which heralded a radical departure from the previous strategies, include debt restructuring **(refinancing and rescheduling)**, increased loan facilities and the debt equity conversion programme.

In this chapter we will critically analyse the implications of the various strategies on the socio-economic development of the country.

The system of exchange control and trade controls **(Licencing, embargo e.t.c.)** have been in vogue since 1962. Nigeria prefered not to use changes in its exchange rate to carry out required balance of payment adjustments, instead elaborate exchange schemes were often established before 1986; when the second tier foreign exchange market **(SFEM)** was introduced.

Abdullahi (1987), has noted that the maintenance of exchange rate rigidity proved disastrous for the economy thus creating distortions in resource allocation, relative prices and income between and within various sectors of the economy. The naira was hence overvalued not in the sense that it had become a strong currency, but because the real value (real worth) of the currency was much less than its nominal value relative to the currencies of the nation's trading patners. This gave it artificially high purchasing power **(Abdullahi, 1987)**.

Damages to the economy as a result of exchange rate rigidity and exchange and trade controls include heightened smuggling of currency and goods, capital

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flight, stagnation of non oil sector, loss of foreign exchange earnings from the official to the non-official sources, recipients windfall profits by corruption of import licences, gross misallocation of scarce resources and increased dependence on external sources of supply. These policies also allegedly worked mainly to the advantage of urban residents who had greater access to cheap imports in Nigeria and in the process supposedly acquired a spurious sense of affluence especially when imports were liberalized during export boom **(Abdullahi, 1987).**

The severity and complexity of Nigeria's economic problems as a result of the adoption of these policies which were manifested in worsened balance of payments deficit, hyper inflation, high level of unemployment, low capacity utilization of industries hence low productivity and general economic activity necessitated the introduction of the structural adjustment programme (SAP) aimed at solving these economic problems.

The Economic Stabilization Act of 1982 was a response to the chronic balance of payments deficits of 1981 and 1982. The main thrust of the Act was to restrict imports and raise additional revenue for government.

Osagie (1983), has noted that although the demand management package of stabilization polices improved the balance of payments position of the country, in the process it created other problems. These problems include a higher rate of inflation, a higher rate of unemployment, reductions in domestic industrial inputs and the encouragement of smuggling which has become more profitable because of higher domestic prices and shortages. The revenue generating impact of the Orders was also not particularly significant as witnessed by the cash flow problems of the federal government.
Other problems of the stabilization policy included massive outflows of foreign exchange which amounted to N1,539.4 million in 1982 and N244.8 million in 1983;

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the inability of some state governments to pay salaries regularly, continued retrenchment of workers and intensification of inflation. **(Osagie E, 1983).**

These problems could be said to underline the failure of Economic Stabilization.

More stringent control measures were adopted by the Buhari administration between 1983 and 1984. Although there was improvement in the country's balance of payments the associated problems of the Economic stabilization policy were largely sustained during this period. These measures were abandoned in 1986, when the structural adjustment programme was adopted.

As noted elsewhere, the structural adjustment programme was aimed at restructuring the economy by removing the economic rigidities that have truncated the growth and development of the country. The debt management strategies that have been adopted under SAP include debt restructuring (refinancing and rescheduling), increased loan facilities and currently the debt equity conversion programme.

As noted earlier, refinancing refers to a strategy for transforming shortterm debt obligations into long term ones which are subsequently superimposed on existing long term debt; while rescheduling, refers to the renegotiation of the terms of an outstanding debt which depends on an agreement with the IMF to become effective.

For most LDCS, negotiation is always at their disadvantage because the government negotiating representatives are sometimes deficient in knowledge and experience in international debt negotiation or more often appointed on political consideration such as quota and ethnic balancing. In addition, the economy of most LDCs are at the whims and caprices of the World Bank/IMF conditionalities which are mostly unfavourable for any meaningful debt negotiation **(Akinwumi O, 1991).**

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These could be said to explain the reason fo the increased debt servicing burden of most LDC Nigeria inclusive despite enormous rescheduling o these country's debt over the past few years.

Anyanwu (1988), has noted that, although refinancing the immediate short-term debt postpones the burden and eases the problem for the time being, it is only at the expense of added costs in the form of additiona interest payments and at the expense of mortgaging medium and longterm future. While rescheduling succeeds in prolonging the maturity of debt, the success is achieved at increased costs commitment charges and higher interest payments. **(Anyanwu J.C, 1988).**

This has significantly reduced the amount of funds that could be committed to domestic productive capital projects, thus, slowing down the country's rate of growth and development.

Refinancing and rescheduling of external debts not only increase the cost of debt servicing but make the nation vulnerable to disruption in capital earnings.

Falegan (1984), therefore, has rightly noted that all these erode confidence and credit worthiness of the nation; since the velocity in the increase in the size of repayment resulting from increasing variable interest rates and the additional cost for extending repayment period render the accuracy of the amount and size of loan difficult at a point in time. In other words, while the rise in debt service ratio **(ratio of debt to export)** accurately measures the accelerated amortization rate the other indicators **(ratio of debt to GNP and ratio of interest to export, ratio of debt service to external reserves)** may show an altogether misleading deterioration on the nation's economic situation. These various ratios distort the current account of the balance of payments since some amortization payments from the capital account are transferred to the current account which implies a deterioration

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in the current account position as a result of this factor.

This renders national planning difficult and even sometimes impossible, due to flunctuation between expected earnings and actual receipt **(of current account)** necessary for effective national planning.

Ubok-Udom, (1979), has further noted that reschedulings involve quantitative and administrative import restrictions **(even on some types of capital goods needed for development programme that led to the debt crises in the first instance)**, structural distortions, and growth retardation.

Since the imports of a country constitute the exports of others, import restrictions in this country lead to reduced export and foreign exchange earnings of other countries hence balance of payments problems, increased borrowing and debt burden. This is especially true for Third World countries, given the high interdependence between their economies. Moreover, import restrictions of capital goods necessary for industrilization significantly affects capacity utilization leading to reduced output and general economic activity, inflation, retrenchment and increased unemployment and the attendant social costs.

Anyanwu, (1988), has also argued that most of the refinancing and rescheduling arrangements have unfortunately failed to deal with the interest rate risk faced by the country. Rescheduled debts have taken the form of fixed maturity and variable interest rates; hence, a rise in global rate would leave these programmes exposed.

As we have noted elsewhere, it is this form of fixed and shortterm maturity obligation and variable interest rates associated with the International capital market **(ICM)** loans that have complicated the country's debt servicing problem.

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The domestic political situation could tell upon the relationship of government, foreign creditors and the citizen. If revaluation or political change is imminent than the fear of creditors' reappraisal, government may become unnecessarily hostile in discussion and negotiation with foreign creditors and sometimes they may be cooperative and confrontational. The IMF and World Bank debates in Nigeria in 1986 is a typical case of political tension that may arise when debt burden of a country is becoming harsh on economic well-being of her citizens. **(Akinwumi, 1988).** In the same vein, there is a considerable political dynamics in these rescheduling terms, whereby the domestic public considers the negotiations a failure when the most favourable spreads obtained eleswhere (like **Mexico and Venezuala did in 1986)** are not replicated. **(Anyanwu, 1988).**

This might lead to serious political, and consequently social and economic costs which could stifled growth and development efforts.

It is against this background that we are inclined to conclude that debt restructuring cannot solve the problems of external debt burden in the longrun though it signify a temporary relief in the shortrun. However, given the commitment of government to pursue these programmes, it is important that strategic issues concerning debt restructuring be properly considered before each exercise is undertaken. These include the issue of whether the acquired debt is used for development in productive sectors of the economy, the need for skillful and professional debt negotiators and the costs and benefits of debts in terms of their multiplier effect in generating more revenue and employment for the populace..

It is true that new loan facilities may provide short-term finance for imports or for servicing outstanding debts thereby easing the debt burden of the country in the shortrun. However, it has been noted

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that new loans will go a long way in compounding the external debt service problems of the nation. It is due to the continous acquisition of new loans that the nation's debt service ratio had increased astronomically from 0.4% in 1976 to 33.2% in 1985 (Anyanwu, 1988).

Given that substantial part of the new loans is devoted to servicing old loans, only part of the new debt is often available for investment. Since a large part of the net new loan is practically nothing but the capitalization of interest payments which otherwise could not have been made, the profitability of debt financed projects is not quickly restored to positive and healthy levels and indebtedness becomes a self-feeding process which, after a certain point, cannot be reversed but increases very rapidly.

An analysis of the expenditure pattern of loans so far received shows that a greater part goes into the service sector with no significant multiplier effect on the productive base of the economy. Also vivid is the fact that most of the loans being taken are on long-term basis while those due for payment now are endlessly being rescheduled. **(Guardian Financial Weekly, 24-6-91).**

It is against this background that the recent Ministerial mandate given to even Parastatals like Nigerian Television Authority **(NTA)** and News Agency of Nigeria **(NAN)** to explore external sources of funds and loans to finance their operations casts doubt on the sincerity of government's recent announcement that it was placing an embargo on new external loans. consequently, therefore, this action amounts to a blatant refusal by government to appreciate the magnitude and implications of such dependence on external loans. **(Guardian Financial Weekly 24/6/91).**

This might also result in viciously cumulative and unmanageable debt in the near future if anything is to be learnt from the contribution of the uncontrol-
lable nature [illegible] contraction of [illegible] sta[illegible]

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during the 1979-83 era, to the present crushing debt burden.

Furthermore, Anyanwu (1986), has noted that the new loans would constitute a great burden on successive generations in the form of an uncompensated distortion of their preferred pattern of consumption just as it will lead to increased unemployment **(due to reduced investment resulting from higher interest payment)** and negative tax effects of tax disincentives **(tax used for interest payments)** in addition to creating fiscal irresponsibility.

Mounting debt service and rising inflationary pressures associated with floating and variable interest rates of new external loans could further complicate our short term position and our debt management problems. Shorter amortization of the real loan and interest rates adjustment to inflation, debt service becomes higher in the near term as loan increases.

In view of this, there is a need for the government to be truly committed to placing embargo on external loans especially on frivolous ones. The government through its policy makers should intensify search for domestic sources of fund, in line with our quest for self-reliance.

The implications of the Debt equity conversion scheme have been discussed in greater detail in section 5 of the fourth chapter. However it could be added that for a successful debt equity conversion scheme, there is an increased need for improvement in the absorptive capacity of the country which is a necessary and an indispensable condition for the success of such programme and the attraction of foreign capital inflow. The indices of absorptive capacity will include the level of technology, size of skilled manpower, political stability, infrastructural facilities, appropriate sizes of investment in health and other key economic areas, foreign exchange availability and several other unquantifiable variables

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like work ethics but are seriously lacking in the country. As we observed elsewhere, this explains why despite the low value of the naira and the almost prohibitively high domestic interest rates in 1990, barely few foreign investors brought in their funds into the country. **(Tahir. H.M, 1991).**

It can therefore be concluded that, generally all the debt management measures that have so far been adopted in Nigeria cannot solve the problems of unemployment, rising inflation, capital flight, balance of payments deficits e.t.c. for which they were designed. However, it is our contention here that all these measures have a common feature of aggravating the debt problem in the longrun.

We conclude here also, that, of all the measures that have been adopted so far in Nigeria, increased loan facilities remain the most worrisome and problematic especially if we consider that substantial part of these loans come from the International Capital Market noted for its high and variable interest rates and shorter maturity period. As we noted earlier, this source(s) **(ICM Loans)** account for about 70 per cent of Nigeria's external debts now estimated at N297.9 billion. Efficient management of Nigeria's external debt is increasingly being complicated by borrowing from this source(s). This situation has been aptly described by the Central Bank's director of research, Dr M.O. Ojo who asserted that "Officially, all our official debts with the World Bank, IMF and other agencies are serviced as and when due. We have no problems with World Bank, no rescheduling. The ones we have problems with are the London and Paris clubs, which are mainly private debts from Nigerian importers".

It is in view of this that greater discipline in the international market place, diversification of the sources of borrowings and outright embargo on new loan facilities **(where necessary)** should be

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embarked upon in order to reduce vulnerability risks, thereby strenghtening Nigeria's financial viability.

We cannot but recall that it was Nigeria's resort to the Euro-dollar markets in 1978 that underlines the beginning of the country's journey into the World of debtor nations.

The next and final chapter form the conclusion and policy recommendations.

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6 CONCLUSION AND POLICY RECOMMENDATIONS:

This research is to evaluate the viability of the debt equity conversion programme with a view to solving the external debt problem of Nigeria. We have also examined the implication of the programme on the Socio-economic development of the country. We highlighted the different forms debt equity conversion could take. Of all the forms, debt for equity has and is still being practised in many countries such as Brazil, Argentina, Chile e.t.c. It is our contention that debt for Peso option is the most viable option given its overriding benefits and minimal costs relative to other options.

We further discussed the background to Nigeria's external debt and the nature of the Nigerian economy. And we situated Nigeria's external debt problem within the context of the country's monocultural, dependent and neo-colonial economy. We have shown that Nigeria like most developing countries has weak barganing power in international markets and its terms of trade remain unfavourable vis-a-vis those of the developed countries. It therefore continues to suffer from balance of payments problems, massive capital outflow with little capital inflow and the economy is subject to the ups and downs of the international oil market.

The debt equity conversion programme has been adopted as a response to the increasing debt burden of external loans, substantial part of which are the International capital market loans noted for their shorter maturity and high and variable interest rates. Reasons for debt crisis in Nigeria have also been noted to include foreign exchange leakages, expansionary fiscal and monetary policies **(ie high deficit financing)** by government, decline in official development assistance, procyclical lending patterns of the international private creditors, the policy response of industrialised countries to the OPEC's Oil price increases and mistakes and

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mismanagement among others. Remedies ranging from short and medium terms on the one hand to longterm measures on the other were also proferred to the country's debt problem.

We also noted that given the severity and magnitude of the country's and other LDCs debts which tend to threaten the international monetary system, a necessity for debt management strategies was created, hence the emergence of a wide range of international debt management options. These range from options which concern capital and those which address the problem associated with interest rates. Of all the options, the case-by-case approach has been given prominence by the IMF and has been widely accpted by Third World governments along with the debt conversion programme.

We note here that the case by case approach is highly emphasised by the IMF not because of its superiority over other options but because it is been used as a tool to prevent debtor nations from forming a debtors' club which will represent a common, united and strong front for debt barganing at the Paris and London clubs and other international lending institutions. The case-by-case approach is therefore aimed at the continued entrenchment of the third world countries intc the realm of capitalism through debt servitude.

In Nigeria, different debt management strategies have been adopted. These include foreign exchange and trade controls, austerity measures, debt restructuring **(refinancing and rescheduling)** and increased loan facility. The debt equity conversion option has been adopted as an instrument of the structural adjustment programme which aims at restructuring the economy and removing the economic rigidities that have stifled the growth of the economy. We showed that the programme is an instrument of the structural adjustment programme (SAP). We conclude that the debt for equity conversion programme cannot solve the problem(s) of capital outflow **(low level of foreign investment),**

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unemployment, increased debt burden e.t.c. for which it was designed rather, it would aggravate them in the long-run. The longrun costs of the programme in terms of the reversal of economic nationalism, increased foreign participation in the economy, pressures on monetary and fiscal policies, capital flight among others will erode the shortrun marginal benefits of the programme.

However, it is our contention that of all the forms of debt conversion, debt for peso option is the most appropriate and suitable for adoption in Nigeria given its overriding benefits and minimal cost(s) relative to other forms.

We have also noted that all the strategies to debt management which have been adopted in Nigeria have had negative consequences on the economy. We have shown that the problem(s) created by the Managers of the economy in debt restructuring effort, ie their technical inability in technical areas and their inability to read scientifically the happenings in the financial market in order to avoid the bunchings of loans which have contributed largely to the present debt burden of the country.

In view of the above highlighted problems we intend to recommend the following:

In view of the Socio-economic and political consequences of debt repudiation and the governments determination to pursue the debt equity conversion programme inspite of its shortcomings, we recommend that, for a genuine and realistic debt equity conversion, it is important and necessary to make proper revaluation of the assets of enterprises to reflect the current costs of acquiring them **(at the current exchange rates)** so as to prevent foreign investors from buying equity shares at undervalued prices.

To safeguard our sovereignity and protect our hard earned economic nationalism, extreme caution must be taken to prevent foreigners access to the strategic and 'commanding heights' of the economy

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the failure of which, could lead to serious politica and economic consequences. The government shoulc not hesitate to suspend and review the procedures and workings of the programme as and when necessary in order to achieve the desired objectives in the best interest of the country.

The federal government should specify clearly with utmost urgency, the areas into and conditions under which foreign capital is admissible as well as the incentives and conditions attached.

In view of government's commitment to debt restructuring, there is need for Nigerian professional debt negotiators to deal with the foreign banks, the international financial institutions and other creditor clubs. Nigeria should therefore join hand with other debtor nations to form a debtors' cartel that would present a meeting point for the harmonization of their positions before the creditors.

It is also our contention that external borrowing should be the exclusive prerogative of the federal government of Nigeria. furthermore there is need for a detailed study of the various ramifications of Nigeria's external debt problem. This is an urgent task.!

We need to look for domestic sources of revenue generation for any meaningful self reliance to be achieved. Policy makers should intensify effort in that direction.

There is a considerable need for export diversification to minimise the negative consequences of fluctuation in oil prices in the International oil market. In the same vein a tight control of imports should be considered. To achieve these twin objectives, the government should encourage the South-South cooperation and other regional integration efforts because integration will definitely lead to the promotion of industrialization and markets integration. It implies that there will be a wider market due to fre trade and therefore greater efficiency in the utilization of

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resources leading to an increase in the level of output, greater savings, increased capital formation and a higher rate of economic growth. This is very necessary in view of the weak bargaining power of the country in the international market and the over reliance on oil exports with its attendant problems. The recent government move of outright ban of import duties/restrictions on wide range of products within the Economic community of West African sub-region (ECOWAS) remains commendable. On imports, there should be increased taxes on or total ban of certain luxury goods which constitute a drain on Nigeria's scarce foreign exchange earnings and high import bill. The liberalization policy of the government should not mean the opening up of the Nigeria economy to all sorts of imported products thereby turning it into a dumping ground.

We cannot but agree with Korner and others (1986) that for a meaningful solution to the International debt crisis, there is need for debtor countries to undertake a development oriented policy which reflects their socio-economic, political and cultural realities. There can be no lasting solution to the debt problem without 'Duty to adjust' for surplus countries. As a corrolary to IMF's conditionalities to debtor nations to adjust their economies, surplus countries (especially advanced industrialised countries) should be encouraged to under take necessary adjustment for a balance in international economic management.

Finally and most importantly, a radical change in the national political economy is not only desirable but necessary. Such a change should aim at the construction of a largely autonomous Nigerian economy not heavily dependent on foreign corporate bodies and sources of supply, an economy whose democratic foundations are anchored on the formation and effective functioning of basic productive units made up of local people, and new economic order where overriding impulse among producers, consumers and policy makers is patriotic commitment to cost minimization, preference

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for local products and abhorence of fraud in all its ramifications. This is a task for all of us for it has been said that:

> "It is clearly mistaken to hold certain individuals exclusively responsible for the ills afflicting a particular society; for, save where the people are under the yoke of brutal force, the spoilators are able to ply their trade only because of the ignorance, the apathy and the vices of the despoiled." - Vilfredo Pareto (1848 -1923).

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APPENDIX

TABLE 1

DEBT INDICATORS FOR DEVELOPING COUNTRIES
1980 – 1986 (% UNLESS OTHERWISE NOTED)

INDICATOR	1980	1981	1982	1983	1984	1985	1986
Ratio of debt to GNP	20.6	22.4	26.3	31.4	33.0	35.8	35.4
Ratio of debt to exports	90.0	98.0	117.6	134.8	121.2	143.7	144.5
Debt Service Ratio	16.0	17.5	20.6	19.4	19.5	21.4	22.3
Ratio of debt service to GNP	3.7	4.0	4.6	4.5	4.9	5.3	5.5
Ratio of Interest service to exports	6.9	8.3	10.4	10.1	10.3	10.8	10.7
Total Debt Outstanding and Disbursed (b $)	428.6	490.8	551.1	631.5	673.5	727.7	753.4

NOTE: Data based on a sample of 90 developing countries.
Data for 1986 are estimates.

SOURCE: The World Bank, World Development, 1987. P.18 (Table 2.4).

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TABLE II: SECTORAL DISTRIBUTION OF NIGERIA'S GROSS DOMESTIC PRODUCT 1959 - 1988 (PERCENTAGE) 1962/63 FACTOR COST.

SECTOR	58/59	59/60	60/61	62/63	64/65	66/67	68/69	70/71	72/73	73/74
1. Agric,Forestry etc.	64.39	63.13	64.08	61.82	58.67	57.88	52.69	44.56	36.99	34.06
2. Mining etc.	1.12	1.20	1.20	2.09	2.70	6.90	6.36	11.99	16.79	17.77
3. Manufacturing	4.65	4.82	4.88	5.64	6.13	7.36	7.35	7.49	7.56	8.90
4. Electricity and Water	0.24	0.29	0.32	0.44	0.52	0.66	0.58	0.58	0.70	0.83
5. Building and Construction	4.22	4.53	4.01	4.34	4.34	5.25	5.27	6.27	8.51	8.09
6. Distribution	12.50	12 50	12.74	12.05	13.50	12.79	12.92	12.15	10.73	10.84
7. Transport and Communication	4.79	4.79	4.56	4.83	5.07	4.65	4.40	3.26	3.64	4.26
8. General Government	3.01	3.47	3.20	2.99	3.04	3.35	3.57	7.40	8.24	7.85
9. Education	2.52	2.74	2.56	2.99	3.17	3.62	3.47	2.69	2.90	3.02
10 Health	0.47	0.50	0.50	0.64	0.69	0.82	0.72	0.87	0.94	1.15
11 Other Services	2.09	2.03	2.03	2.17	2.17	2.72	2.67	2.74	3.00	3.73
	100	100	100	100	100	100	100	100	100	100

Source: Federal Office of Statistics, National Accounts of Nigeria, (Lagos 1976).

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TABLE II Cont'd

SECTORAL DISTRIBUTION OF NIGERIA'S GDP FOR SOME SPECIFIC YEARS (₦m) 1977 – 1988

SECTOR	1977/78	1980	1983	1985	1986	1987	1988
1. Agric, Fishing etc.	74016.6	9001.5	18505.9	24579.2	25900.0	27980.0	32191.00
2. Mining etc.	7904 91	15021.5	9923.5	13026.2	28100.1	30211.3	40010.00
3. Manufacturing	1695.6	5162.2	4802.1	4216.2	4553.00	50621	80431.4
4. Electricity and Water	98.6	244.6	402.5	395.7	420.1	452.6	930.0
5. Building and Construction	2999.8	3671.2	3268.3	1995.6	1290.0	1381.4	1861.0
6. Distribution	6771.7	9617.2	10344.6	12425.6	20910.2	21251.2	28411.2
7. Transport and Communication	10.39	1706.6	2157.8	1880.7	3260.7	4463.0	7450.3

SOURCE: Federal Office of Statistics, Lagos, 1987.

*National Planning Ofice, Estimates.

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TABLE III: NIGERIA'S EXTERNAL DEBT OUTSTANDING (END OF PERIOD) 1970 - 1989

(N MILLION)

	CATEGORY	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
	SOURCES											
1.	Bilateral	100.2	106.1	124.0	150.9	182.8	200.7	233.1	350.3	210.6	405.9	483.0
2.	Multi-lateral	37.9	37.9	102.1	107.1	122.0	126.0	129.4	140.2	154.3	163.9	181.6
3.	I C M	-	-	-	-	-	-	-	-	641.0	1027.8	1090.2
4.	Refinanced	-	-	-	-	-	-	-	-	-	-	-
5.	Unrefinanced Areas	-	-	-	-	-	-	-	-	-	-	-
6.	Others(Unguaranteed state/private Loans	350.7	70.5	37.3	18.9	17.6	23.2	22.1	6.4	259.8	13.9	111.2
	TOTAL	488.8	214.5	263.4	276.9	322.4	349.9	384.6	496.9	1265.7	1611.7	1866.8
	TYPE											
1.	Medium & Longterm	429.0	214.5	263.4	276.9	322.4	349.9	384.6	496.9	1265.7	1611.5	1866.8
2.	Shortterm	59.8	-	-	-	-	-	-	-	-	-	-
	TOTAL	488.8	214.5	263.4	276.9	322.4	349.9	384.6	496.9	1265.7	1611.5	1866.8

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NIGERIA'S EXTERNAL DEBT OUTSTANDING 1970 – 1989 Cont'd

	1981	1982	1983	1984	1985	1986
1.	656.1	163.2	179.3	351.3	365.1	1,159.1
2.	181.9	530.4	566.4	1,271.2	1,283.5	4,670.2
3.	1317,5	5474.4	5,026.5	6,003.1	7,726.4	21,725.3
4.	–	–	1,524.6	1,155.0	1,273.9	1,095.2
5.	–	1,981.7	2,758.8	5,443.4	6,164.3	12,275.7
6.	175.7	669.7	522.1	312.6	477.4	1,300.0
:	2,331.2	8,819.4	10,577.7	14,536.6	17,290.6	42,229.5
:	2,331.2	6,837.7	7,818.9	9,039.2	11,126.3	29,949.8
1.	–	1,981.7	2,758.8	5,443.4	6,164.3	12,279.5
2.	2,331.2	8,819.4	10,577.7	14,536.6	17,290.6	42,229.7

	1987	1988	1989
1.	1,968.9	3,308.7	5,307.1
2.	8,792.9	9,991.8	18,080.4
3.	35,773	47,710.3	72,622.3
4.	20,634.7	25,741.1	17,684.9
5.	26,958.4	35,452.1	71,381.9
6.	1,897.9	5,898.3	7,904.7
TOTAL	96,029.8	128,102.3	192,981.3
TYPE			
1.	48,436.7	66,909.1	103,914.5
2.	47,593.1	61,193.2	89,066.8
TOTAL:	96,029.8	128,102.3	192,981.3

SOURCE: Central Bank of Nigeria: Lagos.

* Turn over for Notes

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NOTES

1. The figure of shortertrade arreas is subject to reconcilliation and verification. As a result the figure is only tentative.

2. Total external debt outstanding at the end of 1985 include the backlog of foreign exchange approvals put at ₦6,164.3 Million yet to be verified.

3. First-tier rate at the end of December, 1986 which was used stood at $1.00 - ₦2.5954 while in 1985 it was $1.00 - ₦1.0004.

4. Exchange rate of $1.00 - ₦1.6010 ruling on September 26th 1986 was used.

5. Exchange rate of US $1.00 to ₦4.2989 at the end of October 1987, US $1.00 to ₦4.7167 at the end of September 1988 and $1.00 to ₦7.3725 at the end of September 1989 were used.

6. The figures for 1988 and 1989 exclude capitalised interest of ₦5853 million and ₦19769 million respectively.

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TABLE IV NIGERIA: REVENUE AND EXPENDITURE, 1979-1990
(₦m)

YEAR	REVENUE	EXPENDITURE	SURPLUS/DEFICIT
1979	8,868.4	7,406.7	+2,461.7
1980	12,138.7	14,113.9	-1,975.2
1981	7,068.3	10,774.4	-3,708.5
1982	5,819.1	11,923.2	-6,104.1
1983	6,594.6	11,923.2	-5,070.0
1984	7,811.9	10,342.6	-2,530.70
1985	9,724.5	12,300.6	-2,289.1
1986	10,672.6	9,094.4	+1,578.2
1987	12,246.7	16,337.7	-4,091.0
1988	17,377.4	21,339.2	-3,961.8
1989	19,727.0	22,213.0	-2,486.0
1990	27,220.0	49,480	-22.260

SOURCE: Federal Ministry of Finance, Lagos.

*Estimates Based on Figures of First 9 months; but for 1990 actual estimates are given .

(NOTE: As indicated in table IV, except for 1979 and 1986, all other years were in deficits. The implications was that such deficits had to be financed through external borrowing).

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TABLE V IMPORTS BILLS COMPARED WITH THE VALUE OF IMPORTS: 1975 - 1984

YEAR	EXPORT EARNINGS (₦b)	IMPORT BILLS (₦b)	TRUE VALUE OF IMPORTS (₦b)	OVER INVOICING (₦b)
1975	5.0	3.7	0.9	2.8
1976	6.8	5.1	1.3	3.8
1977	8.7	7.3	1.8	5.5
1978	6.1	8.2	2.1	6.1
1979	10.8	7.5	1.9	5.6
1980	14.1	9.7	2.4	7.3
1981	11.0	12.0	3.0	8.1
1982	8.2	10.8	2.7	8.1
1983	7.6	8.9	2.2	6.7
1984	8.8	7.2	1.8	5.4
TOTAL	87.1	80.4	20.1	60.3

SOURCE: Central Bank of Nigeria: Annual Reports, Lagos - (various issues).

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TABLE VI DEBT SERVICE PROFILE, 1986 - 1990 ($ million)

	1986	1987	1988	1989	1990
1. International Organisations	150	247	290	297	300
2. Government Credits	40	45	43	40	34
3. Export, Credit and Guarantees	1232	1217	1126	1006	608
4. Uninsured Bank Debt	1298	1114	906	572	286
5. Refined Letters of Credit	449	-	-	-	-
6. Uninsured Suppliers Credit	713	287	288	281	251
7. Forex approvals	96	77	53	32	15
8. Promissory notes	721	887	825	763	117
9. Insured Noted	528	577	536	496	115
TOTAL	4688	4451	4667	3487	1786

SOURCE: Ugochuku O. "Agonies of Choice" West Africa London: W/A Publication 28th July 1986, P.1517

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TABLE VII NIGERIA'S EXTERNAL DEBT OUTSTANDING AND TOTAL DEBT SERVICE 1970 - 1989

	TOTAL DEBT OUTSTANDING ₦ million	$ million	VALUE OF EXPORT ₦ million	TOTAL DEBT SERVICING ₦ million	DEBT SERVICING RATIO
1970	488.8	684.3	885.4	31.0	3.5
1971	214.5	308.9	1,293.4	29.9	2.4
1972	263.4	400.4	1,434.2	26.2	1.8
1973	276.9	420.9	2,369.2	30.8	1.3
1974	322.4	523.3	5,794.0	29.1	0.5
1975	349.9	559.2	4,925.5	32.7	0.7
1976	374.6	593.6	6,709.8	34.4	0.3
1977	496.9	762.9	7,670.7	25.6	0.5
1978	1,265.7	2,163.8	6,064.4	160.8	2.7
1979	1,611.5	2,836.8	10,836.8	182.9	1.7
1980	1,866.8	3,444.8	14,077.0	101.6	0.7
1981	2,331.2	3,667.7	10,470.1	518.6	5.0
1982	8,819.4	13,124.1	8,722.5	775.2	8.9
1983	10,577.7	14,130.7	7,502.5	1,335.2	17.8
1984	14,536.6	18,034.1	9,088.0	2,640.5	29.1
1985	17,290.6	17,297.5	11,214.8	3,718.0	33.2
1986	41,451.9	18,631.3	8,513.0	2,502.2	29.4
1987	100,789.1	23,445.1	30,239.9	3,590.6	11.9
1988	133,956.3	28,400.4	31,192.8	8,140.7	26.1
1989	212,750.8	28,857.3	57,971.2	15,577.7	26.9

SOURCE: Central Bank of Nigeria: Annual Reports and Statement of Accounts, (Various Issues).

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* Turn over for Note:

*Note: Figures for 1988 and 1989 are for (end of period) September. Also, exchange rates of US$1 to N4.7167 as at the end of September 1988 and US$1 to N7.3725 as at the end of September 1989 were used for 1988 and 1989 respectively.

TABLE VIII: NIGERIA'S PRINCIPAL DEBT AND DEBT SERVICE RATIOS 1980 - 1987 (in percentage)

PRINCIPAL RATIOS	1980	1981	1982	1983	1984	1985	1986	1987
Debt Exports	13.3	22.3	101.1	141.0	160.0	154.2	486.9	333.3
Debt GDP	3.8	4.5	16.9	17.4	21.2	21.9	51.0	94.1
Debt Service Export	0.7	5.0	8.0	17.6	29.1	33.2	29.4	11.9

SOURCE: Sanusi J.O. (1988): "Genesis of Nigeria's Debt Problems: Problems and Prospects for Debt Conversion/Asset Trading Programme. 13th - 14th June, Lagos.

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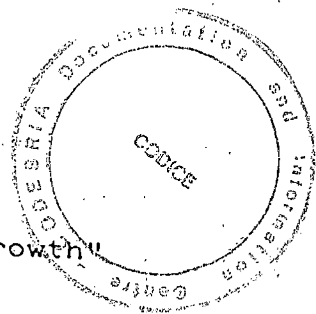

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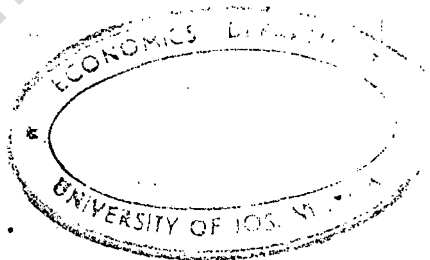

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