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External Debt Crisis, Debt Relief and Economic Growth: Lessons from Nigeria

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Abstract
The paper examines the Nigerian external debt crisis and efforts made to obtain debt relief in 2005. The study is aimed at finding efficient debt management strategies to prevent future debt crises. It argues that the huge external debt was responsible for the slow economic growth and development in the country. The findings revealed that lack of fiscal discipline, which was due to lack of integrity and accountability, over dependence on oil revenue and poor project analysis and implementation were factors responsible for the Nigerian debt crisis in the past. This article is based on descriptive survey and it also employs secondary method of data collection. It concludes that the debt relief has not translated into the much desired economic growth and development and recommends that strict policy guidelines should be adhered to in order to prevent future debt overhang.
Key Words: Debt Relief, Economic Development, Nigeria, Debt Burden, Debt Overhang.

1.0 Introduction

The origin of the Nigeria's external debt dates back to 1958 when a loan of $28 million United States dollars was contracted from the world bank for the purpose of constructing railway and other developmental projects (Ndekwe, 2008). Also in the early 1970s loans were acquired by various tiers of government as Nigeria embarked on major reconstruction of projects after the civil war. The increase in Nigerian debt situation can as well be traced to the need to finance the widening deficit gap created by profligate spending. This marked the beginning of the end of the oil boom era which was characterized with rising fiscal deficits by falling foreign exchange earnings and rising fiscal deficits (Asuehinen, 2009). In 1964, the country took a loan of US$13.1 million from the Paris Club of Creditor Nations for the building of the Niger Dam. Nigeria went to the International Capital Market (ICM) in 1978 for the much talked "jumbo loan" of $1 billion, and this changed the structure of Nigeria's debt from mainly concessional loans to loans with harsher repayments terms. In 2002 Nigeria's debt rose to about $39.9bn, due largely to interests, surcharges, penalties and the crash in oil prices. As a result of the debt crises, Nigeria experienced slow economic growth coupled with high level of poverty, unemployment, interest rate and security challenges. The country experienced a great decay of infrastructures in the health, education, social and other sectors of the economy (Hameed, Ashrat & Chaudhary 2008). It was at this stage that Nigeria intensified her efforts to get debt relief. This paper therefore examines the causes of the debt crisis, the economic effects of the debt crisis, steps to avoid future debt burden, the gains of the debt relief and debt management strategies in the post-debt relief era. The paper concludes by highlighting its findings and making policy recommendations.

2.0 The History of the Nigerian Debt Crisis

The phenomenon of external debt by Nigeria dates back to the colonial period when foreign loan was taken to complement the little Internally Generated Revenue (IGR) for developmental purposes (Adepoju, Salau & Obayelu, 2007). Between 1958 and 1977, debts contracted were the concessional debts from bilateral and multilateral sources with longer repayment periods and lower interest rates constituting about 78.5 per cent of the total debt stock (Adepoju et al, 2007; Omoruyi, 2010). African Forum and Network on Debt and Development (AFRODAD) (2007) noted that Nigeria's external debts increased over time because of a proportional shortage of foreign exchange to meet her developmental needs. The fall in oil prices in the late 1970s had a devastating effect on government expenses; it therefore became necessary for government to borrow for balance of payment support and project financing. This increased the nation's debt profile to US$2.2 billion in 1980 (Ajisafe, Nassar & Fatokun, 2006; Ndekwe, 2008). However, in 1991 it had risen to $33.4 billion, and rather than decrease, it was on the increase, particularly with the insurmountable regime of debt servicing and the insatiable desire of political leaders to obtain loans for the execution of dubious projects (Essien & Onwuoduokit, 2009). Other factors that led to this sharp increase include; the entrance of state governments into external loan obligation, decline in the share of loans from bilateral and multilateral creditors, the consequent increase in borrowing from private sources at stiffer rates and the inability to manage external debts prudently due to corruption and mismanagement of oil revenue (Winberger & Rocks 2008; Abrego & Ross, 2001).

As revenue from oil production increased, Nigeria's attractiveness to predatory external creditors led to major borrowing by successive governments with resultant huge external burden on the country. All manners of loans were collected from both private and multilateral creditors by the federal and state governments. The resultant debt burden meant that substantial amount of oil revenue were expended on servicing the accumulated external debts annually. The history of Nigeria's huge debts can hardly be separated from its decades of misrule and the continued recklessness of its rulers (Soludo, 2003; Ikeje, 2009). Nigeria's inability to settle her import bills resulted in the accumulation of trade arrears amounting to US$9.8 billion between 1983 and 1988, while the accrued interest of US$1.0 billion was recapitalised. In 1990, Nigeria's external debt rose again to US$33.1 billion (CBN, 2006). Furthermore, servicing and rescheduling of debt became problematic for Nigeria from 1985 when its external debt rose to up to US$19 billion. Before then, Nigeria had experienced boom in oil revenue which was followed immediately by an unexpected decline (Iyoha & Iyare, 2008; Frankal & Dude, 1989). For instance Nigeria earned $25 billion from oil export in 1980, this declined to $12 billion in 1982 and further to $6 billion in 1986. Government spending had remained high within this period and much of the projects were financed through external borrowing. As at the end of 2004, Nigeria's debt stock had reached almost $36 billion out of which $31 billion was owed to the Paris Club of Creditors while the rest was owed to multilateral, commercial and other non-Paris Club of creditors (CBN, 2008; DMD, 2008; Hameed et al 2008). Nigeria's debt service payment debts started on a soft, tolerable level in 1958 until it became a hard bargain years later. Matters came to a head in 2003 when one of Nigeria's creditors, the Paris Club, demanded $3 billion annually for debt service payment, AFRODAD (2007). In 2004, the Nigerian total debt amounted to $33.4 billion and it was at this stage that the country resorted to seek for debt relief to tackle the debt crises and the resultant economic crises when other options failed to yield the desired result.

2.1 Need for External Debt

Undoubtedly, external borrowing has the advantage of stimulating growth but the extent would be determined by the application of the acquired resources. As a matter of fact, given the low level of capital formation in Nigeria, caused by the low level of income and the generally high incidence of poverty, the country has few prospects to source sufficient funds for development internally. It is generally expected that developing countries, facing scarcity of capital, will acquire external debt to supplement domestic saving (Avramovic, 2010; Aluko & Arowolo, 2010). Besides, external borrowing is preferable to domestic debt because the interest rates charged by international financial institutions like International Monetary Fund (IMF) is about half to the one charged in the domestic market. However, whether or not external debt would be beneficial to the borrowing nation depends on whether the borrowed money is used in the productive segments of the economy or for consumption (Cohen, 2010; Kenon, 1990). The early contributors are of the view that reasonable levels of borrowing by a developing country are likely to enhance its economic growth. Such debts if properly used, can greatly benefit a developing country and not only do they contribute to its growth but they add up to the total resources available to an economy over a given period **(**Frankal & Dude 1989; Ndekwe, 2008). Borrowing is desirable when it is used to finance investment that is expected to yield an adequate rate of return or to smoothen consumption in the face of an uneven aggregate supply since it can provide a level of economic welfare that could not otherwise be obtained. Debt financed investment however need to be productive and well managed so that it can earn a rate of return higher than the cost of debt servicing. (Ndekwe, 2008; Clements & Nguyen, 2008).

2.2 Past Debt Management Strategies

Many debt management strategies were adopted in the past to bring the country's debt stock to a sustainable level. Rescheduling strategy was a case by case market based approach designed to assist debtor countries to postpone their obligations. Nigeria has rescheduled its debts on four different occasions: 1986, 1989, 1991 and 2000 (Ikem, 2006). The intended effects of rescheduling include extending the period of repayment, and improving the means with which payments are made. However, despite these rescheduling agreements, Nigeria's Paris Club debt still continued to increase because of the country's inability to fully pay what was due each year. This approach resulted in a capital growth in the debt stock, largely as a result of the high interest rate, unfavorable terms, recapitalization of accrued interest and penalty thereof among others (Omoruyi, 2010; Iyoha & Iyare, 2008). Some of these initiatives included the Baker Plan and the Brady Plan, the Toronto Terms, the London Terms, and the Naples Terms. Another debt management initiative was the Heavily Indebted Poor Countries (HIPC) initiative that was meant to achieve outright cancelation or forgiveness for the poorest nations only if they meet the criteria that was prescribed. Nigeria adopted the "Evian Approach" when she was dropped from the group of (HIPC) that were then entitled and qualified to receive a minimum of 67.0 percent reduction in their debt stocks (Kenon, 1990). Under the Evian Approach, debtor countries are allowed to get their debts restructured by the Paris club with facilities that reflect their specific financial needs. It however involves a conduct of a Debt Sustainability Analysis (DSA) for a country, which involves the assessment of the short and long term cash needs of a country. If the DSA reveals that the country's debt position is unsustainable, the Paris club will then considered long term solutions like reducing the country's debt stock (Ikem, 2006; Anyawu, 1986).

Other strategies that have been adopted by the government to tackle the debt overhang problem of Nigeria include; (i) Embargo on new Loans and Directives to State Government to restrict external borrowing to the barest minimum; the embargo was to check the escalation of total debt stock and minimize additional debt burden. (ii) Debt restructuring; this involves the reduction in the burden of an existing debt through refinancing, issuance of collateralized bonds and the provision of new money. (iii) Maximum limits on external borrowing. (iv) Limit on debt service repayment (v) Debt restructuring. (vi) Debt conversion program. (vii) Debt buy-back. (viii) Debt refinancing and (ix) Campaign for debt cancellation. The creation of Debt Management Office (DMO) in 2000 consolidated the debt management functions in a single agency, ensuring proper coordination of the country's debt recording and management activities, including debt service forecast, debt service repayments, and advising on debt negotiation as well as new borrowings (Degefe, 1992; Alfredo, 2004; Aluko and Arowolo, 2010).

2.3 Effect of Debt Crisis

Debt Overhang Hypothesis

In the literature relating to the potential negative effect of a heavy external debt burden on growth, the dominant paradigm is the debt overhang hypothesis. The theory of debt overhang states that if there is some likelihood that in future, debt will be larger than the country repayment ability, expected debt-service cost will discourage further domestic and foreign investment and thus harm growth (Borensztein, 1990). Debt overhang is the main reason for slowing of economic growth in indebted countries. It arises in a situation in which the debtor country benefits very little from the return to any additional investment because of debt service obligation (Clements, Bhattacharya & Nguyen, 2003). Potential investors will fear that the more a country produces, the more it will be "taxed" by creditors to service the external debt, and thus they will be less willing to incur costs today for the sake of increased output in the future (Elbadawi, Ndulu & Ndungu, 1997; Iyoha & Iyare, 2008). The implication of the debt overhang is that large debt stocks lower growth partly by reducing investment; this decreases the domestic country's ability to grow its economy and raise its dependence on foreign debt. The huge external debt stock and debt service payments of African countries and Nigeria in particular prevented the countries from embarking on larger volume of domestic investment, which would have enhanced growth and development (Bello & Obasaki, 2009; Egwakhide & Ogwumike, 2008).

Apparently, the debt servicing efforts of the government have diverted huge resources from spending on human development and infrastructural needs of the country. In Nigeria, about \$2 to \$3 billion was set aside on annual basis to service external debts. In spite of this amount, the severity of the debt burden made it extremely difficult for the country to divert resources to the real sector of economy. This development has affected investor's perceptions about the country's investment potential and consequently discouraged the inflow of Foreign Direct Investment (FDI) (Ayadi & Ayadi, 2008; Asuehinen, 2009). It was apparent that despite several initiatives to ameliorate the negative impacts of the debts, the payable stock was found to constitute a fundamental constraint to poverty eradication (Soludo, 2003). Hameed et al, (2008) opined that too much of external debt could dampen growth by hampering investment and productivity growth because of the fact that when greater 26 percentages of reserves (foreign currency) are consumed in meeting debt service, exchange rates fall and creditworthiness erodes; causing reduction in access to external financial resources. Owing to Nigeria's huge debt burden, resources which could have been used to tackle poverty and support economic growth were diverted to servicing external debts (Ikem, 2006; Anyawu, 1986).

2.4 Causes of the Debt Crisis

Boyce and Ndikumana (2002) noted that the inability of many Sub Sahara Africa (SSA) countries to meet their social needs and escape from debt is as a result of the fact that the borrowed funds have not been used productively. Instead of financing domestic investment in the key sectors, a substantial fraction of the borrowed funds was captured by African political elites and channeled abroad in the form of capital flight. In his reaction to the debt relief granted Nigeria, the former president Olusegun Obasanjo noted "….how did we get to the point where our debt burden became a challenge to peace, stability, growth and development? Without belabouring the point, we can identify political rascality, bad governance, abuse of office and power, criminal corruption, mismanagement and waste, misplaced priorities, fiscal indiscipline, weak control, monitoring and evaluation mechanisms, and a community that was openly tolerant of corruption and other underhand and extra-legal methods of primitive accumulation"(DMO, 2005). According to Soludo (2003) the underlying basic of external borrowing entails three phases of the debt cycle: in the first phase, debt grow in order to fill resource gaps, in the second phase, the country generates surplus resources but probably not enough surpluses to cover interest payments, while in the third phase it must generate enough surpluses to cover interest repayments and amortization. The peculiar experience of highly indebted countries is that they have been trapped in phases I and

II for decades. These conditions have undermined the economic sovereignty and independence of many developing countries including Nigeria.

The creditor nations have prescribed policies that are essentially anti–people, increased poverty, encouraged the tying of the economy of developing countries to that of global community, much to the detriment of the local people and to the benefit of their countries. According to Ajayi (2008); Bello & Obasaki, (1999) SSA countries were plagued by heavy external debt burden due to their inability to manage borrowed funds resulting from corruption, embezzlement and financial recklessness. They argued that the debt crisis, compounded by massive poverty and structural weaknesses of most of the economies of these countries made the attainment of rapid and sustainable growth and development difficult. In the case of Nigeria, mismanagement of the oil revenue during the oil boom era and high level of corruption in the handling of borrowed funds among others were responsible for her debt crises. In addition, a lot of white elephant projects were embarked upon for political reasons, these were later abandoned by successive governments after so much money would have been spent on them (Anyawu, 1986; Ajayi, 2008).

In the view of Nzekwu (2011) the causes of the Nigerian external debt burden include the following;

(i) Inefficient trade and exchange rate policies
(ii) Adverse exchange rate movements
(iii) Poor lending and inefficient loan utilization
(iv) Poor debt management practices
(v) Accumulation of arrears and penalties

Also Nzekwu (2011) highlighted that debt level increased due to reckless and inefficient borrowing pattern which is a function of the following factors;

(i) Massive external borrowing took place in the 1980s, largely to offset the collapse in oil prices
(ii) Borrowing was not linked to future growth or exports
(iii) Insufficient regard given to economic viability of projects
(iv) Poor implementation due to weak absorptive capacity and governance problems
(v) Mismatch between loan terms and project profile.

2.5.1 Debt Management Office (DMO)

The DMO was established in October 2000 to centrally coordinate the management of Nigeria's debt, both internationally and locally which was hitherto being done by a number of establishments in an uncoordinated fashion. Several units in the finance ministry and the Central Bank of Nigeria (CBN) were responsible for the management of the national debt. Such units and departments include the multilateral institutions department, African and Bilateral Economic Relations (ABER), external finance department, treasury department, debt management department, and debt conversion committee.

However, lack of proper coordination among these units created the following fundamental problems in the management of the external debt (DMO,2005).

(i) Inadequate debt data recording system and poor information flow across agencies with consequent inaccurate and incomplete debt records
(ii) Extreme difficulty in the verification of creditors' claim due to conflicting figures from the various bodies handling debt management function
(iii) Complicated and inefficient debt service arrangements, which creates protracted payment procedure and often lead to penalties that added to the nation's debt stock.
(iv) Inadequate manpower and poor incentive systems for affected personnel which affected output and performance
(v) Lack of consistent well-defined borrowing policies and debt management strategies

2.5.2 Objectives of the DMO

These problems led government to support the establishment of DMO. The need for the creation of separate public debt management office was therefore aimed at achieving the following objectives (DMO, 2005).

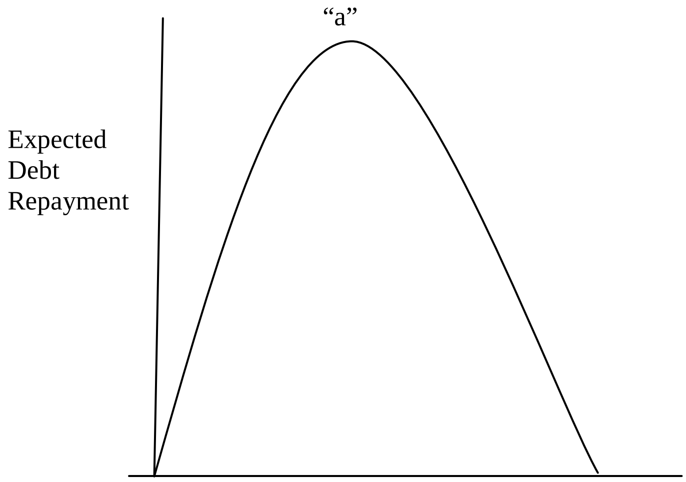
(i) Develop good debt management practices that will have positive impact on economic growth and national development, particularly in reducing debt stock of public debt and cost of public debt servicing in a manner that saves resources for investment in poverty reduction programmes
(ii) Prudently raising finance to fund government deficits at affordable costs and manageable risks in the medium and long terms
(iii) Make positive impact on overall macroeconomic management, including monetary and fiscal policies
(iv) Consciously avoiding debt crisis and achieving an orderly growth and development of national economy
(v) Improving the nation's borrowing capacity and its ability to manage debt efficiently in promoting economic growth and national development

(vi) Projecting and promoting a good image of Nigeria as a disciplines and organized nation, capable of managing its assets and liabilities

2.6 Optimal Level of Borrowing

Economic theory suggests that reasonable levels of borrowing by a developing country are likely to enhance its economic growth. As long as the borrowed funds are used for productive investment and do not suffer from macro economic instability, policies that distort economic incentives or sizeable adverse shocks, growth will increase and allow timely debt repayments (Boyce & Ndikumana, 2002; Winberger, 1991).

Diagram 1 Debt Laffer Curve



Debt Stock
Source: Pattillo & Ricci (2002)

The optimum debt level is determined at the maximum point of the laffer curve, (see diagram 1) above. The basic proposition of the debt laffer curve is that larger debt stocks tend to be associated with lower probabilities of debt repayment. A country can borrow up till point “a”, once it goes beyond this point, the debt laffer curve will fall, indicating the inability to pay debts as they fall due. Evidently, a country on the rising part of the debt laffer curve can combat recession by adopting a stimulative fiscal policy that leads to an increase in debt ratio within the optimum limit (Pattillo & Ricci, 2002).
To attain optimal debt level, Omoruyi (2010); Obadan & Iyoha (2009) are of the view that the following operational principles should guide the government to manage its external borrowing for sustainable development. (i) Prudence: Manage the composition of the debt to help protect the Government’s fiscal position from unexpected increases in interest rates. Manage reserves within a framework that mitigates currency and interest rate risks. Manage the cash position to ensure that adequate liquidity is maintained at reasonable cost to the Government. (ii) Effectiveness: Emphasize transparency, liquidity and regularity in the design and implementation of domestic debt programs in order to maintain a well-functioning domestic market. (iii) Diversification: Borrow using a variety of instruments and range of maturities to keep costs low and maintain a diversified investor base. (iv) Market integrity: Work with market participants and regulators to enhance the integrity and attractiveness to investors of government of other countries’ securities. (v) Consultations: Seek input from market participants on major adjustments to the federal debt and cash management programs. (vi) Best practices: Ensure that the operational framework and practices are in line with the best practices of other comparable sovereign borrowers and the private sector.

3.0 Debt Relief

Nigeria’s negotiation under the Policy Support Instrument (PSI) led to an agreement in principle to grant the country 60 percent (about \$18.5 billion) debt relief, provided it agrees to pay the amount of \$6 billion upfront and another \$6 billion six months thereafter (DMO, 2005).The crisis leading to the debt relief was indeed acute in Nigeria between 1950s – 2004. During this period, Nigeria’s gross domestic product (GDP) grew marginally, while it transferred on the average not less than 6% of its GDP to external creditors by way of debt servicing (Ikeje, 2009). Thus the debt problem became very serious and disturbing owing to its burden on debt-export ratio, which measures the shares of debt in export earnings. On May 25th 2005, Nigeria was granted a debt relief to the tune of \$18 billion. This debt relief package totaled \$18 billion, or a 60 percent write-off in return for a

$12.4 billion payment of arrears and buyback (Omoruyi, 2010; Ikeje, 2009). It brought $18 billion debt reduction on Nigeria's $33 billion Paris Club debt, an overall reduction of 60 percent and a 76 percent reduction of the non-arrears portion of the debt stock; it was also the first time the Paris Club had allowed a discounted buyback of a portion of debt stock (Aluko & Arowolo, 2010; CBN, 2012).

3.1 Expected Benefits of the Debt Relief

The debt relief reduced Nigeria's external debt stock and debt service obligations, thus lifting the heavy debt burden off the economy. The debt write-off of about US$18 billion constituted a direct saving on debt service payments. Nigeria has in the previous five years before the debt relief been spending an average of US$1 billion out of about US$2.1 billion falling due annually in Paris Club debt service (Bello & Obasaki, 2009. This huge amount would immediately be made available to fund critical priority sectors such as health, basic education, water, food, security, power, road networks and other infrastructure to stimulate the economy. The saving from debt relief is imperative for the implementation of National Economic Empowerment and Development Strategy (NEEDS), and the attainment of the Millennium Development Goals (MDGs) (Omoruyi, 2010). Debt relief package has reduced the net transfer Nigeria needs to make to its creditors by almost $4 billion a year or on average slightly below 2 percent of GDP. The reduction in required external transfer will have a direct beneficial impact on Nigeria's fiscal situation and output. Without the debt relief, Nigeria would have had to service full interest and amortization on all the public commercial debt out of a budget that was already severely cut back (CBN, 2008) Essien & Onwuoduokit, 2009; Ndekwe, 2008).

Nigeria's external debt was expected to become sustainable, in other words, Nigeria will be able to maintain a level of external indebtedness, benefit from investing the borrowed funds and service the debts without adversely affecting the nation's growth and development. By making resources available for critical infrastructural needs, the relief will encourage private-sector-driven economy and job creation to boost economy wide employment. The debt relief de-classifies Nigeria as a "bad and doubtful debt" country and this will improve the credit worthiness of the country before the international community (Ikem, 2006; Aluko & Arowolo, 2010). It is therefore a testimonial to an improving socio-political and investment environment, which will increase foreign direct investment (FDI) to expand the industrial base and create wealth. Export Credit Guarantee Agencies will be confident to restore insurance cover for exports of goods and services, as well as investment capital to the Nigerian private sector to improve the competitiveness of private enterprises. The expected benefits of debt relief include among others, the achievement macroeconomic stability, fiscal viability and increase in (FDI), renewed confidence of foreign investors and improved standard of living of the people (Asuehinen, 2009). It was expected that the debt relief is the most effective strategy for the country to recover from debt induced depression in order to resume sustainable growth. Nigeria was expected to make a fresh start on the path of economic progress and poverty reduction. In the light of this, Nigeria has the chance of not only meeting the MDGs, but reaffirming its position as the economic and political giant in Africa (Ikeje, 2009; Essien & Onwuoduokit, 2009; Obadan & Iyoha, 2009).

3.2 Post Debt Relief Economy

The benefits of the debt cancellation, which was expected to manifest after a couple of years, was wiped up in 2009 by the global financial and economic crisis, which was precipitated by the collapse of the sub-prime lending market in the United States. The effect of the crisis on Nigeria's exchange rate was phenomenal as the Naira exchange rate to the Dollar rose astronomically from about N120/$ in the last quarter of 2007 to more than N150/$ (about 25% increase) in the third quarter of 2009 (CBN, 2012; Aluko and Arowolo, 2010). This is attributable to the sharp drop in foreign earnings of Nigeria as a result of the persistent fall of crude oil price, which plunged from an all-time high of US$147 per barrel in July 2007 to a low of US$45 per barrel in December 2008 (CBN, 2008). Available statistics show that the external debt stock of Nigeria has been on the increase since after the debt relief in 2005 (see table 1). The country's external debt outstanding increased from $3,545 million in 2006 to $3,654 million in 2007, and then to $3,720 million and $3,947 in 2008 and 2009 respectively (CBN, 2012; DMO 2013).

Table 1 External Debt Stock, Service Cost and Economic Indicators

Year	Debt Stock (US $b)	Service Cost (US $b)	Unemployment Rate	Inflation Rate	Incidence of Poverty	FDI (US $m)
2000	28,273	1.71	N/A	N/A	N/A	N/A
2001	28,347	2.12	13.6	18.9	52.1	3,125
2002	30,991	1.16	11.2	12.9	56.4	3,478
2003	32,916	1.50	11.0	14.0	55.8	5,298
2004	35,944	1.75	12.6	15.0	54.4	N/A
2005	30,477	8.94	11.9	17.9	58.2	6,326
2006	3,544	6.72	13.7	16.2	56.0	7,842
2007	3,287	1.02	14.6	15.3	55.2	6,348
2008	3,720	0.460	14.9	11.6	54.0	6,812
2009	3,947	0.428	19.7	12.5	54.0	8,649
2010	4,578	0.354	21.4	13.7	69.0	6.098
2011	5,666	0.351	23.9	10.8	71.5	8,914
2012	6,527	0.298	25.7	12.2	72.0	7,316

Source: DMO (2013) and IMF (2012)

From table 1 above, it can be seen that the incidence of poverty is on the increase, this is an indication that the debt relief has not in any way reduces the level of poverty in the country. Perhaps this is due to the high level of unemployment which has direct effect on poverty level. Although there is improvement in the Foreign Direct Investment (FDI), but the effect in the area of real sector development is yet to be seen.

Nigeria's external debt stock has again risen to a very high level of $9.37b as at June 2014. This shows an increase of $556m from $8.82b in December 2013. However, according to Nwankwor (2014) this is still sustainable at a ratio of 12.5% to the Gross Domestic Product (GDP). This is much lower than 56 % of the other nations within the Low Income Countries. According to him, we have used debt to leverage development of private sector and it has helped to raise money to boost the real sector such as manufacturing, solid minerals, agriculture and electricity power supply.

3.3 Nigeria's Debt Sustainability Analysis

According to Chipalkatti & Rishi (2008) external debt sustainability is a country's ability to meet its foreign debt obligations. It assesses the short and long term needs of a country. A country can be said to achieve external debt sustainability if it can meet its current and future external debt service obligations in full, without recourse to debt rescheduling or the accumulation of arrears and without compromising growth. A debt sustainable analysis that was conducted in 2002 by the IMF showed that for Nigeria's debt to be sustainable, it will need 67 percent reduction of debt service payments, followed by a 67 percent reduction of the debt stock (IMF 2004). However, a study by Ajayi (1991); Frankal & Dude (1989) shows that the country's macroeconomic policies led to the accumulation of debt in excess of what was sustainable as judged by her export performance. They found out that for the entire period between 1970 and 1988, macroeconomic policy coupled with inadequate trade policy led to a rate of borrowing that was not sustainable by Nigeria.

Adepoju et al (2007) further noted that a huge external debt without servicing as it was the case for Nigeria before 2000, constituted a major impediment to the revitalization of her shattered economy as well as the alleviation of the debilitating poverty. They revealed that the much needed inflow of foreign resources for investment stimulation, growth and employment were hampered because without credit cover, Nigerian importers were required to provide 100 percent cash covers for all orders and this therefore placed them in a competitive disadvantage compared to their counterparts elsewhere.

Table 2 Debt Sustainability Indicators (percent)

Year/ Benchmark	TD/GDP	TED/GDP	TED/Exp	TDS/Rev	TD/Rev	GDP Growth Rate
Benchmark	30	30	100	20-25	150	N/A
2001	27.4	14.2	38.4	N/A	N/A	4.70
2002	25.6	N/A	35.7	17.0	146.3	3.26
2003	23.4	15.3	N/A	18.7	156.4	5.12
2004	26.1	N/A	34.5	19.4	N/A	6.60
2005	28.7	18.3	37.2	18.8	240.1	6.20
2006	11.8	2.4	6.2	23.3	113.8	6.63
2007	12.5	2.1	5.3	13.9	111.3	6.72
2008	11.6	2.0	4.4	10.5	88.0	6.00
2009	N/A	7.4	5.2	12.4	92.3	6.96
2010	10.2	10.2	6.4	14.6	101.5	7.98
2011	14.6	17.4	N/A	11.7	94.3	7.43
2012	12.3	15.6	7.5	13.6	97.2	6.58

Key: [TD (Total Debt); TED (Total External Debt); GDP (Gross Domestic Product); Exp (Export); Rev (Revenue); TDS (Total Debt Service)]
Source: Debt Management Office 2013 and CBN Statistical Bulletin 2012
From table 2 above, the analysis of Nigeria debt sustainability signified that the debt stock/GDP ratio remained low at 12.5% relative to the maximum international threshold of 30.0% of GDP, even though it deteriorated from 11.6 percent in 2008 to 15.4 percent in 2009. In addition, the debt stock/revenue ratio showed a weaker position in 2009 at 144.3 percent, compared with 88.0 percent in 2008, showing the magnitude of total revenue that would be required to redeem the total debt stock. Furthermore, the debt service /revenue ratio deteriorated from 10.5 percent in 2008 to 20.5 percent in 2009, implying that more than 20.0 percent of the total revenue was devoted to interest and principal repayments. The deteriorated sustainability ratios reflected the slow growth of the economy and the unimpressive performance of the federal government retained revenue relative to the preceding year.
The debt sustainability indicators show that Nigeria's debt profile up to the year 2012 is still sustainable, when compare with the international bench mark. For instance, the total debt to GDP and total external debt to GDP are within the bench mark of 30%. However in the case of total debt service to revenue and total debt to revenue, this is far from the bench mark of between 20-25 and 150 respectively due to poor revenue generation efforts of the government.

4.0 Guideline for External Borrowing
According to the international best practice for overall debt sustainability in low income countries, the external debt stock to GDP ratio of not more than 30% is recommended. In order to manage the debt profile effectively, the federal government and the debt management agencies set out the following guideline for external borrowing.
(i) Given Nigeria's economic conditions and the need to avoid a relapse into debt unsustainability, considering the need to encourage domestic borrowing and the development of domestic debt market, an external debt ratio of 20% was recommended in the guideline
(ii) Any government or its agencies and parastatals desirous of borrowing shall specify the purpose for which the borrowing is intended, demonstrate how this purpose is linked to the developmental goals and objectives of the government.
(iii) The agency should undertake cost benefit analysis, detailing the economic and social benefits of the purposes to which the intended borrowing is to be applied.
(iv) Government will express preference towards creditors that provide programme support, on budget support, untied and multi-year predictable financing and encourages creditors to maintain a constant policy dialogue with federal government and the DMO
(v) The applicant wishing to obtain external loan shall obtain federal government approval in principle before full scale negotiations for such loans.
(vi) The applicant must provide evidence that they have not over borrowed externally. States will sign agreement which will enable the Accountant General of the Federal to deduct on monthly basis the debt. All external loans must before be supported by federal government guarantee before final approval is given.

(vii) In line with the government's commitment to maintain debt sustainability, new borrowing will only be considered on concessional terms as evaluated by the DMO. New loans must have a grant element of at least 35 percent when calculated with an appropriate discount rate.
(viii) The loan to be borrowed must have bearing in the following areas; health, education, rural development, environment, housing development, gender balance, infrastructure, public sector reforms, privatization, governance, transparency, anti-corruption, service delivery and expenditure reforms amongst others.

5.0 Findings

Nigeria has always been at the mercy of foreign creditors through continued external borrowing, which in turn gulps huge amount in the national budget yearly for debt servicing. However, nine years after it got reprieve from its debt burden that was acquired over the years by successive government, a fresh debt burden has started setting in with the renewed frivolous borrowings which the House of Representative described the manner in which they were obtained as "dubious, shady and corrupt" (Asuehinen, 2009). As it stands, Nigeria's external debt profile has increased to $10.4 billion as at April 2013, and is gulping $923 million of the annual budget in service charges (DMO, 2013). The international creditors like the world bank lure Nigeria into more loans because of what they gain from it as their service charges grow higher than the actual borrowed amount, while Nigeria suffer huge capital flight through annual debt servicing. Survey showed that the cost of servicing these debts over the years surpasses what was actually borrowed by up to 100 percent. For instance for a period of about twenty years before the debts write off by the Paris club in 2005, Nigeria's actual borrowing was put at about $10 billion, while it has spent over $35 billion in annual debt service payments for the period and still owned about $36 billion (Ikeje, 2009). The external loans regime has ensured that more resources are leaving Nigeria to industrialized countries, for instance in 2005, United Kingdom (UK) receipt from the $12.4 billion paid by Nigeria as part of the debt deal with the Paris club is more than what the UK government spends in aid to the whole of Africa in five years and more than what the G8 countries devoted to the conditional aid to the continent in ten years (Aluko & Arowolo, 2010; Asuehinen, 2009).

As it could be seen from table 1 above, the debt stock has moved from $3.5b in 2006 to $6.5b in 2012 while the debt service cost has decreased from $0.46 in 2008 to $0.29 in 2012. The unemployment rate has moved from 11.0% in 2003 to 25.7% in 2012. The inflation rate is still within the range of 10%-12%, though this figure is still higher than the single digit inflation rate. The country has not fared well in the case of incidence of poverty, as rate went up from 54.4% in 2004 to 72% in 2012. The country has been able to attract foreign direct investment as the figure moved from $3.47 in 2002 to $7.31 in 2012. There is improvement in the GDP growth rate, while the country performed poorly in other external debt sustainability indicators (see table 2). On the final analysis, the country has not performed very well in terms of economic growth and development since the debt relief in 2005. The poverty level in Nigeria is still very high, unemployment is on the increase, insecurity is very alarming, citizens cannot have decent meals, there is still the problem of lack of constant power supply and there is a lot of infrastructural decay all over the country. This shows that the debt relief has not fully translated to the much desired and anticipated economic growth and development. However, the Eurobond initiative which commenced in 2011 with the floating of the $500 million Eurobond has positively changed the profiles of the Nigerian corporate organizations and their ability to raise long term funds from the international capital market. The federal government raised $1 billion from the international capital market in 2013 (Nwankwor, 2014). Development of capital market is for long term debt instrument such that rather than what the banks have used to terms of given out 91 day loans, there is instrument for up to 20 years. The implications is that with the operators in the real sectors of the economy being able to raise long term funds, they can expand their businesses, increase productivity and create more jobs across the country on sustainable basis.

6.0 Recommendation

From our findings above, we make the following recommendations which in our opinion will not only assist to manage and maintain sustainable debt level in Nigeria, but improve economic growth and development. Government should set aside, and make an efficient and effective utilization of the savings accruing from the debt relief to reduce poverty and sustain economic growth for the country. Efforts should be made to channel the saved funds from debt relief to the key sectors of the economy such as health, power, education, agriculture and so on to alleviate poverty, and reduce unemployment, interest and inflation rates. Concerted efforts should also be geared toward preventing recurrence of debt overhang as a result of high indebtedness. In this regard, Nigeria's debt level should be closely monitored. Stringent control should be imposed on borrowing, and effective utilization of borrowed funds should be pursued. There should also be guidelines that will prevent the contracting of loans at unfavourable terms. The guidelines should prevent the acquisitions of loans by federal and state agencies that have either over-borrow or whose financial resources are not adequate to meet repayment obligations (Asuehinen, 2009; Ikeje, 2009; Ndekwe, 2008).

Nigerian government should be able to demonstrate high commitment of effective macroeconomic policy management and consciously stimulate high productivity in the economy. Therefore there is need for good policies and sound economic management strategy to be in place. Efforts directed at curbing corruption should be improved upon and be sustained. There should be renewed efforts towards diversifying the economic productive base of the country and encourage the growth of non oil exploits in order to boost the export earnings out of the country and reduce its dependence on oil. In this regard, the opportunity in the gas and solid mineral sectors should be fully exploited. In addition, agriculture, which employs the largest proportion of the workforce should be given the much needed impetus to achieve significant growth in non-oil export. Furthermore, Nigeria firms should be encouraged to look inwards for their raw materials and machinery as this will help to save foreign exchange utilization in the country and reduce dependence on external loans for the payment for such goods (Bello & Obasaki, 2009; Cohen, 2008). Deliberate effort should be made to improve the quality of the loan that is sourced. In the past, there has not been adequate analysis of projects and programmes before accessing loans to the extent that short terms loans were used for long term projects and many of the loans taken were injected into projects which were failures right from the beginning. The management and structure of DMO should be separated from the civil service, to enable it to attract and retain able staff that can build institutional capacity to effectively manage Nigeria's debt. The crux of this study is that prudence is required in the conduct of Nigeria debt policy so as to achieve the objective of stabilization, creation of employment and economic growth and development (Ikem, 2006; Iyoha & Iyare, 2008). The Fiscal Responsibility Act 2007 has been designed to channel the gains of the economic reform in the right direction and prevent a relapse to the past (Ikeje, 2009; Ikem, 2006). This Act is expected to commit all tiers of government to a set of rules for efficient economic management in terms of standardized planning, as well as control and monitoring of public borrowing and expenditure.

According to Martinsakuye (2008); Obadan and Iyoha (2009) Nigeria can only avoid future debt management problems if only they take the following measures; the country should ensure that debt service obligations do not rise rapidly than foreign exchange earnings; loans contracted should be invested in profitable ventures, which will generate a reasonable amount of money for debt repayment. External finance should be used only for projects of highest priority such as mineral resources, education and agricultural projects; the composition of the external debt should be regularly checked in order to forestall problems associated with strangulating debt service obligations; adequate safeguards should be put in place to cope with the sudden or unexpected shortfalls in earnings from exports or anticipated expenditures on imports. Public should monitor funds utilization, the general public especially civil society groups and the media should insist on the building of institutional framework to guarantee the effective and efficient utilization of borrowed funds. The DMO should pay adequate attention to the following areas when given approval to the borrowing of foreign loans (Ikeje, 2009; Ikem, 2006).

(i) Pursue policies that promote macroeconomic stability

(ii) Aggressive marketing of the FGN bonds to Nigerians in the diaspora would diversify the investor's base and reduce the upward pressure in the prices of the FGN bond.

(iii) Aggressive and sustained implementation of the FGN programme of Public-Private-Partnerships (PPP).

(iv) Maintenance of prudent fiscal discipline and the development and implementation of debt management strategy that places emphasis on prudent and productive public sector borrowing

(v) Improve coordination and information sharing among relevant stakeholders with respect to public debt management

(vi) Government and organizations should have access to capital market in order to undertake developmental projects.

Conclusion

We can assert that the level of Nigeria's external debt stems from the expansion of fiscal responsibility beyond the earning capacity of the government. However, the fiscal indiscipline of the government is not a tenable excuse for not exploiting the tremendous growth benefits that a debt financed budget deficit offers to a developing nation like Nigeria. The country will be losing out on the recent globalization if its doors were shut against external borrowing. Undoubtedly, external borrowing has the advantage of stimulating growth but the extent would be determined by the application of the acquired resources in the right direction. In the light of this, Nigeria has the chance of not only achieving the millennium goals outlined by the United Nations development organizations but also reaffirming its economic and political transformation process with the debt relief. We should develop a collective conscience that is anchored on transparency, accountability, probity, value-for-money and due process.

The core task of debt managers remains to raise funds and service maturing liabilities at minimum possible cost. To this end, it is important that debt managers are able to monitor and analyse the efficiency of their work. Debt managers have a number of options in this regard, the World Bank has developed performance measurement tool, that assesses public debt management performance through a set of key indicators. DMOs must be careful to maintain a clearly communicated and transparent issuance of programmes. Transparency and a clearly defined strategy will minimize uncertainty and ensure that debt managers do not incur unnecessary borrowing cost by damaging confidence.

In conclusion, we say that the economy is in a bad shape, most states are financially grounded and are unable to meet their financial obligations. The roads are in bad shape, hospitals lack the state of the art equipment and qualified manpower, the structures in our public schools are in deplorable condition and there is massive unemployment. There was great celebration that followed the debt relief, with high expectation and dream of good things to come. At present, we face the agony of blasted hopes and shattered dreams of the debt relief package as well as the realization of the MDG goals.

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