DEBT BURDEN AND NIGERIAN DEVELOPMENT

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ABSTRACT

The problem of debt has assumed a crisis proportion in Nigeria. What makes the debt crisis more critical is that Nigeria still has the unenviable distinction of being one of the most impoverished countries in the world. The paper examines the contribution of the total debt portfolio on the real sector growth in Nigeria .the simple linear regression was adopted to measure the growth effect of debt portfolio on the real sector growth.

It was revealed from the study that the real sector as measured by the value of investment in the sector does not benefit from the debt portfolio the relationship between debt portfolio and the real sector growth is adverse and very low.

It was recommended that government should tie future loan stock to specific investment to be carried out by both effort of the government and the private sector. It was also recommended that future loan should be tie to real sector investment on a specific item bases.

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INTRODUCTION

The debt burden has, for decades, remained a recurrent and discordant note in the discourse on the crisis and contradictions of Africa's development. This is, however, not entirely surprising given its magnitude and the consequences for Africa. The collective debt burden of the continent represents a massive betrayal of Africa's huge resource base, both human and material, and the failure of policy measures targeted at the management of those resources. To be sure, hopes and expectations were high in the decade of the 1960s, when most African countries attained political independence. Africa's new leaders believed that, given the abundance of human and natural endowment at their disposal, they were bound to make steady progress in the direction of sustainable democratic governance and development. But as it turned out, these hopes have been dashed by years of military dictatorship and external complicity (Omotola and Saliu, 2009).

The debt burden of African states has reached a frightening dimension that it threatens to cripple socio-economic and political development in Africa, if not urgently addressed. In much of Africa, the debt in Africa bomb continues to gather strength and to make matter worst, the interests payable on these debts are not being serviced as at when due. It has been difficult to reschedule these debts to give most African states some respite to enable them put their acts together. It would seem that with the level of the debt profile of African states, it is condemned to remain under-developed (Akhakpe, 2007). This has been of profound impact on the continent. Not only do debt service payments consume a huge chunk of foreign exchange earnings, they also act to depress investment and lower the rate of economic growth, due to debt overhang effect, leading to extreme poverty. As the crisis deepens, there has been a heightened African struggle for debt cancellation from creditors, particularly from the Paris Club (Okonjo-Iweala, Soludo and Muhtar, 2003; Ajayi, 2003).

Nigeria is a typical example of an African state that suffers under the crushing weight of a debt overhang, which means that the country currently has a huge external debt that constitute a significant proportion of the GDP (Babawale, 2007). He noted further that from a figure of $17.37 billion in 1983, Nigeria's external debt rose speedily to $18.904 billion in 1985; $33.730 billion in 1991 and $32.58 in 1995. The debt stock declined marginally to $28.733 in 1998, while the total debt of Nigeria in 2002 was put at $31. According to Debt Management Office Abuja, the position of Nigeria's external debt as at end of December 2009 was USD 3.947billion. Out of the amount, the federal government owes $2.093 billion while state governments owe $1.85 billion (CIA World Fact book, 2010).

From the former Minister of Finance exposes, one can see that Nigeria has two major categories of external creditors. Namely, they are official creditors and Private creditors. Her official creditors are: International Fund for Agricultural Development (IFAD), African Development Fund (ADF), European Development Fund (EDF), International Bank for Reconstruction and Development (IBRD), African Development Bank (ADB), Economic Community of West African States (ECOWAS) Fund, and European Investment Bank. These official lists of international funders are Nigeria's multilateral creditors. In the bilateral league are the Paris Club Creditors and Non-Paris Club Creditors. Also, Nigeria is indebted to Private Creditors which consist of Promissory Note Holders and The London Club Group. Initially, Nigeria borrowed concessionally only from the World Bank, a multilateral institution. This explains why in 1960 when Britain - Nigeria's colonial masters-handed over power to Nigeria, she had only incurred external debts of N82.4m (Okonjo-Iweala, 2003).

Some scholars have looked at the fact that the crisis in Africa would have been surmounted if it were self imposed. But the incorporation of Africa's economy into the international capitalist order has blocked the transition from underdevelopment to development. Another perspective argued that in understanding the debt burden is to look at the role of colonialism and its contemporary manifestation, neo-colonialism. According to Adesina (1998), colonialism is said to have "undermined the capacity of sub-Saharan African economies to evolve viable economic structures". For, instance, while today's capitalist countries were able to triumph over under-development, the debt crisis in African states have been such that it has assumed a tumultuous dimension. No wonder, Omotola and Saliu, (2009), Obadan, (2004) and Onimode, (2000) observed that;

> *Over the years, most African countries have had debt sustainability problems. This explains why they have not been able to exit from the debt trap, necessitating the resort to debt rescheduling and relief measures. A number of initiatives have been taken, especially by the creditor nations and agencies in response to Africa's debt*

crisis. Several other measures have been proposed to manage Africa's debt crisis. Some were designed to promote a regime of lower interest rates for poor countries undertaking adjustment programmes. Some others emphasise the need for a high degree of concessionary rescheduling and a fundamental restructuring of the entire stock of the Paris Club debt. Beyond these, however, African countries have also attempted to restructure their debt through a process of selling foreign debts at reduced prices in the secondary market. They have also exploited opportunities for debt-equity swaps whereby foreign debts are exchanged at reduced price in the secondary market for local equities or shares in the same enterprises, for purposes of environment, science and development. After years of experimentation with these measures, however, it is disappointing to note that Africa's debt burden, rather than diminishing, has assumed a frightening dimension.

It is against the background of the foregoing developments that this paper is conceived. In it, discussion will seek to re-interrogate the linkages between debt burden and Nigeria's development. The position of the paper is predicated upon some pertinent questions: What is the nature of Nigeria's debt peonage? What are the possible causes of debt? How can it be reduced or managed effectively? What are the implications for Nigeria's development? These and other questions we shall attempt to answer in this discourse. To do these, the remaining part of the paper is structured into six sections. Section one deals with the conceptual and theoretical framework. Section two examines the nature and causes of Nigeria's external debt. In this section both the external and internal factors to debt issue were identified. The third section looks at the implications of debt burden on Nigeria's development. Section five present remedial actions to Nigeria's debt burden, while the last section is the concluding remarks

Objective of study

1) to examine the impact of the debt burden on the nation of Nigeria
2) to examine the effect of the debt portfolio on the growth of Nigerian economy
3) To evaluate the growth impact of debt on the real sector
4) To examine the effect of debt servicing on the depleting resources of the nation over the years

Literature review

DEBT CRISIS AND DEVELOPMENT: CONCEPTUAL AND THEORETICAL DISCOURSE

The act of borrowing creates debts. Debt therefore refers to the resources of money in use in an organisation, which is not contributed by its owners and does not in any way belong to them (Oyejide et al, 1985). Debt according to Ogbeifin (2007) is generated by the gap between domestic saving and investment, which can increase in absolute terms over time. As the gap widens and the debt accumulates, interest rates also accumulate and the country must borrow increasing amounts just to maintain a constant flow of net imports. It must also borrow to re-finance maturing debt obligations

Debt can be classified as domestic and external. Since the focus of this paper is on external indebtedness of the nation, Nigeria external debt is therefore defined as, debt owned by the public and private sectors of the Nigerian economy to non residents/citizens and payable in foreign currency, goods and services (Ogbeifun, 2007).

By debt crisis, we mean a condition whereby a country has accumulated so much debt that it can no longer sustain the management of the debt, resulting in severe distortions and contradictions in the domestic political economy. This has been the African condition for decades, so much so that the struggle for debt cancellation for Africa has been in the forefront of the public discourse on the matter since the 1990s (Adedayo, 1999). Mimiko (1997) defined debt crisis as a situation whereby "a country is heavily externally indebted and is unable to pay the principal of this debt. It is also a situation where a country uses a high proportion of its foreign exchange earnings to service this debt and still scouts for more loans to enable it meet urgent and pressing domestic obligations".

Following the traditional approach which supports external finance to support public expenditure and economic development, coupled with declining income from export and refusal of the developed world to meet their moral financial obligations to the Third World Countries, the latter have to resort to external loans from the Western financial institutions (Aluko and Arowolo, 2010).

Countries entrapped in foreign debt have some perceptible symptoms. Representatives of the creditor institutions take over strategic financial institutions of the country such as the central bank and the finance ministry to mention a few. This is done to monitor and ensure that no resources are misappropriated or diverted to anything other than servicing the external loans. It is for this reason that Ajagi (1990) believes that countries experiencing debt crisis have been caught in a "very tight roped debt trap". This is the predicament which many of the Third World Countries have found themselves. No doubt this development has mortgaged the future of generation yet unborn in developing counties. The campaign against the debt bomb has been waged on different fronts. African has made spirited effort to get Africa's debt cancelled, repudiated or reduced but to no avail.

Development on the other hand, is a multi-dimensional concept that involves the re-organisation and re-orientation of the entire economic, political and social institution (Olaleye, 1997). A varied body of literature exists on this concept, yet no consensus has been reached on its scope and actual definition. The concept has been considered from various viewpoints, bringing forth various derivatives. For instance, Seer (1969), observes that development involves not only economic growth, but also a condition in which people in a country have adequate food and jobs and the income inequality among them is greatly reduced. Mabogunje (1995) however suggested that two ideas underline the notion of development. The first is that development is about wealth creation for the use of the citizens and the second is that every society succeeds best when in this direction if it is able to adapt and transform is own institutions as well as its mores and the general attitude of its people towards the attainment of this goals. It is important to note that the first notion of development in Mabogunje's view is more relevant to this discourse.

However, of great importance is that development is seen as a product of human efforts. This is because human beings manipulate the resources available and ensure it serves the goal of achieving the standard and integrity of the people. This led Chilivumbo (1978), for instance, to argue that development as a concept is amorphous and rather difficult to articulate

THE NATURE AND CAUSES OF NIGERIA'S EXTERNAL DEBT

In Nigeria, during the earlier years of its existence as an independent nation, was not classified as a debtor nation. Nigeria, in comparative terms, was rich. She had no reason to go a-borrowing. Indeed, she later successfully prosecuted her 30-month civil war from 1967 to January 1970 without taking a foreign loan.

However, surprisingly, the nation's vault soon began to dry up. She then discovered that to keep afloat she had to take foreign loans. Its entry into the league of debtors started in 1981, in spite of the paradox of being an oil-exporting country. The fact of its being awash with petro-dollar following the OPEC oil price windfall of 1973 made borrowing by Nigerian government unnecessary up till 1978. Until this period, government pegged external borrowing at a manageable N1.0 billion. Nigeria's rendezvous in the company of debtors nations began with the decision of the the government to raise the ceiling on external debt from N1.0 billion to N5.9 billion in 1978 (Babawale, 2007). In no time, she was subsequently caught up in a crippling foreign debt crisis that compromised its economic progress, political stability, social dignity and cultural integrity. Accompanying this debt crisis was poverty. It took an upward swing. For instance, from 28% in 1980 Poverty took a frog leap to 66% in 1996 and finally settled at about 70% in 2000. Put simply, the UNDP estimate, about 65 million Nigerians were living on less than one dollar a day. The wealth of the nation was therefore concentrated in the hands of a select few while an average of 3million Nigerians enter the nonperforming job market, annually (Afrodad, 2007).

The picture of debt crisis in Nigeria was painted by New Age Editorial (2004) thus;

> *... a country that borrowed $11 billion and has so far paid back $32 billion is still owing $34 billion? That means every dollar borrowed has been repaid almost three times over, yet about three times the initial amount borrowed is still being owed, creditors are having their cake and eating it in a vicious arrangement designed ...*

According to Sogo-Temi, (1999), the explanation for the growing debt burden of developing economies is of two-fold. Firstly, developing countries have become much dependent on external funding than they used to even previously. Secondly, difficulties experienced by most countries in servicing external debt burden

These two factors according to him, account for Nigeria's indebtedness. Any assessment of the present dependency nature of Nigerian economy must take into cognisance the political economy of the country during the colonial era.

Ahmed (1984) reflected the causes of debt problem as related to both the nature of the economy and the economic policies put in place by the government. He articulated that the developing economies are characterized by heavy dependence on one or few agricultural and mineral commodities and export trade is highly concentrated on the other. The manufacturing sector is mostly at the infant stage and relies heavily on imported inputs. To him, they are dependent on the developed countries for supply of other input and finance needed for economic development, which made them vulnerable to external shocks.

The grand cause of the debt crisis is that, in most cases, the loan is not used for development purposes. The loan process is done in and shrouded with secrecy. The loan is, albinitio, obtained for the personal interest and parochial purposes. It is usually tied to party politics, patronage and elevation of primordial interest rather than the promotion of national interest and overall socio-economic development (Aluko and Arowolo, 2010).

The causes of Nigeria's external debt burden could be grouped into six areas and these according to Aluko and Arowolo (2010) are: Inefficient trade and exchange rate policies, adverse exchange rate movements, adverse interest rate movements, poor lending and inefficient loan utilization (on investment), poor debt management practices, and accumulation of arrears and penalties

DEBT BURDEN AND NIGERIA'S DEVELOPMENT

It is believed that the growing national debt against the background of declining and/or unstable foreign exchange earnings has serious consequences for the recovery of the Nigerian economy. But the crucial question to ask according to Sogo-Temi (1999) are; how to determine the extent of

Nigeria's debt burden; and how is this going to affect the capacity of the economy to achieve substantial economic growth and development in term of investment? Answers to these questions will be based on some principal indices. These are standard indicators for measuring the burden of external debt. These indicators, among others, include the ratios of the stock of debt to exports and to Gross Domestic product measured by investment growth.

It has been noted that the debtor-countries have too much burden on their heads, the burden packaged with economic crisis and socio-political difficulties. Expending as much as 70 - 90% of export earnings on debt servicing connote that little is left virtually for the countries to perform their constitutional obligations to the citizenry. It is also carefully noted that in its zeal to break out of economic shackles to achieve economic and socio-political development(investment), the Third World has chosen the option of seeking foreign loan to achieve this development. (Aluko and Arowolo, 2010).

James (2006) opined that public debt has no significant effect on the growth of investment in the Nigeria economy because the fund borrowed were not channelled into productive ventures, but diverted into private purse. He suggested further, that, for the gains of the debt forgiveness to be realized the War Against Corruption should be fought to the highest. Oshadami (2006) in her own study concluded that the growth of debt has affected negatively the growth of the economy in term of real sector development.

External control and manipulation of the domestic economy is another by-product of debt crisis. The debt burden increases Africa's dependence on the outside world; slows the prospects of economic recovery and growth; jeopardises the stability of African governments and increases the poverty of Africa and her peoples (Hardy, 1986: 65 Ake, 2000; Ochonu, 2005).

Problem of study

1) The huge debt portfolio in Nigeria has foster deep difficult in payment.
2) The large Nigeria debt portfolio has no reflection in the economic growth of the nation
3) The domestic real sector of the nation does not reflect expected growth
4) The large proportion of the national resources have been expended on debt servicing over the years leading to impoverishment of the nation

Hypothesis

The huge external debt does not impact on the development of the real sector of the nation

Method of study

The study method use of secondary data sourced from the CBN report. The least square regression method was adopted. The Least square regression model was used for the analysis

Model specification

Tot invest = f(Ext debt)

Tot invest =a_0 + $a_1$ext debt +u.

Where

A= constants

Totivest = total investment

Extdebt= external debt

U = the error term

Model	R	R^2	Adjcted square	Std emr of he estimate	R square change	R change	Qf1	Qf2	F	Sig of change
1	0.298	0.089	0.054	976500318	0.089	2.530	3	24	2.530	0.124

	B	Std Error	Beta	T tab	t.cal	Sig.
Constant	4.3E +07	2.3E +07		1.875		0.07
external debt	20.143	12.663	0.2298	1.591	26	0.12

Interpretation

The study measure the relationship between the national debt portfolio and total domestic investment. The study intends to measure the impact of debt portfolio on domestic investment. The correlation coefficient (R) stands at 0.298 while the adjusted R^2 is 0.054. There exist a proper relationship between debt portfolio and total domestic investment, according to Osuagwu(2003), a R value of 0.50 will be a measure of good positive relationship, however, the relationship between debt portfolio and investment is 0.298 which signify a poor relationship. The adjusted R^2 of 0.059 signify a very poor determinant factor. Since the coefficient of determination is 0.059. The change in investment can only be explained by debt portfolio to 0.059 extent, or 6% while 94% change in investment can only be explained by other factors.

The intercept of the regression model is 42594925 while the slope is 20.143. This means that a unit cycle in total domestic investment is accounted for by 20.143 unit of total debt. This suggests a very poor relationship. The volume of debt portfolio (both domestic and international) that would produce a change in domestic investment is very high.

The calculated value of the t-distribution is 1.591 while the critical t-value is 2.056 at 95% confidence level. Thus, there is no positive relationship between the Nigerian debt portfolio and the domestic investment. This also supported by the insignificant value of the t-statistics of 0.124.

Conclusion

The following are the conclusions that could be drawn from this study.

1. The huge domestic debt portfolio of Nigeria does not reflect in the total domestic investment level.
2. There is diversion of the total loan portfolio to other aspect rather than channelling it towards investment.
3. The huge domestic debt portfolio may have been concentrated on consumption rather than investment.

4. With high indices of corruption in the nation, the huge loan taken may have been misappropriated.

5. Factors other than the debt portfolio are largely responsible for domestic investment growth.

Recommendation

1. The government should continue with the policy of loan repayment

2. Any fresh loan that would be taken either domestic or foreign loan, either by way of bonds or other formats should be directed towards specific measurable investment and development activities

3. The international loan provider should ensure that the loans are channelled through the government to private investors or development agency or firm. Such that the government will only be a surety for the loan but the ultimate end of the loan would be identify private participation.

4. The state government bond should receive federal government nod before being given. Since most of these loans have the federal government as the guarantor, especially foreign loan.

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