

# EXTERNAL DEBT RELIEF AND ITS ECONOMIC IMPLICATION IN OUR ECONOMY

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## **Abstract**

Debt is the outstanding credit obligation of the country. This paper is motivated by the debt relief which Nigeria got from Paris Club with condition that Nigeria will keep macro economic conditions under control (or six months). The paper seeks to find how much debt has created intolerable constraints on the economy and on government economic developments, and how much economic benefit that can accrue from the debt relief. The paper concluded that debt relief 'coupled with good economic policy and good governance is a veritable option for tackling the issue properly.

## **Introduction**

This country is highly indebted with very high debt burden. Factors that contributed to the high external indebtedness include fiscal indiscipline, mismanagement and inefficient investment of costly external loans, a high proportion of short term loans, a high proportion of private loans, import dependence, structural imbalance and falling price of crude oil (Kolawole, 2001).

The general level of performance of Nigeria economy has not been impressive. The rate of inflation is on the increase. The exchange rate of Naira after a period of stability at a high level of about N85 to the dollar, rose again to over N100 to the dollar by mid 1999 and currently is N126 to a dollar. Industrial capacity utilization remained low and declining. Infrastructural facilities remain in a state of despair, unemployment remained high by duration, age, educational level and rural urban areas (Kolawole 2001).

The objective of this paper is to analyze Nigeria experience with foreign debt accumulation and cancellation. The paper updates knowledge on the nature and magnitude of external debts stock. It also showed the sources and purpose of some of these foreign debts. The factors that increased the external debts were explained. The paper relied on the published articles on the recent debt relief and 'journals publications. Finally, suggestions were made towards reducing foreign debts accumulation.

## **Sources Of External Debt**

Researchers revealed that the source of external debt has some effects on the external debt stock outstanding. Three sources were identified as follows: i. Multilateral source: This source covers loans provided by IMF, IBRD, UNCTAD, EIB, ADB,

etc to governments, ii. The Paris club: This is a club of creditor countries. It covers loans provided or guaranteed by governments. iii. The London Club: This club is composed of creditor banks. The commercial banks come

together to negotiate the restructuring of their claims against a sovereign debtor.

Group of eight most industrialized nations met at Gleneagles, an 850 acre golf resort, North of Edinburgh to consider debt reduction agreement in principle by the Paris club. The meeting was convened to consider amongst other things battling poverty by debt forgiveness and increasing aid to Africa. Nigeria owes external creditors an amount of \$30 billion (IBIM 2005). Getting consensus has not been easy but in June 2005, 18 heavily indebted poor countries - Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia were beneficiaries of 100 percent debt cancellation by creditors.

According to (IBIM 2005), Blair, the elected president of Paris Club is committed to reducing poverty in Africa. According to him, the amount of \$40 billion is a tiny fraction of the estimated \$520 billion debt stock owed by the world's poorest countries and was of the opinion that the rich nations should do more. Plans to do more is what qualified Nigeria in getting partial debt relief.

The limited rungs of qualifying are consideration of G8 on governance, war and instability in these countries. Countries creditors agreed 60 per cent debt relief, that is \$18 billion of the \$30 billion which the country owe (IBIM 2005).

It is important to note that the first step of debt cancellation was in July 2000 when Spain blazed the ' trail by canceling \$100 million owed to it by Nigeria (Oghoghpr, 2001). Again China is considering writing off \$1.2 billion owed it by countries, most of which arc in Africa .said by Minister of State for foreign Affairs, Chief Duben Onyia (Oghoghhor 2001).

### Causes of Nigeria's Foreign Debt

According to Centre for Global Development, Nigeria's actual borrowing in the 70's was \$1.2 billion. That debt grew into \$22 billion when add interest and penalties of the external debt (IBZM 2005).

In an attempt to solve the problem of resource gap and coupled with rapid growth in government expenditure public debt has been recognized (Idoko 2002)

The main thrust of the argument on the economies of external borrowing is that the resource gap, expressed in terms of lack of adequate foreign exchange and domestic savings is the cause of demand for external resources by the developing countries (Anyafu 1996).

The beginning of our problem came with \$1 billion Jumbo loan granted to Nigeria in the late 1970\s because Nigeria was under borrowed. The claim (hat Nigeria needed the jumbo loan to build investors confidence, so that foreign investments would flow in and develop the economy, at a time Nigeria was buoyant with oil revenues (Chinweizu, 2005). A cursory look at the nation's Joans, shows profligacy and in some cases outright corruption. Find below the list of debts and projects with remarks as listed in Tell Magazine, July IS, 2005.

### How We Got There ABU STATE

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
CHF 49,100,000	Umuahia Water supply Scheme	Not executed
GBP 12,360,000	Arochukwu Ohafia Water Scheme	Not executed
DM 24,457,920	Abia Golden Chicken farms Ltd. Ogwe	Not executed
USD 23,577,745	Rural Electrification Project	Not executed
CHF 43,300,000	Umuahia Ceramic Factory	Not executed
CHF 243,500,000	Glass Factory	Executed but failed

### ADAMAWA STATE

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
FRF 55.45 million	Mubi Bricks Project	Executed but failed
USD 279.8 million	Infrastructure facility Project Loan	Executed
USD 56 million	Dadin Kowa Dam Civil Works	Executed

### AKWA IBOM STATE

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
DM 73,080,000	Qua Steel Product Ltd.	Executed but failed
DM 62.33 million	Sunshine Batteries Ltd Ikot Ekpene	Executed but failed
USS 11,764,706	Rural Water Supply Project	Executed
ATS 86.52 million	International Biscuit Factory, Ukana	Executed but closed down

### ANAMBRA STATE

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
GPB 11,811,1023 & USD 3,100,000	Carpet Manufacturing Project Ihiala	Not executed
Dm 142,617,527.31	Rural Electrification	Executed
USD 0,633,000	Purchase of irrigation pumps	Executed
PES 5,220,011,160	Special Hospital Project	Executed but failed

**Bauchi State**

*LAON*

ATS 72,794,754 & USD 30 million  
 FRF 29,168 million  
 USD 8.1 million  
 GBP 14,436 million & USD 32 million  
 USD 7.7 million & GBP 23.17 million  
 USD 53.145 million

**PROJECT**

Bauchi Steyr Plant  
 Dimare Yankari spring Water Company Ltd.  
 Bauchi External Line Plants  
 Balanga Dam  
 Bauchi Modern Market  
 Gombe Water Supply Scheme

**REMARKS**

Executed and functioning  
 Executed and functioning  
 Executed and functioning  
 Executed and functioning  
 Executed and functioning  
 Not executed

**Benue State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
FF 101, 137,869 & USS 35 million USD 67.30 million & GBP 87.56 million USD 700,000 USD 71.4 million	Markurdi Sheraton International Hotel Agric, Water and Electricity Project Benro Packaging Company Naka-Adoka-Awajir-Ojo Road Project	50% completed Executed and functioning Executed and functioning 50% completed

**Borno State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
FRF 116.75 million GBP,2. 52 million	Maiduguri Sheraton Hotel Project Tractors and Equipment	Not executed 50% completed

**Cross River State**

*LAON*

ATS 138,880,000

**PROJECT**

The Cross River Limestone Project

**REMARKS**

Executed but shut down

**DELTA STATE**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
GBP 9,578,151	WARRI Farm Project	Not executed
DEM 750 million DEM/1,380,000	“	Executed but not functioning
ATS 1,143,000/USD 73,000,000	“	“
USD 50,000,000/GBP 12,240,000	”	”
USD 8,000,000/FRF 127,144,000	”	”
USD 43,000,000/DEM 19,944,000	”	”
USD 47,014,000/GBP 11,966,000	”	”
USD 5500000/GBP 11,900,000	”	”
DEM 40,000,000/ATS 95,497,000	”	”
ATS 238,000,000	”	”

**Edo State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
GPB 27,647,470 & USD 23,510,000 ATS 1,080,500 USD 38,682,523	Three road project Bendel Feed and Flour Mills Warri/Benin Road Dualisation	30% completed Executed and functioning 50% completed

<b>Enugu State</b>		
<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
US S 38 million USD 10,511,252 DM 134,367,837 DEM 358000000 DM 150 Million FES 5.22 Billion	Road Project: Abakaliki Ring Road Purchase of Irrigation Pump Rural electricity Project 1 - III Hotels and Industrial Projects Enugu and Abakaliki Water Projects Three 200-Beds Specialist Hospitals	Executed Not Executed Executed Executed Not Executed Executed

**Imo State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
USD 32 million FF 78,257,586 FF 95,55 1, 848,24 FRF 108,58 1,727 SFR 18,560,000 GPB 8,340,000 & \$15,630,000 GPB 25,751,600 & \$23,577,745 CHF 54,600,000 US \$53,746,000 GPB 6,033,000 US\$10,633,000	Imo Modern Poultry Limited Resin Paint Industries Ltd Power Packaging Industries Ltd Aluminum Extrusion Industries Pic Ministry of Lands, Survey and Urban Planning Rural Electrification Project Phase II Rural Electrification Phase 11 Imo Concord Hotel Limited Mbaise/Obowo Rgional Water Scheme Owerri Capital City Industrial Infrastructure Purchase of Irrigation Equipment	Executed but failed Executed Executed Executed Executed Executed Executed Executed 50% executed Executed

**Jigawa State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
USD 8,082,986	Agro- Allied Small Scale Industries	Executed

**Kaduna State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
ATS 389,470,000	Turnkey Production Plant Ikara	Executed
US\$4,363,910	Food Processing Project	Executed
US\$10,633,000 FF	Purchase of Irrigation Pumps..	Executed
60,605,315,50 YEN	Purchase of 100 No. Buses	Not executed
1,512,000,000 YEN	United Nigeria Textile Ltd	Executed and functioning
1,260,000,000	<u>Arewa Textile Expansion Project</u>	Executed and functioning

**Kano State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
US\$ 15,000,000 US\$ 10,636,000	Rural Water Supply Project Purchase of Irrigation Pumps	Executed Executed

**Kwara State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
FRF 1,044,000 US \$ 85,000,000 DKK 603,200,000	Jebba Hydroelectric Plant Jebba Paper Mill Specialist Hospitals	Executed and Functioning Executed Executed

**Lagos State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
DKK 215,560,000 NLG 39,240,000 FRF 424,630,000 FRF 50 1,430,000 FRF 67,140,000 US \$37,570,000 YEN 209, 170,000 NGL 64,740,000 US \$70,250,000	Six Mini Waterworks Four Mini Waterworks Adiyan I Intake Adiyan II Scheme Iju Waterworks The Mini Steel Project Egbin Thermal Power Station F - 28 Aircraft and Spare Parts The Boeing Aircraft	Executed Executed Executed Executed Executed Not Executed Executed Executed Executed

**Niger State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
GPB 141,116,000 ATS 447 805,000 US\$ 12,887,000	Wafer Supply Projects Phases 1 & 11 Rural Hospital Project Phase I & II Minna-Hydrflo Irrigation Pumps	Executed Executed Not Executed

**Ogun State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
GPB 2,840,000 GPB 12,900,000 BEF 274,470,000 GPB 13,400,000 GPB 4,900,000 DEM 25, 130,000 USD 34,940,000 US \$28,000,000 US\$100,100,000	Kuto Market Ota Hotel Project Water Treatment Plants Ijebu Ode Market Project Gateway Hotel, Ijebu-Ode Abeokuta External Line Plant Lower Ogun Irrigation Project Oso Iwopin Road Iwopin Paper Mill	Executed Executed Executed Executed Executed Executed Executed Executed Executed

**Osun State**

<i>LAON</i>	<i>PROJECT</i>	<i>REMARKS</i>
DM 155.42m, DM 10,13m DM 76.39m, DM 160m, NLG 50.3 1m GPB 101.27m US \$ 58.99m	Oshogbo Steel Rolling Mill New Ede/Oshogbo Water Scheme New Illesa/Ejigbo Water Scheme	Executed Executed Not executed

### Rivers State

LAON	PROJECT	REMARKS
GBP 13,063,803 USD 15,750,000 CHF 54,000,000 US\$29,038,717 FRF 20,873,7 17 DEM 53310961 USS 27000000 GPB 19428560	Rural Electrification Projects Container Glass Factory Delta Hotel Ltd. Glass Factory MGF-Radio, TV, Communications Equipment Transmission lines Nun River Project Gas Turbine/Alternator Power Station	Executed

### Sokoto State

LA ON	PROJECT	REMARKS
US \$ 180m YEN 5,2 19m US \$73 m	Ginginya Hotel Construction of Four Hotels Sokoto Water Supply Extension	Executed Executed Executed

### Yobc State

LAON	PROJECT	REMARKS
GPB 3.62M	Biscuit Factory	Not executed

In some cases officials simply helped themselves to what they considered "a national cake" for instance in Anambra State, a carpet manufacturing project was supposed to have been located in Ihiala town. On July 1, 1982, Anambra State government, then under the governorship of JimNwodo entered into a contract agreement with Cross Ocean limited; United Kingdom, to establish a carpet factory. The project was to cost \$ 11.9 million. A little over \$ 10 million of this was taken as loan from the Paris club, and the rest was taken in Euro dollars from London club. A Nigerian company, multi source was to be in charge of the construction work. Air enquiry on the project and loan in 1985, showed that neither of the companies in question did the jobs. Instead Crossocean in concert with some officials of the state government managed to pay the 3.1 million Euro dollars and \$ 7.4 million into their private accounts. Up till 1996 when another investigation was undertaken none of the indicted officials had repaid the diverted money (IBIM 2005).

It is necessary to mention again how debt has been misused in Delta State; there was another case of outright stealing. In 1983, a Warri farm project was meant to be executed with a loan of \$9.6 by the former Bendel State government. The farm was to be located in Ibeju in Warri South local Government Area. The management and administration of the farm was by Messers Rockline Limited and was to embark on large scale production of fish, cassava, shrimps and arable crops. It was also to have a saw mill. However, investigations showed that state functionaries at the time" embezzled much of the proceeds of the loan. The above is just to mention but a few of this mismanagement of government loans (IBIM, 2005).

### Policy Implications

The attractive debt relief policy does not provide lasting solution to the debt problem. What is required is tough economic policies that will cut back import, divert more products to the export market and reduce corruption.

Fiscal deficit are caused by fiscal indiscipline, parallel budgets, corruption and lack of transparency and accountability, since fiscal deficits have to be financed, resort is to external borrowing when domestic sources are inefficient. Policies to deal decisively with fiscal deficits will make a favourable impact on the debt problem. The dependence on imports generates imports leading to short term credit that explain the external debt growth. Growth export is a key variable in the solution of external debt and government tough policies is very necessary to reap the gain of debt cancellation (Kolawole 2001).

The gain of debt relief will help government channel money to those areas that concern and employment creation. Agriculture, Health, Education, Water supply, Power and Roads (Iwealla 2005 in IBIM 2005).

Debt cancellation is necessary for development of third world countries. The developing countries face challenges especially that of poverty. To remedy these challenges the developing

countries must accept the new paradigms of democracy and good governance and also open up their economies. The economies have to create market opportunities for themselves, promote private sector growth, embrace privatization of public enterprises and create the environment for foreign direction investments in order to take advantage of the changing global environment (Ronald, 2003). Nigeria is indeed a major market in Africa with a population of over 120 million people: it provides effective demand for a wide range of industrial output. With an expanding industrial base, it also provides a source of intermediate industrial input. With an improved policy environment it indeed provides investment opportunities. With one of the highest rates of return in Africa.

Currently the country's macroeconomic environment has been stabilized, economic management has vastly improved, the budgetary process has been sanitized, exchange rate is effectively liberalized external reserve is on the increase and good governance has led to transparency and accountability.

The government is pursuing enduring structural and institutional reforms to make the economy responsive to change. This is made to attract private capital. The essence is to create a private sector that can take advantage of opportunities domestically, regionally and globally. This is done through privatization, liberalization, deregulation and the re-orientation of our bureaucracy. This will make private sector proactive in creating jobs, enhancing productivity and improving the quality of life (Laurence, 1988).

### **Recommendations**

There should be a shift from revenue sharing to revenue generation, eliminating the constant bickering in government fiscal operations, strengthen accountability and sound financial management by all tiers of government, ensure prudent public debt management and establish high standards of financial disclosure.

### **Conclusion**

Debt cancellation would free scarce resources for them to be deployed to the eradication of poverty, promotion of economic growth and securing of political stability.

The benefit of debt cancellation would ensure opportunities for growth and development of the private sector, And the result is that national economies would be squarely positioned to participate in the global economy. More importantly is government policy on foreign debt should be tough to avert future reoccurrence of heavy debt burden.

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