5 Public External Debt and Financing Social Infrastructure

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Introduction

It is trite knowledge that nations with robust factor endowments, particularly capital, are more strategically positioned to accomplish faster growth and development than nations with low accumulation, since capital is the most essential catalyst of production.[1] Implicit in the relative importance of capital in the production and wealth of nations is the dichotomy in the growth and development of the Developed Market Countries (DEMs) and the Less Developed Countries (LDCs). Texts and literature in Development Economics are replete with views about the sources of the wealth of nations; but generally, the convergence of opinions is that the essential ingredient for development is capital formation. The remarkable but unfavourable gap between the DMEs and LDCs is largely attributable to the considerable differences in capital accumulation.

The fundamental issue of poverty among LDCs is often located by scholars in the involuntary integration of Third World economies in the structured capitalist economies of the Western World under which LDCs provide natural resources and cheap labour for the planned industrialisation of the West. This disadvantaged and unequal relationship explains the perpetual external dependence of LDCs on DMEs and the resultant structural underdevelopment of LDCs.[2] The original colonisation of LDCs by the DMEs provided the platform for foreign domination which has sustained the undeserved but preserved economic neo-colonialism. Through overt and covert structural economic deformation of LDCs, DMEs underdeveloped the economies of LDCs and deployed tactical obstacles which militated against LDCs' efforts at generating independent financial resources required to prosecute development. Implicitly therefore, DMEs planted the seeds of economic backwardness of LDCs through a well planned process of "peripherisation." This disadvantaged and unequal position of LDCs in the international capitalist division of labour is exhibited in the mono-cultural nature of their economies and the resultant underdevelopment of the productive resources. Overtime, the prices of basic

raw material exports of LDCs rose far behind the prices of the manufactured goods of DMEs. The consequence of this relationship is the unfavourable terms of trade with which LDCs have contended perpetually. Put succinctly; the adverse terms of trade relationship between LDCs and DME explain LDCs' difficulties in generating and accumulating the capital resources necessary and required for combating underdevelopment. The cycle is vicious and is reflected in the inequalities in the global economic relations between LDCs and ADCs.[3]

Upon the massive attainment of independence in the 1960s, several LDCs, were confronted with the stark realities of poverty- development dichotomy. Given the available scarce resources, the challenges of economic development intended via the various national development plans (NDP) were enormous. Against the backdrop of the need to achieve economic development, Nigeria considered various sources of financing sources in the face of the paucity of available resources. One of the readily available sources is external borrowing.

Rationale for External Borrowing

External borrowing is an age-long strategy for financing development. In the early days, world progress was facilitated by the interdependence among nations in debt-finance investments in productive and well-managed assets which provided returns in excess of the cost of debt service rather than by nations operating in isolation. This interdependence propelled international mobility and free flow of capital, goods and services among nations in their developmental strides. Thus, the experience of DMEs is remarkable. For example, when the United States was an infant, and when it was poor and insecure, it benefitted from international mobility, as much as richer and stronger nations of Europe.[4] After a prolonged turbulence and economic depression between 1837 and 1843, the United States' economy regained strength, with business flourishing from West Germany, Japan, Canada and Great Britain. Numerous investments were subsequently established after the First World War and the Great Economic Depression. United States' businessmen savoured in wealth and often recited the common "In God We Trust" slogan.[5] In reflection on the past situation, the United States is benevolent to poor countries which require external source of capital, as she needed in the early years of her development. All that the United States asks for is a suitable climate of financial confidence, competent and reliable work force, and prevalence of fiscal and monetary discipline.

Other countries like China, with its "open door" policy since 1978, and South Korea, leveraged on foreign borrowing, to achieve economic prosperity,

particularly for industrial growth and export in manufactured goods.[6] Even Great Britain relied very heavily on capital provided by the very rich and experienced Amsterdam Financial Community.[7] Given the experience of the United States, China, South Korea and other 'Asian Tigers,' it is difficult to blame Nigeria for procuring external debt for developmental purposes. Instead, the IMF and private lenders in the DMEs encouraged Nigeria to borrow massively from overseas lenders in the late 1960s. Even eminent scholars such as Adebayo Adedeji and Pius Okigbo supported the advice, particularly because virtually all the sectors of Nigeria's economy, from agriculture, education, mining, industry, construction, sports, the Federal Capital Territory, transportation and communication, to defence, etc. needed development to reverse their situations.[8]

The catalytic effect of borrowing can however be countered by the burden which such a decision exerts on the poor country, particularly the future generation, if the loans are mismanaged. The burden of public debt depends on its nature: internal or external. In external borrowing, a country can effect importation of goods and services to the value of the loan from the overseas country without correspondingly exporting goods and services in exchange. Conversely, when repayment is due, the borrowing country must export goods and services without correspondingly receiving imports in exchange. This zero import receipts constitute the burden of external loan at a future date when repayment is due. Domestic or internal loans do not produce this type of burden and are therefore milder in their effects. Irrespective of the nature of the loan, it is required that the future earnings of the debtor country should cover the amounts of debt service (principal and interest). Investments which are financed by debt must therefore be so efficiently managed as to earn returns in excess of the cost of debt service. The requirement of capacity for loan serving imposes a heavy responsibility on the borrowing country. This brings to the fore the need for a functional classification of debts, either as productive or dead-weight. When a loan is procured for the acquisition of productive assets, the debt is classified as productive. Thus, loans taken for the establishment of refineries, power facilities (electricity, gas, etc.), manufacturing of strategic goods, among others, are reproductive; whereas loans procured to finance consumption, wars and recurrent expenditure generally, are dead-weight.

Whereas the experience of DMEs with respect to external borrowing and its effects as catalyst for development was rewarding, Nigeria's experience has been different, because of the peculiar problems some of which are internal, while others are external. The internal problems include poor leadership, poor project conception, execution and management, policy somersault, corruption and excessive budget deficit, among a myriad of others.

On the external factors, over-dependence on single or few export commodities, global financial crises, and the attendant foreign exchange receipts, capital flight, excessive import bills, near-total dependence on foreign raw materials for domestic production, over-valuation of the domestic currency, and its attendant implications for export growth and unfavourable balance of payments all co-operated to exacerbate the problem.[9] To be sure, the United States, South Korea and China deployed their loan proceeds to acquire productive economic assets that propelled growth. On the contrary, the members of the ruling class deployed loan proceeds to 'personal development,' at the expense of the impoverished citizenry. Thus, the masses of Nigerians were sidelined and they received only very little benefits of the dead weight foreign loans. In absolute terms, most Nigerians became poorer, a paradox that explains the inextricable relationship between external debt and poverty aggravation in Nigeria. Overtime, the inertia of external debt-generated poverty has remained inexorable. This paper examines public external debt as a preferred source of financing social infrastructure in Nigeria, with insights into the Buhari Administration, whose election campaign thrust focused on the economy, among others. The rest of this paper is divided into three parts. Part II examines the historical development, burden and management of public external debt. Part III reviews and analyses the strategy of the Buhari Administration for financing social infrastructure through public external debt while the Conclusion follows.

Evolution of Nigeria's Public External Debt

In international economic relations, external debt is the term that describes the financial obligation that ties one party (debtor country) to another (lender country). It usually refers to an incurred debt that is repayable in currencies other than that of the debtor country. In principle, external debt excludes short term debts, such as trade debts, which mature between one and two years, or whose repayment would be settled within the fiscal year in which the transaction is conducted.[10]

External debts may be incurred through a number of transactions, such as trade, contractor-finance, supplier credit, private investment and public borrowing. Sources of loans that make up external debt include banks, international financial markets (such as the Euro-money and Euro-capital Markets), international financial organisations (such as the International Monetary Fund and the World Bank), international loans and multilateral private loans.[11] Foreign loans are also organised international credits negotiated between two countries on terms acceptable to them. In today's world, the lender

countries are usually the advanced industrialised countries of Europe, Asia (Japan) and North America while the borrowing (debtor) countries are the poor, underdeveloped countries of the Third World in Africa, Middle East, Pacific, Asia, Latin America and the Caribbean. From the standpoint of the latter, foreign loans are contracted ostensibly for development purposes, for facilitating industrialisation projects or for improving the quantity and quality of food production, the ultimate objective being to uplift the living standards of the generality of the people. But foreign loans are not made on **altruistic** reasons. The overriding aim is to yield profitable returns to the money-lenders. From that perspective alone, the hope of raising the living standards of the people of a borrowing country like Nigeria, through foreign loans, is doubtful, especially in view of the abundant evidence that most of the benefits from foreign loans currently accrue to the foreign lenders and the few well-placed nationals in the debtor-country who participate in executing the loans.[12]

It was very likely that, considering the sad situation of Third World countries, foreign financial resources, if obtained under non-exploitative conditions, would be, for the Third World, a useful way of overcoming underdevelopment. Nevertheless, an objective analysis reveals that these foreign financial resources have not contributed much to overcoming the results or efforts of colonialism and neo-colonialism, even though such resources are often labelled for development, simply, because they were aimed at the Third World.

The origin of Nigeria's external debts dated back to 1958 when a sum of $28 million was contracted for railway construction. Between 1958 and 1977, the level of foreign debt was minimal, as debt contracted during the period were the concessional types from bilateral and multilateral sources with longer repayment periods and lower interest rates constituting about 78.5 per cent of the total debt stock.[13] From 1978, following the collapse of oil prices which exerted considerable pressure on government finances, it became necessary to borrow for balance of payments support and project financing. This led to the promulgation of Decree No 30 of 1978 which limited the external loans the Federal Government could raise to ₦5 billion Naira.[14] The first major borrowing of $1 billion, referred to as **Jumbo Loan**, was contracted from the International Capital Market (ICM) in 1978 by the Obasanjo Military Administration and this increased the total debt stock to $2.2 billion.[15] Thereafter, the spate of borrowing increased with the entry of State Governments into external loan contractual obligations. While the share of loans from bilateral and multilateral sources declined substantially, borrowing from private sources increased considerably. Thus, by 1982, total external debt stock was $13.1 billion.[16]

Nigeria's inability to settle her import bills resulted in the accumulation of trade arrears amounting to $9.8 billion by 1988, with the insured and uninsured components put at $2.4 billion and $7.4 billion respectively. A reconciliation exercise which took place between 1983 and 1988 with the London and Paris Clubs reduced the principal amount to $3.8 billion, with an accrued interest of $1.0 billion, bringing the total to $4.8 billion in 1998.[17] The total debt outstanding at the end of 1999 was $28.0 billion, with the Paris Club constituting the highest source at a share of 73.2 per cent.[18]

Contrary to the illusory image of an "oil-rich" country, Nigeria became a heavily-indebted poor country. Its total external debt stock as at December 2000 was estimated (by the Nigerian Government) at about $29.7 billion, including arrears of $14.7 billion and interest overhang of over $5 billion. A significant proportion (75 per cent) of this debt was owed to Official Creditors. As at December 31 2001, the debt stock declined slightly to $28.35 billion, about 59 per cent of Nigeria's GDP and 154 per cent of her export earnings.[19] By 2012, following the forbearance by the creditors, the external debt figure dropped to $10.076 million. Rebounding, the debt stock peaked at $22 billion in June 2018.[20]

An interesting observation in government or public borrowing decisions in Nigeria was what seemed to be a considerable disregard for classical economic or financial imperatives. Whereas classical Economics requires that a Project is undertaken when the returns overweigh or exceed the cost, available literature on Nigeria's experience is replete with contradistinction to the standard. This is why critics of the various Development and Rolling Plans in Nigeria often ascribe the root of the poor performance to the seeming disregard for established project procedures. Against the backdrop of the fact that often the financial decisions were at the whims and caprices of the incumbent political authorities, nothing short of the experience was probable.

In defence of their actions, successive Administrations offered justifications for the borrowing. Such justifications would have been acceptable if they were germane to the explanation in the observed gaps between the high level of public debt and the projects executed. Unfortunately, however, available evidence from economic development, particularly in the realms of basic infrastructure, leaves much to be desired, when compared to the declared financial commitments.

External Debt Burden

In order to finance economic development and enhance the pace of economic growth, countries particularly of the Third World resort to foreign borrowing to supplement domestic savings, which are often very low.[21] Other external sources of development resources include foreign direct investments and aid. These sources are not equally desirable in terms of their growth-inducing potentials. Rostow observed that the right quantity and mix of savings, investment and foreign aid are necessary for developing economies to proceed along an economic growth path which was earlier followed by the advanced economies.[22] Obviously, these are non-debt resources and indicate that debt may not be a preferred development financing instrument for developing economies, particularly when they are not taken at concessionary terms. Klein[23] and Ariyo[24] noted that a fundamental factor in debt increase is the reliance on external resources to complement capital formation in the domestic economy. The higher the interest payment and the heavier the deficit on the current account, the heavier the debt burden.

In assessing the objective of financing economic development, it is important to distinguish between the characteristics and implications of the major financing sources – the debt and the non-debt resources. Debt-source finance represents funds with fixed contractual obligations which will require pledging future resources of the nation as a collateral. In order to cope adequately in the long run with servicing requirement, a nation's debt service capacity must grow at a rate higher than that of its financial risk exposure. The non-debt resource on the other hand represents funds flow without fixed or compulsory servicing obligations on government. The magnitude and regularity of such resources however depend on foreign investors' perception of the investment environment in the recipient country.

Available evidence, particularly from Africa and Latin America, shows that most developing countries resort to external borrowing because of low domestic private savings arising from low per capital income and government fiscal deficits.[25] Consequently, the burden of external debt often aggravates the problems of underdevelopment and further discourages DFIs without which the desired level and rate of growth and development may be difficult to achieve. Table 5.1 presents Nigeria's debt burden indicators between 1977 and 1997.

Table 5.1: Nigeria's Debt Burden Indicators, 1977-1997 (%)

Year	TDS/X	EDT/X	EDT/GNP	INT/X	INT/GNP
1977	1.0	23.6	8.8	0.4	1.5
1978	1.3	43.8	14.0	0.6	0.2
1979	2.2	34.6	13.3	1.4	0.5
1980	4.1	32.1	14.6	3.3	1.5
1981	9.2	58.6	19.6	5.9	2.0
1982	16.2	92.8	24.6	9.7	2.6
1983	23.6	161.5	51.2	13.0	4.1
1984	32.9	143.9	64.8	15.7	7.0
1985	32.7	137.9	68.1	12.7	6.3
1986	38.0	411.7	118.2	15.0	4.3
1987	14.1	370.5	137.9	8.3	3.0
1988	30.4	406.8	132.6	20.9	6.8
1989	24.7	350.8	138.5	17.6	6.9
1990	22.6	226.4	130.7	14.6	8.4
1991	21.9	249.9	134.9	15.5	8.4
1992	28.7	222.3	97.5	14.3	6.3
1993	12.5	257.5	161.5	7.6	4.8
1994	17.9	317.3	155.3	10.8	5.3
1995	13.9	257.4	133.7	6.9	3.5
1996	14.0	175.3	95.0	6.1	3.3
1997	7.8	156.6	75.6	3.2	1.6

Source: World Bank, **Global Development Finance.** (Washington, DC.: IBRD, 2000)

Implications of Debt Burden for Nigeria's Development

There is no doubt that the growing national debt against the background of declining and/or unstable foreign exchange earnings has serious consequences for Nigeria's economy. But the crucial issues to resolve are to determine the extent of Nigeria's debt burden; and how the burden will affect the capacity of the economy to achieve substantial economic growth and development.[26] Answers to these questions will be based on some principal indices which are standard indicators for measuring the burden of external debt. These indicators, among others, include the ratios of the stock of debt to exports and Gross Domestic Product; and the ratios of debt service to exports and to government revenue.

Table 5.2 highlights Nigeria's external debt and value of exports for the period 1960-1988 for illustration purposes.

Table 5.2: Nigeria's External Debt and Value of Exports 1960-1988

Year	Total Outstanding (₦ million)	Debt ($ Million)	Value of Export (₦ Million)
1960	82.4	n.a.	339.4
1965	435.2	n.a.	536.4
1970	488.8	n.a.	885.4
1971	214.5	308.9	1,293.4
1972	263.4	400.4	2,434.2
1973	276.9	420.4	2,369.2
1974	322.4	523.3	5,794.0
1975	349.9	559.2	4,925.5
1976	374.6	593.6	6,709.8
1977	496.9	762.9	7,064.4
1978	1,265.7	2,163.8	6,064.4
1979	1,611.5	2,824.6	10,836.8
1980	1,866.8	3,444.8	14,077.0
1981	2,331.2	3,667.7	10,470.1
1982	8,819.4	13,124.1	8,722.5
1983	10,577.7	14,130.7	7,502.5
1984	14536.6	18,034.1	9,088.0
1985	17,290.6	17,297.5	11,214.8
1986	42,229.5	18,631.1	8.513.0
1987	86,550.8	26,200.0	30,239.9
1988	146,410.0	29,828.0	27,101.7

Sources: Federal Ministry of Finance; Central Bank of Nigeria (Various Years).

That debtor-countries have too much burden to bear is not in dispute. Thus, expending as much as 70-90 per cent of export earnings on debt servicing means that little is left virtually by the countries to discharge their constitutional obligations to the citizenry. To be sure, in their desire to break out of economic shackles and achieve economic and socio-political development, Third World countries have resorted to the option of seeking foreign loans.

Development means to the LDCs embarking on capital-intensive projects such as schools, hospitals, roads, bridges, radio and television stations. The implication of this is that loans which are well packaged with numerous conditionality need to be serviced. The recipient-countries are therefore expected to invest the loan proceeds in the business that will generate adequate returns to pay back the loan. Agwuike suggested that public debt had no significant effect on the growth of Nigeria's economy because the funds borrowed were not channeled into productive ventures, but were diverted for private uses.[27] He suggested further that for the gains of debt forgiveness to be realized, the war against corruption should be fought frontally. Oshadami in her own study added that the growth of external debt has negatively affected the growth of Nigeria's economy.[28] This situation is premised on the experience that a majority of market participants are unwilling to hold longer debt instruments as a result of which government had issued more short term debt instruments. This has adversely affected the proper conduct of monetary policy with the implication for macro-economic variables as inflation. Overall, the situation has made very difficult proper predictions in the economy. To be sure, it has produced relatively high cost of overseas borrowing. Table 5.3 highlights Nigeria's external debt and cost for 1971-1997.

Table 5.3: External Debt and Cost, 1971-1997

Year	Total Stock $b	Short-Term Debt to Total Debt (%)	Multilateral Debt to Total Debt (%)	Average Interest (%)
1971	1.0	32.2	22.5	4.5
1972	1.0	32.3	26.1	6.1
1973	1.7	32.3	.17.0	6.6
1974	1.8	32.3	17.8	4.5
1975	1.7	32.2	21.6	7.6
1976	1.3	32.3	30.4	8.5
1977	3.2	68.7	14.3	8.2
1978	5.1	48.1	9.6	10.2
1979	6.2	36.6	8.4	10.6
1980	8.9	39.8	6.4	10.5
1981	11.4	38.8	5.5	11.2
1982	12.0	21.0	6.2	9.8
1983	17.6	28.8	5.0	10.2
1984	17.8	32.3	5.4	9.8
1985	18.6	26.8	7.7	8.5
1986	22.2	16.6	10.1	8.6
1987	29.0	5.4	10.6	8.4
1988	29.6	5.2	9.6	7.6
1989	30.1	1.5	10.5	7.0
1990	33.4	4.5	11.2	6.5
1991	33.5	2.6	12.0	6.1
1992	29.0	7.6	14.1	4.6
1993	30.7	12.9	14.1	3.7
1994	33.1	14.6	14.5	7.7
1995	34.0	16.6	14.5	0.0
1996	31.4	18.1	14.3	0.0
1997	28.4	19.4	14.1	0.0

Source: World Bank, **Global Development Finance.** (Washington, DC.: IBRD, 2000)

An adverse effect of the debt crisis is external control and manipulation of the domestic economy. In furtherance of the execution of the conditionality in the host country, officials of IMF and other capitalist institutions in DMEs often invade and take over the economic policies and administration of debtor-nations' banking and financial systems. Import earnings are strictly monitored and this is capable of significantly increasing the plight of the domestic populace. The overall effect on the development of the debtor country is that the economy often deteriorates. Debt burden, generally, increases African's dependence on the outside world, slows down prospects of economic recovery and growth, jeopardises the stability of the government and increases the poverty of the Continent and her peoples.[29] Table 5.4 presents LDCs external debt burden indicators (1977-1997), including Sub-Sahara Africa, and Latin America (and the Caribbean).

Table 5.4: Comparative Debt Indicators in LDCs

Year	Sub-Saharan Africa			Latin America & the Caribbean			All Developing Countries		
	EDT	EDT/GNP	TDS/X	EDT/X	EDT/GNP	TDS/X	EDT/X	EDT/GNP	TDS/X
1980	66.4	24.1	7.3	201.9	34.8	36.3	5.3	21.0	13.1
1991	225.6	65.9	12.5	261.4	44.1	24.2	163.5	35.6	17.0
1992	225.5	66.3	12.2	252.7	41.1	26.4	162.6	36.5	16.6
1993	246.0	73.8	9.2	254.1	40.5	28.3	167.2	38.4	16.4
1994	272.7	83.9	14.7	233.4	38.2	25.8	161.2	40.0	16.1
1995	242.7	80.9	15.4	213.3	39.7	26.9	142.7	38.2	16.0
1996	215.4	74.4	14.2	200.5	37.6	32.0	133.4	35.8	16.6
1997	201.7	68.0	12.8	190.9	35.8	35.5	129.0	34.9	17.0

Source: World Bank, **Global Development Finance.** (Washington, DC.: IBRD, 2000)

Overtime, the inertia of external debt-generated poverty remained inexorable. In essence, does Nigeria actually need debt relief? Debt relief is made to appear as if the West is doing Nigeria a special favour. This should not be so because the deepening crisis and contradictions in Nigeria are largely attributable to decades of exploitation of Africa through slave trade and colonialism, years of marginalization and continuing exploitation of African resources through the neo-colonial enterprise. It is in this light that the notion of

debt relief or debt forgiveness is **offensive.**[30]

Nigeria's high debt burden has grave consequences for Nigeria's economy and the welfare of the people. Servicing our external debt encroached on resources which would have been otherwise available for socio-economic development and poverty eradication. Although Nigeria since 1968 took a decision to limit debt service to no more than 30 per cent of oil receipts, this did not bring much relief.[31] Between 1985 and 2001, Nigeria spent over $32 billion on servicing external debt. Prior to the rescheduling arrangement with the Paris Club, annual debt service payment was in the range of $3.0 billion to $3.5 billion. Debt service in 2000 was put at over $3.1 billion (14.5 per cent of export earnings), excluding arrears of $19.6 billion owed to members of the Paris Club.[32] Actual service outlay in 2000 was $1.9 billion, translating to about 4 times the Federal Government's budget for education and about 12 times the allocation to health. Yet education and health required substantial public expenditure to upgrade the levels of facilities and services, for any meaningful development.

The external debt overhang also adversely affected the inflow of DFIs. Due to Nigeria's inability to service her debt, the Export Credit Guarantee Agencies (ECGA) suspended insurance covers for her export and investment capital. Consequently, the much-required inflow of foreign resources for investment stimulation, growth and employment was diminished. Without credit covers, Nigerian importers were required to provide 100 per cent cash for all orders, a situation that placed them at a disadvantage, when compared with their counterparts elsewhere. The situation exacerbated the pains of external burden because it blocked the relief that would have been received via speedy economic recovery, growth and development.

External debt burden also resulted in a higher reputation risk because Nigeria was unable to obtain new loans due to lower confidence in ability to repay. The prospects therefore became dim for immediate resumption of net resource transfer from international sources through the traditional means. The IMF's imposition of severe conditionality was well noted. A severe reduction in net capital inflow and the imposition of a net capital outflow over an extended period exerted adverse much pressure on the prospects of economic development.

In the face of the dwindling oil revenues, payment difficulties naturally emanated, aggravating our external liabilities. As a corollary, the real resource cost of the initial loans rose, leading to a foreign exchange crisis. Thus, it is discernible that the cost of import substitution rose because the import sector contributed heavily to external debt service, profit and dividend outflow. For example, as a result of the requirement to service our external debt before

2000, severe austerity measures were taken to survive the debt crisis.

By eliminating 100 per cent of its Paris Club debt, Nigeria's annual debt servicing crashed from $3 billion to less than $1 billion. The annual debt service paid fell from $1.8 billion to $0.8 billion. This meant that $1 billion could be rechanneled to other needy areas. The scale of annual savings for Nigeria is better estimated by the impact on the national expenditure on health and education. The savings on debt service and the Paris Club cancellation if channeled to health was to double health care spending from $6.59 per head to $14 by 2004.[33]

Nigeria received annual Overseas Development Assistance of about $2 per head from the Western donor countries, but spent more on debt owed to Paris Club alone and about seven times more on payments in servicing its external debt annually. This resulted in a negative flow of $12 per head. But with the Paris Club debt cancellation, the total net outflow could be halved to $6 per head. The Paris Club deal with Nigeria and other relief packages therefore have the effects of enhancing its efforts at economic reforms.

Negotiating Debt Relief and Nigeria's Economic Recovery

The uneasiness created by the burden of external debt was brought to the fore the inauguration of the General Olusegun Obasanjo as President. Before then, the quagmire which arose from mounting debt liability was overlooked by side at previous military leaders who were perhaps ignorant of the danger of putting debt service in a prolonged abeyance. It was therefore little wonder that as late as 2001, Nigeria was still debating the basic question of whether her debt should be serviced or cancelled.[34] In any case, the answer to the question then and now was "Yes." It was painful that the energies which should have been expended on resolving critical social problems were expended elsewhere.

If Nigeria had conducted her affairs credibly and seriously, the international community would have been sympathetic to her debt plight, and would have been more magnanimous in extending the olive branch. In that case, the struggle by Nigeria to resolve the debt crisis would have come much earlier. Given the perception of the creditors about Nigeria's cavalier attitude to matters affecting debt service, maintaining a softer stance was uncalled for. When in 1996 the Heavily Indebted Poor Countries (HIPC) Initiative was enunciated, Nigeria was on the List of the 22 HIPC beneficiary countries whose debt burdens were to be adjusted through cancellation. To be sure, Nigeria's economic and social conditions such as per capital income were similar to other beneficiaries.[35] Other statistics included average purchasing power-adjusted gross

national product (GDP) of $1,200 per person, ($740 for Nigeria), average life expectancy of 52 years, (53 years for Nigeria) and debt relative to gross national income of 90 percent, (Nigeria's 91 percent), etc. Based on the similarities among the 22 HIPCs, therefore, it was not clear why Nigeria was singled out of the List of HIPCs slated for debt cancellation. Table 5.5 highlights the countries which benefitted from similar terms adjustment reached earlier in 1979.

That Nigeria did not need debt rescheduling is not in doubt. This is because between 1986 and 1991, Nigeria's debt was comprehensively rescheduled thrice without much success.[36] Again, in 2000, the interim rescheduling undertaken did not record much success. It became clear that what Nigeria needed after about 15 years was cancellation rather that rescheduling, since the former approach only aggravated the debt burden.

Table 5.5: Beneficiary Countries of Terms Adjustment, 1979-1985

Country	Year of Agreement	Amount Forgiven ($ millions)
Afghanistan	1979	1.0
Bangladesh	1979	15.7
Botswana	1979	20.7
Cambodia	1981	NA
East African Community	1984	2.5
Egypt	1979	17.8
Ethiopia	1984	2.6
Ghana	1985	50.9
Indonesia	1979	39.9
Kenya	1978	68.9
Lesotho	1979	0.4
Malawi	1979	30.7
Mozambique	1983	22.5
Nepal	1979	2.0
Pakistan	1979	76.4
Senegal	1988	1.1
Sierra Leone	1979	10.4
Sri Lanka	1979	25.2
Sudan	1979	9.9
Tanzania	1979	3.4
The Gambia	1979	5.2
Uganda	1981	16.5
Western Samoa	1979	0.2

Source: Overseas Development Administration (ODA).
NA – Not Available.

Acceding to the request for any debt cancellation would have been unthinkable given the perception in the DMEs that a country endowed with huge resources had ended up mismanaging them whereas Nigeria's poverty level as indicated by the relevant statistics presented the country as poorer than the average HIPC country.[37] In essence, it was the mismanagement of national resources, which further enriched the rich at the expense of the poor who became poorer, characterised Nigeria's scenario. Specifically, Nigeria's name was quietly removed from the list of the beneficiary HIPCs for three reasons: first, because of General Sani Abacha regime; and second, because of the domino effect of granting a relief to a country (as Nigeria) with a population in excess of 120 million people. Many of the creditors in Europe and the United States were hesitant that granting Nigeria's request would energise Indonesia, with a larger population, to present a similar request. Third, there was the feeling that Nigeria had no Agenda for economic reform; neither was it capable of embarking on any, given pervasive corruption. Because of this perception, little opportunity was given to Nigeria to consolidate on the nascent democracy and the requisite rule of law that were to lay the solid foundation upon which any meaningful reforms could be based. Not even the initiatives made by the Obasanjo Administration, namely, the National Poverty Eradication Programme, Universal Basic Education, Roll-Back Malaria Scheme, control of the HIV/AIDs pandemic, Anti-Corruption war, deliberate efforts at growing Nigeria's external reserves, privatization of PUEs were sufficient enough to allay the fears of the international community about Nigeria's ability.

The foregoing highlights of the general philosophy of debt reduction lay the foundation for an examination of the specific policy initiatives and actions taken in securing debt relief by the Federal Government for Nigeria. The appropriate place to start however is to resolve the controversy surrounding the actual amount Nigeria owed in foreign debts. Our analysis is anchored around the Obasanjo Administration because more focus and attention were directed at resolving the problem of huge external debt during the Administration than any previous regime.

The debate on the actual size of Nigeria's external debt gathered international heat in the early 1990s, particularly because its reawakening and the grave implication of the huge debt burden as one of the challenges confronting Nigeria's efforts at achieving rapid development. Thus, since the commencement of the accumulation of payment arrears on the Paris Club debt in 1992, Nigeria and the International Finance Institutions (IFIs) reported different debt figures largely due to the poor management and institutional weakness. With the inauguration of the Debt Management Office (DMO) in 2000, the debt figures, as reconciled with the assistance of the Department for International Development (DFID) and Crown Agents, dropped to $28.4 billion from the estimates of $31.9 billion provided by the World Bank and International Monetary Fund (IMF).[38] To be sure, a large proportion of the differential in the reported debt estimates emanated from the positions reported by the Paris Club creditors. On its own, the World Bank submitted that its estimates were premised on the consolidation of figures obtained from creditors, analysis of its staff, IMF staff and some measure of extrapolation. The Bank also submitted, with honesty, that its reported figures placed less emphasis on data from debtor countries. In the circumstance, the World Bank's estimates, on the balance of probability, may have been skewed in favour of the consolidated position of the creditors.

Given the huge size of Nigeria's debt estimates, the starting point at negotiating Debt Relief was an indepth reconciliation of the divergent positions. Thus, Government mandated the DMO to ascertain Nigeria's **actual** debt. This involved verifying and establishing the individual loan accounts with the lenders, in order to produce a reconciled or at least a relatively reliable inventory of Nigeria's external debt liability. The exercise entailed many meetings with 12 out of the over 14 creditor-nations which accounted for cover 95 percent of the debt owed to the Paris Club.[39] By August 2001, the DMO put Nigeria's total external debt at $28.42 billion.[40] The debt stock, which excluded penalty interest and charges, consisted of liabilities to the Paris Club Creditors put at $22.04 billion, Non-Paris Club Bilateral Creditors at $111.6 million, Multilateral Creditors at $.2.89 million and Commercial Creditors at $3.37 billion.[41]

The major sources of the discrepancies in the debt figures were the inclusion by creditors of previously rejected short term private sector claims (submitted during the refinancing workout in the 1980s), inclusion by creditors of new claims (short term trade arrears, medium and long term loans, not previously submitted for rescheduling, etc.), adoption of different methods of interest rate computations, varied exchange rates by some Creditors, and the practice by Creditors of applying debt service payments to late or penalty interests, instead of first offsetting the principal repayments as expected by Debtors. The claims were thoroughly scrutinised and verified; and the figures of Nigeria's external debt stock as mutually agreed with the Creditors were put at $28.42 as at August 31, 2001.[42]

To be sure, even at the reconciled lower debt figures, it is doubtful that Nigeria's debt burden was anyway sustainable. On the reconciled figures, contractual annual service obligation amounted to $3 billion, although average annual debt service payment for 1998-2000 was $1.5 billion. Even at

the lower service figures, the relief still claimed between 20-30 percent of Nigeria's total exports earned from the dominant oil sector. Besides, the annual obligation was about four times Nigeria's national budget for education, and nine times the budget for health.[43] Without new or additional commitments, projected annual debt service was estimated at average $2 billion or $43 billion total for the rescheduling period. When factored into the initial principal of $13 billion secured from the Paris Club in the 1980s, and the total repayment of $17 billion already made, the debt overhang was a major quagmire, and, indeed, an albatross for Nigeria. It therefore became highly imperative for Nigeria to take further steps to exit the Debt Trap. The Olusegun Administration initiated concrete actions to free Nigeria from the stranglehold of external debt, latching on the established and existing precedent incorporated in the HIPC initiatives.

That the requirement of annual debt service payments to the Paris Club inherited by the administration was economically unsustainable is not in doubt. Nigeria commenced negotiations with the Paris-Club for debt relief. In a most heartwarming development, Nigeria secured debt cancellation of about $18 billion by the Paris Club in 2005. The subsequent settlement of the outstanding to the Paris Club reduced Nigeria's total external debt substantially. On the new "clean slate," the process of developing the weak infrastructural base of Nigeria's economy was given the green nod. How the new impetus was converted from potential opportunities to concrete developmental realities by subsequent administration is the subject of subsequent examination.

External Debt and Financing Social Infrastructure: Issues and Needs

Oil accounts for over 80 percent of Nigeria's exports and foreign exchange earnings in contradistinction to the contribution of the real sector, which stood at less than 1 percent over a long period. The high growth rate which averaged 4.8 per cent during 2011-2015 period was largely driven by higher crude prices. The performance of Nigeria's economy was generally poor due to deplorable infrastructure, corruption and mismanagement of public resources. Consequently, Nigeria's economic growth trajectory was characterised by decades of consumption and high oil price-driven growth.

Unfortunately, matters came to the fore when the sharp and continuous decline in crude oil prices since the mid-2014 took a toll on the foreign exchange earnings and revenue, culminating in a recession during the second quarter of 2016. The challenges of pipeline vandalism and sabotage of oil export terminals in the Niger Delta exacerbated the problem of declining oil revenue and export

earnings. As a corollary, Government's fiscal capacity to halt the trend in the contraction of the economy was seriously undermined. On the other hand, the absence of huge savings which should have provided the needed buffer to absorb the emerging fiscal shocks co-operated with the substantial leakages in public resources and inefficient application of available funds to aggravate the situation.

Thus, when the Buhari Administration was inaugurated, it was clear to it that economy required and deserved priority attention. Interestingly, the Buhari Administration accorded the needed priority to three critical sectors including economy, security and corruption (hereafter referred to as the ESC strategy).[43]

To rebuild the economy therefore, there was an urgent need to invest massively in critical infrastructure, including power, transportation, people, and security among others, in the absence of which the desired growth would be a mirage. Thus, Government developed the Strategic Implementation Plan (SIP) for the 2016 Budget of Change, as a short term intervention measure. As a medium term growth Plan, Government developed the Economic Recovery and Growth Plan (ERGP) for 2017-2020 for the purpose of restoring economic growth.

The ERGP, which is premised on the SIP, was also articulated with a view to eliminating all bottlenecks which hitherto impeded market-driven solutions, by the dawn of the 21st century. Indeed, the Plan is consistent with the aspirations of the Sustainable Development Goals (SDGs), particularly because the initiatives address the three key issues including economic, social and environment sustainability which Government considered critical to development.

Recent Trends in Nigeria's External Debt Profile: Cross Administration Analysis

We have noted that taking overseas loan is necessary to cover domestic financial deficits, particularly for developmental purposes. Traditionally, two sources are often considered by government when financing developmental projects in social infrastructure. The sources are taxation and debt. Because of the high component of foreign materials involved in prosecuting capital projects, much need and emphasis are placed on external loans, since proceeds are available in foreign currencies. In the context of public debts therefore, reference is more often made to external debt than domestic debt in discourses involving infrastructural financing for development.

Interestingly, literature and empirical evidence are replete with fascinating theoretical considerations in support of government preference for debt financing vis-à-vis tax financing. The theoretical expedience for financing social

infrastructure for development through public debt is underpinned by the position that it is immaterial whether financing is by raising public debt or raising tax, because both sources have effects on economic growth. Since it is more convenient, and less offending to the citizenry, in the interim, the policy preference by government is for procurement of external debt, because the burden is postponed to a future date and generation.[44] This position of irrelevance of financing option, otherwise known as the Ricardian Equivalence Hypothesis, was proposed by David Ricardo, but popularised in the work of Barro in 1974.[45] Also known as Irrelevance of Financing Mode Hypothesis, the Ricardian Equivalence Hypothesis posits that given the options of raising public revenue to finance development, the mode (whether tax or debt), is irrelevant, because both options have effects on development.[46] Studies by O'Driscoll,[47] and Kormendi[48] applied the Hypothesis on DMEs and reported interesting insights. Thus, democratically-elected governments prefer the public debt option for three reasons. First, the incidence of the option is indirect and less excruciating on the citizens. Second, the burden can be deferred to a future period for the contentment of that generation. Third, raising the tax rate is offending to the tax payers whose ultimate reactions at the next polls can be negative. The rationale for preference for public debt notwithstanding, experiences from Asian, Latin American and African countries strongly support the debt financing of infrastructures. The justification for the easy recourse to borrowing by governments in Nigeria, as in other LDCs, may therefore be understandable. Table 5.6 presents the profile of Nigeria's external debt for 2005-2014 and 2015 (May 29) – 2018 (June 30).

For ease of analysis, Nigeria's external debt procured for development financing is segregated into three periods which coincide with Obasanjo 1999-2007; Yar'Adua/Jonathan 2007-2015 (May, 28) and Buhari 2015 (May 29)-date Administration.

Obasanjo Administration

The Obasanjo Administration was perhaps the most perplexed and troubled of the three Administrations. First, it inherited an economy that was poorly managed and run by the military. Second, there was the nature of military management, characterised by impunity. Third, the welfare of the masses of the people was rarely the concern of military government. The Administration not only demonstrated a deep concern about the prospects of Nigeria's growth in the face of the severe pressure from external debt and its service obligations, it also did much to secure debt forgiveness from Nigeria's Creditors, particularly

Table 5.6: Nigeria's External Debt Stock, May 29, 2005- June 30, 2018

Year	Multi-lateral (ML)	Paris Club (PC)	London Club (LC)	Promi-ssory Notes (PN)	Other LDCs	Total
2005	2,512.19	15,412.40	1,441.79	649.80	461.79	20,477.57
2006	2,608.30	0.00	0.00	509.01	427.18	3544.49
2007	3,080.91	0.00	0.00	184.90	388.40	3554.21
2008	3,172.87	0.00		547.49		3,720.36
2009	3,400.23	0.00	0.00	364.70		3,863.93
2010	4,152.27	381.92	0.00	0.00	0.00	4534.19
2011	4,568.92	0.00	0.00	597.66	500.00	5,666.58
2012	5,267.42	0.00	0.00	556.62	703.03	6,527.07
2013	6275.20	0.00	0.00	0.00	2546.70	8,821.90
2014	6,799.36	0.00	0.00	0.00	2912.08	9711.44
2015	7,560.43	0.00	0.00	0.00	3,158	10,718.43
2016	7,988.22	0.00	0.00	0.00	3,418.05	11,406.27
2017	10,241.44	0.00	0.00	0.00	8,672.00	18,913.44
2018 (30/6)	10,929.45	0.00	0.00	0.00	11,142.46	22,071.91

Source: DMO (website: **www.dmo.gov.ng**).

the Paris Club, to whom Nigeria owed about 75.25 per cent or $15.41 billion out of about $20.47 billion as at December 2005.[49] Respite came in 2005 when Nigeria secured a Debt cancellation of about $18 billion, leaving total external debt of $3.54 billion, mainly due to multilateral institutions and promissory notes.[50]

Yar'Adua/Jonathan Administration

A good foundation for sustainable development was laid by the Obasanjo Administration, given a substantial cancellation of Debt owed to the Paris Club. The expectation was that succeeding Administrations would latch on the foundation and goodwill to make considerable growth progress in economic growth.

A reading of Nigeria's debt profile in Table 5.6 suggests that Nigeria maintained a relatively low debt profile during the period 2007-2014, although marginal growth in Multilateral Loans and Promissory Notes resulted in the progressive increases in total debt from $3.65 billion in 2007 to $9.71 billion in 2014. The substantial increases in the price of crude products in the international market, and the resultant huge revenue earnings, may have contributed substantially to the little need for external borrowing.

Buhari Administration

Upon assumption of office, the Buhari Administration saw economy, security and anti-corruption crusade as cardinal and priority in its programme. Unfortunately, it had serious challenges. First, was the Treasury, widely reported as virtually empty. Second, was the huge financial liability in domestic debt owed to contractors, government employees (backlog of salaries, pension, promotion arrears and other allowances, etc.), and Nigeria's Diplomatic Missions. Third, was crude oil price which fell from about $140 to $40 per barrel. The Jonathan Administration was alleged to have squandered a substantial proportion of every dollar earned by Nigeria, thanks to economic mismanagement and widespread corruption. The 'state' insecurity, characterised by the insurgency in the North East, widespread kidnapping of oil expatriates among others retarded economic progress and slowed economic growth.

The Buhari Administration, nonetheless, remained resolute in its determination to shift the paradigm. With respect to the War against Insurgency, much financial resources were required for its prosecution and success. To revisit the Ricardian Equivalence Hypothesis, Government was determined to finance public infrastructure. Given the time horizon within which a public loan can be negotiated, obtained and deployed by a country, and indeed an Administration in a hurry, **vis-à-vis** implementing a new tax regime, the former option was more expedient for the Buhari Administration. Of course, the aftermath of the financing option was, in any material particular, less of an issue, for an Administration that desired to deliver within a limited period.

Against the backdrop of the challenges faced by the Buhari Administration, a two-prong approach was adopted to generate the revenue required to implement the huge developmental projects. First, the previous reforms in and gains from retooling the internally-generated revenue mechanism were enhanced. It was realized, and rightly too, that intensive revenue drive was a prerequisite for tax compliance, given the disappointing attitude to voluntary tax and duty payments by liable Nigerians, **natural** or **juridical**. Reforms which traversed ease of tax administration rebate upon prompt payment and voluntary payment incentives were carried out. Specifically, a policy to encourage voluntary tax assessment and payment, tagged "Voluntary Asset and Income Declaration" (VAID) was vigorously pursued.[51] Under the policy, rebate was extended to tax payers who took advantage of the generous provision to elicit willingness. Conversely, stiffer default penalties and sanctions for undue tax avoidance or outright tax evasion were announced by the Federal Inland Revenue Service (FIRS) and other revenue-generating agencies, including

Nigeria Customs Service.[52] More important, efforts were made to block leakages in revenue collection machinery while stiff sanctions against offenders were enunciated by Government. The cumulative effect of the new attitude was the steady rise in internally-collected revenues by the responsible agencies.[53] However, in the light of the often-disputed disparities between reported revenues and reasonable expectations, the conduct of the Nigerian National Petroleum Corporation (NNPC), the major revenue earning agency, leaves much to be desired. In spite of the efforts directed at substantially growing the internally-generated revenue (IGR), financing budget deficits annually from the source remains a challenge, because of the inadequacy of the proceeds. Recourse is therefore often made to the more readily available and assured option of external debt, a situation that has institutionalised external borrowing, particularly in times of urgent need.

Without doubt, the intention of the Buhari Administration to grow Nigeria's economy had been well articulated in the "Economic Recovery and Growth Plan, 2017-2020." In the Plan, key priority sectors including agriculture, industrialization, transportation, tourism, infrastructure, social investment and solid minerals were identified. Financing a Plan of such magnitude within a short period is a TALL ORDER, given budget constraints. Reliance on IGR, against the backdrop of the narrow tax base and weak collection machinery, was therefore unrealistic. To the rescue, therefore, is massive external borrowing.

Table 5.7 presents a highlight of the trend in Nigeria's external borrowing for the period 2014-2018 (June 30).

Table 5.7: Trends in Nigeria's External Debt, 2014-2018 (June)

Year	Amount ($ million)	Percentage growth (%)
2014	9,711.44	n.a
2015	10,718.43	9.35
2016	11,406.27	6.54
2017	18,913.44	65.79
2018	22,071.91	16.77

Source: DMO (August 30, 2018).

A reading of Table 5.7 shows that external borrowing grew at an annual average 24.6 percent rate. Second, is the composition of the debt profile. Notable is the prevalence of cheaper funding, mainly, from the Multilateral institutions,

including the World Bank Group and African Development Bank Group. This source provided about 70 percent of the total loans from 2015. Bilateral sources, namely, China (Exim Bank of China), Japan (JICA), France (AFD), India (Exim Bank of India) and Germany (KFW) also provided funding, although amounts were relatively insignificant at average 16 percent as a proportion of the total loan secured. Tradable Eurobonds amounting to $1.5 billion or about 4 percent of total debt stock were also sourced from the international capital markets.[53] From 2017, the proportion of loans from multilateral and bilateral institutions declined to 54.15 percent and 12.54 percent respectively in favour of the increase in Eurobonds which grew to $6 billion, up from $1.5 billion (2016) or 33.31 percent. The trend in adjustment in the composition of debt profile was sustained in 2018 (June) with a further drop in the proportion of the multilateral loans to 49.52 percent; while bilateral loans also declined to 10.61 percent. However, Eurobonds grew further to $8 billion or about 40 percent.[54]

In terms of volume, total external loan stock grew from $9.71 billion in 2014 through $10.72 billion in 2015, $18.91 billion in 2016 to $22.07 billion in 2018 (June 30) as highlighted at Table 5.8.

Table 5.8: Federal and State Government External Debt Stock, August 30, 2018

Federal Government	$ 17.8 billion	State	Amount ($m)	State	Amount ($m)
State	**Amount ($m)**				
		Ondo	81.4	Kebbi	46.7
Lagos	1.45	Rivers	79.5	Kwara	49.8
Edo	279	Ebonyi	67.9	Sokoto	40.2
Kaduna	232.9	Kano	65	Taraba	22.1
Cross River	193.7	Katsina	64.7	Borno	22.2
Bauchi	134.9	Delta	63.8	Yobe	28.4
Enugu	127.9	Imo	61.2	Plateau	29.6
Anambra	107.4	Nasarawa	61.4	Kogi	32.37
Oyo	106.34	Adamawa	57.8	Jigawa	32.80
Ogun	105.3	Niger	55.7	FCT	32.83
Osun	101.5	Bayelsa	57.2	Zamfara	34.2
Abia	100.2	Akwalbom	48.3	Benue	34.7
Ekiti	97.9	Gombe	38.5		

Source: The Nation (Lagos), August 30, 2018.

Target projects include transportation (railway and roads), agricultural facilities and other critical sectors of the economy. In terms of specific liability, the Federal Government's share of the total loan stock was $17.8 billion, while all Federating States cumulatively owed $4.28 billion. Lagos State topped the debt chart with a total of $1.45 billion, while Gombe State finished from the rear, with $38.5 million.

Discussion and Conclusion

Discussion

Financing public infrastructure through external debt is age-long. Even the United States and other DMEs explored the option at their infant stages. Therefore, there is no anomaly if most LDCs resorted to external borrowing to finance key social infrastructure when the need arose. What is generally abhored is poor management of loan proceeds which, more often than not, results in the production of **dead-weight** loans. Nigeria's experience with respect to proper management of external loan is rather bitter. Loans had been procured and mismanaged. Agwuike[55] noted that loans had been taken ostensibly to finance "personal development,"[55] against infrastructural development for which they were initially intended.[56] To be sure, the missing link had been the inseparable relationship between corruption and borrowing. Where the leadership is naïve, and the polity pervasively corrupt, loan proceeds often find their ways into their wrong abode, namely, in the private accounts of political leaders and the bureaucratic top echelons. Consequently, Dele Sobowale, noted that:

> . . . in 1997, Chief Ayo Ogunlade, then Minister for National Planning under Abacha at a lecture at the Nigerian Institute for International Affairs, NIIA, at a Workshop for **Vanguard** Staff, stunned the audience by revealing that close to seventy percent of the loans that were obtained by government up to that time were spent on uncompleted projects. Ten percent of the projects were not executed at all; yet the funds were drawn down. Thirteen percent went into white elephant projects which could never provide the benefits promised and only two percent were earning sufficient returns on investment to repay their loans. As far back as the 1980s, it was not only Fela Anikulapo who was aware that foreign loans had become a racket through which government officials defraud the public and left us with the bill to pay.[56]

Even the inefficiency in the management of external loans can be a deliberate ploy to entrench confusion and create reconciliation difficulties to cover up the

misdeeds. This is why it was observed that the intractable reconciliation quagmire which bedevilled Nigeria's debt position were often ascribed to, and blamed on, international collaboration or conspiracy.

The Buhari Administration recognized the success of its policy on a sound economic and efficient management of external debt. The focus on anti-corruption crusade is therefore a well-placed strategic imperative. Of importance is the procurement of loans largely from the low-cost multilateral and bilateral sources. Given the very long maturity profiles of the loans (from China, France and Germany, etc.), in some instances averaging forty years, at zero interest cost, baring poor management, the loans be far from **dead-weight**, while the projects would unlikely deteriorate into white elephants.

Undoubtedly, the trajectory of Nigeria's external debt has resumed the upward trend. Critics of the development are worried for several reasons. First, is the quantum or magnitude of the debt. Second is the failure of Government to present a schedule which allocates specific loans to specific projects, with a reasonable analysis or forecast debt repayment potentials. Sobowale[57] has noted that the attitude of Nigerian government towards economic management, as typified by external debt management, explains the fundamental reasons why Singapore and Nigeria belong to two worlds: first and fourth. Still alluding to the danger in the renewed rapid growth in external debt stock (since 2015), Sobowale has this much to say:

> . . . Nigeria is now inexorably heading for another debt trap worse than the one from which were rescued by Obasanjo/Okonjo-Iweala. When Nigeria took its first foreign loan of $2.8 billion under the military government of Obasanjo, technocrats, with their gazes firmly fixed on the past when crude oil prices were rising, assured the nation that the loan would easily be repaid. Those of us counselling caution were ignored.[58]

The frantic defence often put up by the DMO when notes of caution are sounded by well-informed Nigerians about the implications of escalating external loans may well be similar to the experience of Sobowale in the 1970s. It is small wonder that the Director-General of DMO assured critics when asked the assurances she would give Nigerians who have anxieties about Nigeria's debt burden being as high as it was at ₦22.7 trillion:

> ... Nigeria's debt level is not high. And let me allay your concerns about saying debt is a burden, debt is not a burden the debt burden is not high. If you look at the size of our Gross Domestic Product, as we always say, our debt is still sustainable. We are only about 19 per cent in debt to GDP ratio. There is some control around that by government: we have set 25 percent and we are not there yet.[59]

We want to say that no decision or policy, however well intended, should lead Nigeria into another round of debt trap. This is because, as Ralph Waldo Emerson put it: "It aint the things you don't know that cause the problem. It's the things you think you know that aint so."[60]

Conclusion

External borrowing remains a viable option in financing public social infrastructure in Nigeria. The burden of external debt which arose from mismanagement and corruption created a serious overhang which hunted Nigeria for a long period.[61] Debt service burden took a toll on Nigeria's huge oil earnings. As the situation degenerated, Nigeria's capacity measured by debt service to earnings ratios weakened severely. The Debt Relief secured by the Obasanjo Administration in 2005 ameliorated the ugly situation and charted a new forward-looking course.

The DMO consistently reports and argues that Nigeria's debt service capacity is strong, given the favourable values of the ordinarily known debt capacity measurement indicators. The Buhari's Administration may have revamped external borrowing by Nigeria, given the rising trend in the volume and percentage. Although more recently the DMO had raised the alarm over Nigeria's mounting debt stock, the same agency is often quick to calm the nerves by suggesting that in spite of the height of the debt stock, the capacity measurement ratios were indicative of a comfortable position.

Decimating corruption is a **sine qua non** for an efficient and prudent conduct of external debt management. Focusing on this key prerequisite by the Buhari Administration therefore is commendable. If the ERGP is diligently implemented, there is hope that its objectives would be beneficial to the common man. This is why even in the face of the rising debt stock, Nigerians are optimistic that at the end of the day, the economy will rebound.

By way of summary, the following suggestions are in order as policy recommendations. First, Government at all tiers should diversify from debt-based financing to tax-based financing, particularly because of the huge burden often associated with debt overhang, and the implications for economic growth and future generation. In furtherance of this, Government should broaden the tax base of the economy, retool the assessment and collection machineries, and check tax evasion through stiff penalties. Special Revenue Courts to deal expeditiously with established cases of default should

be created. Second, the institutional mechanism for managing external loans should be further strengthened. Thus, the DMO and its legal framework, should be overhauled and invested with the autonomy, power and functions beyond the present level. This provision will shield the Office from overbearing control by government. A dual reporting arrangement – Executive and Legislative – should be institutionalised. Third, the practice of procuring substantial loans from commercial and private sources, such as the Paris and London Clubs, should be discouraged. When it is inevitable to resort to such sources, the proportion of loans from such sources to total debt should not exceed 10 percent at any time to check cost escalation which often leads to challenges of unsustainability. Finally, Government should, as far as possible, always negotiate variable or flexible loan amortisation schedules when contracting public debts. This will allow for accelerated repayments in terms of tenor and amount, when economic fortunes are earned. When there is a down turn, repayment may be showed to reflect the prevailing economic situation. This strategy will forestall defaults which are often precipitated by economic recessions. For a mono-product economy like Nigeria, the vagaries of resources often exact **domino effect** on contractual obligations and capacity. Securing such in-built automatic loan repayment stabilisers or mechanism will minimise contingent default risk and smoothen the relationship between Nigeria and international lenders.

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50. **Ibid.**
51. Federal Inland Revenue Service (FIRS) website
52. See the websites of FIRS, Nigeria Customs Service, Nigeria Immigration Service and NNPC for details of rewards and sanctions against compliance and default on taxes and duties by payers. .
53. Debt Management Office, **The Nation** (Lagos), August 30, 2018, p. 11.
54. Analysed/Computed from DMO's Figures of August 30, 2018 **The Nation** (Lagos).
55. **Ibid.**
56. Dele Sobowale, "Buharinomics Leading Nigeria Into Another Debt Trap," **Sunday Vanguard** (Lagos), August 19, 2018, p. 26.
57. **Ibid.**
58. **Ibid.**
59. DMO, "Interview with the Director-General," **The Nation** (Lagos), August 26, 2018, p. 42.
60. Sobowale, p. 11.
61. Olukoshi, passim.