International Journal of Management and Social Science Research

International Journal of Management and Social Science Research

Vol.1, No. 2, 2013

Published by Centre for Global Research and Development, No 1, Thomas Salako Street Ikeja, Lagos-Nigeria

www.africanelibrary.org/ejournal;

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globalacademicjournals@yahoo.com

INTERNATIONAL JOURNAL OF MANAGEMENT AND SOCIAL SCIENCE RESEARCH

VOLUME 1 NUMBER 2 2013

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EXTERNAL DEBT: A POTENTIAL TOOL FOR ECONOMIC DEVELOPMENT

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ABSTRACT

Debt (domestic or external) is a feature, or rather, an integral part of every modern economy. Developed and developing nations borrow to enhance development. However, while the developing nations borrow to fast-track the process of economic development, the developed nations borrow to keep their economies running and making progress. Theoretically, nations resort to external borrowing to fast-track the process of economic development and Nigeria is not left out. However, emerging evidence from most borrowing nations, particularly, African countries, shows that rather than develop, they end up poorer and more underdeveloped, thereby bringing to test the theoretical basis for external debt acquisition. In Nigeria, for instance, it is argued that the level of infrastructural deficiency, rising unemployment, poverty, etc do not justify the quantum of external debts outstanding as at 2004 ($35.94billion) and that the country was more developed in the 1960s than presently. Evidence from available literature however supports this argument A number of factors have been identified as impediments to the noble objective of external borrowing and relevant recommendations made to resolve the paradox.

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Introduction

Debt is a creation of the act of borrowing. It refers to the resources of money in use in an organization (or a country) which is not contributed by its owners and does not in any way belong to them (Oyejide, et al: 1985). All economic agents: the household, the firm and the government borrow primarily when their spending requirements exceed their current receipts from conventional sources. Government or public debt could be procured from internal (domestic debt) and external sources (external debt). External borrowing differs from domestic debt in that it refers to an injection of funds into an economy but at the same, it is subject to external influences such as fluctuations in interest and exchange rates.

Deficit financing, generally, is a government policy of stimulating the economy by deliberately budgeting an expenditure in excess of revenue (from taxes, royalties and sundry sources) with money being injected in an economy to stimulate or maintain demand and the excess spending being financed by borrowing (Chambers: 1999).

External borrowing is development-based. Most developing nations of the world, including those of Africa, upon attainment of political independence embraced the option of external finance to fund economic development programmes (Rivkin cited by Nwakoby and Ezeoha: 2011). Leaders at the time of independence considered national resources as grossly inadequate and incapable of sustaining rapid economic development needed at the time and therefore sought to procure external finance(Nnoli:1978). Foreign capital, technological capability and know-how are required for serious economic development (Onosode:2004). Nwankwo (2010) argued that debt is an integral part modern economies because governments all over the world, no matter how developed, needed to borrow to fund major projects. However, while the developing nations borrow to fund economic growth and social development, developed nations borrow primarily to keep the economy running and making progress. The realization of the development objective of external borrowing depends on the ability of the debtor nation to prudently manage the proceeds of the loan to discharge associated obligations: the obligation to pay not just what was borrowed but some agreed interest and other incidental charges.

Debt is a two-edged sword. It could magnify returns over and above associated costs but could, on the other hand, increase the likelihood of crises (Okafor: 1983). Debt therefore throws up management challenges for governments because their ability to honour debt obligations has implications for assessing the economic or financial health of the economy.

Theoretically, countries procure external debt to add to existing stock of capital through improved capacity building. When realized, debt does not constitute a burden, otherwise, the aphorism "he who goes aborrowing goes asorrowing". Evidence from developing nations including Nigeria shows that this objective is not realized, hence the incidence of the burden of debt. Nigeria has explored the use of external debt as a potential source of development finance right from the era of the colonial administration till date. The quantum of debt service payments and the obvious difficulty, sometimes, in making these payments do not suggest that these loans have been profitably managed. Social and

infrastructural problems in the economy do not also indicate that these loans have positively impacted on the Nigerian economy.

Though Nigeria's external debt stock has been drastically reduced ($5.3billion interim figure, August, 2011) following successful negotiations with the Paris and London Club of Creditors, this paper seeks to identify the cause(s) of the hitherto unsustainable external debt stock and thereby recommend measures to avert a repeat of past mistakes.

The work is divided into six sections: section one serves to introduce the subject of the paper: section two briefly reviews the management of external debt in Nigeria: section three presents the burden of debt arising from the (mis)management of external debt in Nigeria; section four highlights specific factors that have worked against the use of external debt as a tool for economic development; section five presents the suggestions/remedies necessary to fine-tune the management of external debt and section six summarizes and concludes the work.

Review of External Debt Management in Nigeria

Prior to political independence, the authorities in Nigeria (the colonial administration) made extensive use of internally generated revenue to finance development projects except in the special case of railway construction which, owing its attendant huge capital outlay, compelled them to look beyond the revenue-earning potential of the economy. Available evidence showed that during this period, Nigeria adopted a conservative approach to external borrowing. Through the mechanism of the London Capital Market, Nigeria sought and obtained external finance to fund development projects. Instances of such loans and the enabling instruments include Loans Ordinances: No. 23 of 1904 for £2.0m; No. 7 of 1908 for £3.0m; No. 12 of 1911 for £3.5m; No. 57 of 1917 for £2.0m; No. 24 of 1919 for £4.2m; No. 16 of 1921 for £3.0m (Anyafo: 1999). At independence in 1960, the nations debt portfolio stood at £34.05m, out of which external debt accounted for £20.5m.

The newly independent Nigeria was faced with the need to aggressively undertake development programmes to reflect the status of an independent nation, thus prompting the procurement of more loans to augment internally generated revenue. Also, after the civil war in 1970, the need arose to rehabilitate, reconstruct and develop the war-ravaged economy. Inspite of the felt need for more funds, Nigeria still maintained a modest attitude to external borrowing (Sanusi: 1987). External borrowings during this period (1960s) were mainly from bilateral and multilateral sources and have very low interest rate and longer repayment period. They are still being repaid today. (Nwankwo: 2010). A number of supportive factors have been identified: Oshimohole (2011) explained that in the immediate post-independence period, Nigeria had a robust parliamentary system, and a healthy federal structure, which facilitated all-round development through healthy rivalry among the regions. Nigeria then had a thriving agrarian sector, a modestly diversified economy, a promising industrial sector, a fairly skilled and a reasonably efficient workforce, implying that Nigeria had a productive economy during the period. Anyaoku (2011) explained that providence put a smile on the face of the country (just emerging from the civil war) with the oil boom, the instrumentality of which enabled the country to "pull itself up by the bootstrap and embark on the post-war policy of three Rs,

that is, reconstruction, rehabilitation and reconciliation. During the period, Nigeria was awash with petrol-dollar. Thus the need for external borrowing was not particularly felt as Nigeria even had to lend to the International Monetary Fund (IMF) under the oil facility in 1974 (Sanusi: 1987). The domestic economy was, to an extent, self-sustaining during the period. However, by 1978, the trend took a new turn. The Central Bank of Nigeria (2002) notes:

The origin of Nigeria's external debt dates back to 1958 when a sum of US$2.8million was contracted for railway construction. Between 1958 and 1978, the resort to foreign debt was minimal, as debts contracted during the period were the concessional debts from the bilateral and multilateral sources with longer repayment periods and lower interest rates constituting about 78.5% of the total debt stock. From 1978, following the collapse of oil price, which exerted considerable pressure on government finances, it became necessary to borrow for balance of payment support and project financing. This led to the promulgation of Decree No. 30 of 1978 limiting the external loans the Federal Government could borrow to N5billion. The first major borrowing of US$1billion, referred to as the "jumbo loan" was contracted from the International Capital Market (ICM) in 1978, increasing the total external debt stock to US$2.2billion. Thereafter, the spate of borrowings increased with entry of state governments into the external loan contractual obligations. While the share of loans from bilateral and multilateral sources declined substantially, borrowing from private sources at stiffer rates increased considerably. Thus, by 1982, the total external debt stock was US$13.1.1billion

Nigeria's external debt problem could therefore be traced to borrowings from private sources: the Paris and London Club of Creditors. The Paris Club debts are government–government debts or market-based loans guaranteed by the various export guarantee agencies of the creditor countries while the London Club is a group of commercial banks that jointly negotiates the restructuring of the claims against the debtor countries. Prominent features of this window include market-based rate and short-tenure. When Nigeria was classified in the Baker Plan in 1986 as one of the 15 heavily indebted nations among developing countries, about 85% of total external debt outstanding ($18.6billion) were of short/medium term and were used to finance such projects as Iwopin Paper Mills, Ajaokuta and Aladja Steel Mills Projects. The mis-match arising from loan maturity profiles and projects completion resulted in debt service bunching which exacerbated the debt problem. The debt crisis thereby eroded the country's credit worthiness such that further procurement of external debts could only be consummated on even more stringent terms. By 2004 the external debt stock had peaked at $35.94billion. The period 2005/2006 however marked a turning point in Nigeria's external debt position when, following a successful negotiation, the country had to pay $12.4billion to the Paris Club in exchange for a debt cancellation of an estimated $18billion representing about 60% of the $30billion owed to the Paris Club. The Federal Government also paid $2.3billion owed to the London Club thereby effectively exiting the clubs (DMO:2010). By these transactions, Nigeria's external debt stock dropped substantially to $3.54billion in 2006 thereby, once more, increasing the country's debt sustainability space. However, Nigeria's external debt once again has maintained an upward trend. For instance, the external debt stock stood at US$4.27 billion as at June

2010. By mid 2011, the external debt had risen to $5.3billion (Omoh: 2011). Arising from the 2012 budget, in the Medium Term Expenditure Framework (MTEF), the programmed external borrowing for the period 2012-2014 is $7.9billion, an average of $2.63billion for each of the 3years.

It is important to note that prior to 2005/2006 Nigeria had adopted a number of measures to contain the external debt problem though the outcomes do not suggest effectiveness. An effective and functional external debt management process involves the selection of an appropriate financing, decision on how much to borrow and keeping complete up-to-date records on debt for the purpose of achieving the benefits of external finance without creating difficult problems of macroeconomic and balance of payments stability (Klein:1994). Debt management includes an assessment of the country's capacity to service existing debts and a judgment on the desirability of attracting further loans (CBN:1996).

Measures adopted in the management of Nigeria's external debt during the period include:

1. Embargo on new loans: In 1984, the government placed an embargo on new government borrowings from abroad. However, on-going core projects considered to be in the overall interest of the economy and those whose terms were considered favourable, especially, in terms of interest rate and long repayment periods are accommodated.

2. Statutory limits on maximum level of commitments: The government promulgated the Rehabilitation, Reconstruction and Development Decree of1970, which limited the level of external indebtedness to N1.0billion. It was later reviewed and raised to N5.0 billion in 1978.

3. Special Directives by the Federal Government: Though there was no legal backing, the Federal Government in 1982 issued a directive asking each state government not to exceed a maximum of N200 million limit as external loan outstanding and to ensure financial prudence by not utilizing more than 10% of their revenue on debt service. To ensure compliance, the Federal Government threatened to deduct, at source, the equivalent of debt service obligations before the balance of their allocation would be released.

4. Debt Restructuring: This involves the conversion of an existing debt into another category of debt through refinancing, debt rescheduling, buy-back, issuance of collaterized bonds, and provision of new money (Anyanwu:1997). Nigeria had implemented the following:

   (a) Refinancing of Trade Arrears: This involves the procurement of a new loan, either from the same creditor or a new set of creditors to pay off an existing debt, particularly short-term trade debt. Nigeria undertook the first refinancing arrangement in 1983 followed by another in 1984. By 1986, the amounts involved in both agreements were repaid.

(b) Debt Rescheduling: This involves changing the maturity structure of the debt by spreading it over a longer period until it is eventually paid. For instance, a debt of $1.6 billion due to London Club in 1987 was rescheduled in 1986 to be paid in 1996 with a 4-year grace period.

(c) Debt Buy-back and Collaterization: This option implies the offer of a substantial discount to pay off an existing debt. In 1962, Nigeria bought 62% of commercial debt due to London Club and issued colatarized bonds for the remaining 38%.

(d) Debt Conversion: It is a mechanism for reducing the nation's external debt burden by changing the character of the debt. It involves the exchange of monetary instruments (promissory notes) for tangible assets or other financial instruments. Debt conversion can take the form of: Debt for Equity, Debt for Cash, Debt for export, Debt for Debt, and debt for financial investment.

In Nigeria, the debt conversion exercise essentially involved the sale of an external debt instrument for a domestic debt or equity participation in domestic enterprises. Between 1988 and 1997, the total amount of debt actually redeemed stood at $1.18billion while total discounts and commissions that accrued from the exercise stood at $544.8 million and $20.7 million respectively (Anyanwu: 1997).

A characteristic feature of Nigeria's external debt management before 2000 is the non-existence of a coordinated effort for debt management and no well thought out strategy for borrowing and debt management. Debt management functions were carried in several departments of the Federal Ministry of Finance, Central Bank of Nigeria and Office of the Accountant General of the Federation (Nwankwo:2010). The lack of efficient management of the nations external debt obligation significantly contributed to the accumulation of external debt to unsustainable levels. With the establishment of the Debt Management Office in 2000, procedures and structures for verification, authentication, computerization and reconciliation of the nation's external debts have been put in place. Following successful negotiations on and exits from, the Paris and London Club debts, the Debt Management Office, in 2005, formulated a five-year strategic plan with a Vision "To manage Nigeria's debt as an asset for growth, development and poverty reduction. It is hoped that this vision would be realized.

Recent borrowings seem to be rationalized on the grounds that Nigeria's Debt/GDP ratio of 17.6% (2011) is still below the international standard threshold for Nigeria's peer group put at 40% by the World Bank. However, the emphasis (undue?) on Debt/GPD ratio as an index of sustainability and therefore a sufficient justification for borrowing should be done cautiously. Table 1 below, shows a list of countries ranked according to debt sustainability ratio (Debt/GDP). From the table, Nigeria is ranked one of the least indebted among comparator countries.

Table 1: Independent Indicators & Ranking by The World Bank: Selected Countries Public Debt/GDP Ratio (2010-2011)

Country	2010(%)	2011(%)
Algeria	6.6.	6.6
Russia	7.9	8.7
Cameroon	16.1	16.2
Nigeria	**17.8**	**17.6**
Gabon	20.9	18.3
Botswana	19.9	20.3
Angola	21.4	24.5
Indonesia	25.7	24.5
Senegal	33.3	33.2
South Africa	33.4	35.6
Ghana	34	38.7
Turkey	43	42.4
China	43.5	43.5
Columbia	44.2	45.6
Kenya	47.7	48.5
India	50.6	51.6
Tunisia	48	51.8
Brazil	54.7	54.4
Vietnam	57.1	57.3
Morocco	61.1	65
Egypt	81.4	85.7

Source: World Bank/World Factbook Webtsites

Reliance on the table above as an index of economic performance could be deceptive. For instance, the BRICS (Brazil, Russia, India, China and South Africa), a group of emerging world economies, have Debt/GDP ratios above Nigeria's 17.6% in 2011 except for Russia (8.75%). Nigeria is yet to be so classified and there is no evidence that Nigeria's economy is indeed more performing. Also, in 2011, Ghana had Debt/GDP ratio of 38.7% against Nigeria's 17.6%. Ghana recently celebrated 10years of uninterrupted power supply when Nigeria could hardly achieve 24hrs of uninterrupted power supply. By 2011, Ghana had per capita income of $1475 against Nigeria's $1200 (Soludo:2012). From the above, it could be inferred that Ghana has a more vibrant economy inspite of higher Debt/GDP ratio. Furthermore, from the CIA World Fact Book (cited by Nwankwo: 2010), by 2009 estimates, Nigeria had Debt/GDP ratio of 13.88% against Germany's (77.20%); France (79.70%); USA (52.90%); (UK 68.50%); Japan (192.10%); Ghana (67.5%) and India (59.60%). All the above countries rank higher than Nigeria on Development index inspite of their very high ratio.

Use of ratios as a tool for appraisal and comparison is norm in financial management but should, therefore, be done with restraint because often times there are residuals, often qualitative in nature, which remain unexplained (Soludo:2004). For instance, it is intriguing to note that inspite of the exciting GDP growth rates there is high and rising unemployment (Sanusi: 2011).

The Burden of External Debt (The Paradox)

An intriguing paradox is that rather than facilitate economic development; external borrowing has become a source of underdevelopment among development nations, including Nigeria. Pattillo, et al (2002) contended that the expectation that these loans would accelerate economic development and growth were never realized instead as debt ratios reached very high levels in the 1980s, it became evident that repayment would not only impair economic development but was rather virtually impossible. Nwakoby and Ezeoha (2011) contended that evidence of external borrowings show that developments were never recorded in virtually all the debtor nations, neither was any growth ever recorded. They further argued,

had external aid and lendings achieved their intended goals, perhaps, those loans borrowed after independence must have been repaid by now and the debtor countries would have been as much developed to the extent of being able to meet the present demands of the creditor nations.

Quintana (cited by Nwakoby and Ezeoha:2011) explains that external sources of funds often lack the flexibility needed to feed a flow of capital that would sustain the need for increased investment and rapid economic growth. The macroeconomic environment of the Nigeria economy attests to the fact that external borrowings by the government have not achieved the desired objective of promoting economic development. Evidence of non-attainment of the stated objective could readily be found in the level of infrastrucutral deficiency, unemployment, poverty, etc. Development indicators for Nigeria are below global average and in some cases below the African average. For instance, the Vision 2020 report states, "Nigeria has seen its per capita income as a percentage of the US per capita income fall from 8.5% at impendence (1960) to 3.3% in 2004 and its GDP ranking fell from No. 20 in 1960 to No. 27 in 1980 and No. 56 in 2005". On food security, the UNDP African Human Development Report for 2011 ranked Nigeria 142 out of 169. Indeed, it could be argued that "in the immediate post-independence period, Nigeria was more developed than some of the countries which are celebrated as development models today" (Oshiomhole: 2011).

The quantum of debt service payments has implications for economic growth and development. The trend undermines the ability to invest in capital projects. Table 2 shows a schedule of debt service payments in respect of external debts outstanding for the period 2005-2009.

Table 2: External Debt Serviee Payments for the Period 2005-2009

YEAR	AMOUNT(US$(bn)
2005	8.940
2006	6.729
2007	1.022
2008	.464
2009	.428

Source: Vanguard: August 11, 2005 p.5

From the table above, it would be seen that during the period under review, an average of $3.517billion per annum was paid in satisfaction of external debt service obligations. The reduction in debt service payment for 2008-2009 was a direct consequence of the about $18billion debt cancellation and payment of about $12billion to the Paris and London Clubs in 2005/2006. A provisional sum of N47.6bn has been budgeted for debt service in the 2012 budget in respect of external debts outstanding. These –payments could have been used to execute development projects that could have improved taxpayer's welfare. The huge foreign exchange needed to service the debts has implications for exchange rate management.

An implication of the burden of these payments on future generations is a reduction of their capital stock since some of the burden of current government spending is shifted to them, thus raising the moral question of inter-generational equity or fairness. By that, successive generations are constrained to bear a burden in form of uncompensated distortions of their preferred pattern of consumption. For instance, while debt service stood at 1.9% of GDP, education spending was 6.4% in 1960; by 1982 debt service rose to 8% with education spending declining to 1.3% of GDP (Brown:2003). Nations, in solving today's problems should not jeopardize the ability of successive generations to achieve theirs.

Factors Responsible For the Debt Crisis

The following factors have been identified as impediments to enhanced economic development through resort to external borrowing:

1. Funding of development projects with short/medium term loans sourced from private sources at higher rates of interest, hence the emergence of debt service bunching.
2. Type or style of government: The Presidential system of government and the way it is practiced in Nigeria have been roundly condemned as being very expensive and inefficient. The number of political aides (special assistants, personal assistants and special advisers, etc.) for each political office holder is over bloated and their remunerations do not reflect the economic reality of the country (Onosode:2004 and (Olusanya:2004). According to Onosode, *Nigeria must desist from prodigally living beyond its means. It cannot afford the form and style of government it has adopted. It will fail, like our heroes past, in establishing economic foundation for sustainable democracy if it continues to borrow with abandon from professional domestic and multilateral bankers, even at a concessionary interest rate of one quarter of one percent to sustain a battalion of parasites at the three tiers of government.*
3. Over bloated work force and the incidence of ghost workers: There are 112,000 employees on the nominal pay-roll of the Federal Government out of which 43,000 on the pay rolls of some Ministries, Departments and Agencies (MDAs) are not existing human beings thereby translating to a loss of N12 billion annually (Aganga:2011).

   The cost implications of (ii) and (iiii) above accounts for the unsustainability of governments recurrent expenditure and therefore its inability to fund investments in capital projects and infrastructural development. Also proceeds of domestic

borrowings are in general used to cover part of the fiscal deficit as contained in the Appropriation Acts (DMO:2012)

4. Corruption: Corruption is a monster which impedes economic growth and development. It weakens institutions and renders them unproductive. Aimiuwu (cited by Onosode:2004) notes, "The grand larceny of corruption has undermined the productivity of what otherwise should have been veritable investments in human and physical capital". Onosode (2004) argues that "Nigeria's problem is not capacity building but the deliberate underutilization of available capacity". Resources that should have been channeled to development projects and up in private banks accounts, hence individuals are enriched while the economy is impoverished. For example, reports from various tribunals (military regime) and probe panels reveal a high level of corruption by public officials.

5. Neglect of the Agricultural sector: Oshimohole (2011) attributed the post-independence development in Nigeria to "a thriving agrarian sector". Also Osisioma (2004) argued, *in the 1960s, the Nigerian economy had a near complete mono-sectoral dependence on agriculture. In those days, agriculture was the mainstay of the economy, the major source of government revenue, the chief foreign exchange earner and the main employer of labour. All that changed in the 1970s with the boom of the oil industry. Nigerians abandoned their hoes and matchets, and became a nation of traders, contractors, clearing and forwarding agents, smugglers and international fraudsters. Too late, our oil boom soon became an awful doom, and we turned most dramatically from a self-satisfied nation with bulging kitty of petro-dollars, to a beggar nation that could not pay the bill of her financial profligacy.*

   With the collapse of the oil boom, Nigeria lacked the capacity to sustain the consumption pattern it had adopted, hence the recourse to external borrowing

6. Lack of a coordinated effort for debt management and no well thought out national strategy for borrowing and debt management. Prior to the establishment of the Debt Management Office in October 2000, various aspects of debt management functions were carried out in several departments of the Federal Ministry of Finance, Central Bank of Nigeria and the Office of the Accountant-General of the Federation leading to inefficient management of the nations debt obligations and hence, the accumulation of external debt to unsustainable levels.

7. Many projects and programmes, by omission or commission, were not designed to stimulate productive activities that would enhance the overall capacity of the economy to repay the loans. In some case, political considerations informed the choice of projects to finance with the loans, thus the preponderance of unproductive projects or those that lacked adequate cost control which were abandoned before completion. Such projects which include the Benin-Owena River Basin Authority have implications for debt servicing.

8. Low propensity to save: Nigerians not only have a poor saving habit but exhibit a high preference for consumption (particularly of imported products) and waste. The high oil earnings of the 1970s encouraged and sustained the consumption of expensive and exotic products among Nigerians. Resources were wasted to the

extent that during the second republic (1979-1983), champagne almost replaced water at social functions. Even toothpicks were imported and ostentatious living became a status symbol. With the decline in oil revenue, sustenance of the adopted consumption pattern was only achieved through borrowing. In the United States, the deficits of the 1980s have consumption as a primary counterpart, thus the emergence of a debt burden for the country (Dornbursch and Fisher:1990).

9. Unrealistic Exchange Rate: The failure of the monetary and exchange rate policies of the government to respond quickly enough to reflect the external value of the naira following the drastic decline in inflow of resources from the depressed oil market led to an over-valued naira with its attendant severe pressure on the external sector. The resulting cheap export and large naira base encouraged all manner of imports (industrial and household). Even the naira devaluation of 1986 and beyond did not significantly change the trend because the productive base of the economy was weak.

10. Misguided and unguarded borrowing: The huge debt stock and its attendant burden on Nigerians was a direct consequence of the misguided and unguarded borrowing by the government (Anyaoku: 2011)

In the early 1980s, the Federal and State governments embarked on indiscriminate borrowings from abroad. Even borrowing limits were flagrantly abused.

Suggested Remedies

Debt, no doubt, is not bad in itself and procuring it to expand capacity is not a bad idea. Thus, even countries like the United States, United Kingdom, France and Germany, that are so well developed, as still borrow domestically and externally to keep their economies running. Ideally, the justification for debt acquisition is its ability to liquidate itself and then render some returns to the borrower. Rather than not improve on his condition, it must not leave him worse-off. The reverse is the case for Nigeria. Rather than improve capacity, external debt has been an impediment; a cot in the wheel of progress. The following recommendations arose from the problems identified in section four of this paper:

(i) The business model should be adopted in the management of the nations external indebtedness so as to fast-track the development of the economy. More than 90% of private companies world-wide could not function unless they borrowed, and if made if it made sense for them to borrow and enlarge turnover, it makes sense for government as an economic agent to borrow to accelerate growth and development. However, the borrowed funds must be used judiciously to execute the projects for which they were borrowed. External loans should not be contracted unless the associated projects have the potential to liquidate them. Loans should be undertaken to sustain production and not consumption, moreso when consumption is import – dependent.

(ii) The Debt Management Office should ensure that responsive and proactive structures required for effective and efficient management of the nations external debt stock are in place. Procedures for verification, authentication, monitoring, computerization and reconciliation should be strengthened.

(iii) The war against corruption should be fought to a logical conclusion. Government should show zeal, determination and political will to see that this is done. Plea bargain as practiced in Nigeria should be reviewed.

(iv) Conscious efforts should be made to diversify the Nigerian economy away from oil and gas to manufactured and processed agro-products. The solid minerals sector should also be developed and commercialized to enhance the revenue base of the economy.

(v) Government should ensure prudence in the conduct of government business. The cost of governance should be reduced to sustainable level to release funds for capital projects. The civil service should be strengthened and reduced to sustainable size. Ministries, Departments and Agencies (MDAs) should be rationalized to avoid duplication of functions. All these have implications for the unsustainable level of recurrent expenditure.

(vi) Consumption of locally produced goods should be encouraged to boost local production and thereby expand capacity of manufacturing facilities.

(vii) Government should ensure an optimum mix of internal and external debt borrowing. External debt service payments involve movement of resources away from the domestic economy. Domestic borrowing, on the other hand, crowds out funds away from the private sector and has implications for domestic interest rate.

(viii) Sustainable exchange rate policies should vigorously pursued, not through the use of fiat but through deliberate pursuit of policies that encourage domestic production and consumption and possibly export.

Summary and Concluding Remarks

Debt is not a new concept and it is not exclusive to individuals, firms or countries. All economic agents borrow primarily to enhance their status. However, the mere acquisition of external debt is not sufficient ground for enhanced development. External borrowing throws up management challenges for government because their ability to honour debt obligations has implications for assessing the financial or economic health of the economy.

Prudent management of external debt brings the outcome and theory in agreement. The business model approach is strongly advocated in planning for the acquisition and use of external debts. Borrowed funds must be used judiciously to execute the projects for which they were borrowed and the proceeds should be used in such a way that they generate maximum output, maximum growth, maximum employment and maximum poverty reduction. The poor state of infrastructure, business closures, low manufacturing capacity, rising unemployment and high incidence of poverty show that Nigeria's past external borrowings were grossly mismanaged, hence a reduction rather than an addition to capacity stock.

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