

**THE RELATIONSHIP BETWEEN FOREIGN
DEBTS, CORRUPTION AND
INFRASTRUCTURAL DEVELOPMENT IN THE
NIGERIAN ECONOMY
(1980-2000)**

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**A Thesis in the Department of ECONOMICS, Faculty of Social Sciences
Submitted to the School of Postgraduate Studies,
University of Jos, in partial fulfillment of the requirements
for the award of the DOCTOR OF PHILOSOPHY of the
UNIVERSITY OF JOS.**

MARCH, 2006

DECLARATION

I hereby declare that this work is the product of my own research efforts; undertaken under the supervision of Professor (Mrs.) Ebele Amali and has not been presented elsewhere for the award of a degree or certificate. All sources have been duly distinguished and appropriately acknowledged.

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CERTIFICATION

ACKNOWLEDGMENT

Time and space would obviously fail me to mention all that have in one way or the other, contributed to the successful accomplishment of this work. My mentioning or not mentioning some names does not in any way underplay the role of any individual.

I wish to therefore express my profound gratitude to my supervisor Professor (Mrs) Ebele Amali for her scholarly guidance. Without her intellectual interest and devotion to work, this thesis would not have been submitted within the required academic period for the Ph.D programme. Her willingness to always attend to me both at home in Jos and Ilorin, office and during official and unofficial hours of the day gave this work a great push. Your dedication to work ma, and your willingness to always accommodate me in your mansion has posed a great deal of challenge to me. My deep appreciation also goes to Prof. S. O. Amali, the VC Uni-Ilorin for always welcoming me and asking for the progress of the work.

I am also grateful to the Dean, faculty of social sciences, Professor S. G. Tyoden, the Head of Department Economics, Dr. D. I. Mai-Lafia, and my senior colleagues Assoc. Prof. M. E. Akor, Dr. A. O. Akerele, Professor O. Ojowu, Professor. E. I. Alemika, Assoc. Prof. G. G. Ejikeme, Professor Imo Cyril, Professor Tim Oyetunde, Dr. Pic Onwochei, Assoc. Prof. S. A. Akintunde, and Mr. R. O. Ajao and my other colleagues for their constructive criticisms and inputs at my seminar presentations which helped one dive into the archives for further research. Thank you Jennifer

C. Njoku for taking the pains to be my ^APost Mistress General[@] ensuring that my work at the latter part got to me in good time.

My inexpressible gratitude also goes to the entire members of the Chapel of Faith, University of Jos for their warm and indeed brotherly love and care. It has been a humbling and great privilege serving the Lord in your midst. Bless you all! A big thank you to Mr & Mrs Austin Kolo who kept me hosted in Abuja and helped in sourcing for some of the data used in this work.

My gratitude also goes to Mr & Mrs Joel Adeleke for their concern over the work. My appreciation goes to the Gbile Akannis for the prayer, counseling and interest to have me complete this work, put it behind me and forge ahead with the [>]call⁼.

Finally, this acknowledgment would forever remain incomplete if I fail to express my very deep gratitude and appreciation to my lovely and God given wife, Tolulope Ogboru who has and is still constantly on her knees in prayers for me, and boosting my morale by throwing her weight of support increasingly behind me. Honey, thanks so very much.

To you all, I say Bravo!

And to God Almighty whose inexpressible love has kept and enveloped me. God, you are worthy to receive all praise for there is nothing a man has which has not been given to him by you.

DEDICATION

This work is dedicated to the KING of kings, and the LORD of Lords.

For His Name is Higher, than every other name, His Name is JESUS! And His Name is LORD!. “For he alone did lead me, and there was No strange god with me. He alone has made me ride on the High places of the Earth, that I might eat the increase of the fields; and he made me to suck honey out of the Rock and Oil out of the flinty rock.”

You indeed, are the Rock of my Salvation.

Deut. 32:12-13

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ABSTRACT

The study, which relied on secondary data, investigated the relationship between foreign debts and Nigeria=s infrastructural development and verified the effect of corruption in the debt crisis. The study employed both the quantitative and qualitative methods in analysing the data. This is a major gap the study filled up amidst existing literature as it adopted its own structural and working equation models peculiar to development and incorporates corruption to the study on the relationship between foreign debts and infrastructural development in the Nigerian economy. The study identifies corruption as a major factor which undermines infrastructural development through its negative influence on investment, and its ability to lower the amount and quality of public infrastructure supplied to the nation as a whole. Once corruption is introduced at whatever degree, the efficiency of public expenditure decreases. Corruption is a major underlying factor manifested in the form of bad roads, decaying infrastructures, inadequate medical services, falling educational standards and the disappearance of foreign loans. Corruption distorts the economy through waste, misallocation and misappropriation of resources, thereby contributing to the debt problem in Nigeria. The study showed how the relationships among the variables analysed impact on development namely, that the debt stock and debt servicing further reduces the lean resources available in the country for infrastructural development purposes on the one hand, while corruption diverts resources from education, health, industries, roads etc. to private pockets on the other hand.

CHAPTER ONE

INTRODUCTION

The Nigerian economy began to experience an apparent downturn in terms of its foreign reserves when the oil market weakened in the early 1980s. The disturbance in the world oil market from 1980 led to a sharp drop in export revenue and consequently government finances. In spite of this, the government was bent on executing its Fourth National Development Plan (1980 - 1985), in the hope that the disturbance would be short-lived. Accordingly, more debts were incurred leading to an enormous rise in the country's fiscal deficits. Since the Federal Government took the stand that 'A sustainable and accelerated growth', had to be pursued, it opted for foreign capital inflow and Ogundipe (1985) asserted that Nigeria's domestic and external debts rose to ₦27.95 million and ₦17,290.6 million respectively (CBN Statistical Bulletin Vol.6, No. 1 June 1995:100). In addition to the earlier Economic Stabilisation Act of 1982, there was a National Economic Emergency Period, during which the President was empowered to issue orders and make regulations to improve the economy.

However, the stringent control measures pursued by successive administrations failed to deal with the structural economic and financial problems, rather, these measures resulted in a series of

austerity measures that greatly increased the economic and social hardships of the people without providing effective and long-lasting solutions to the basic economic problems of the economy.

It, therefore, became obvious as Anyanwu, (1986) puts it, that the major problems of the economy, i.e. balance of payments disequilibrium, mounting external debt obligations, unemployment, and inflation were symptoms of a more fundamental problem - the structural weakness of the economy, especially its over-dependence on the oil sector.

In the 1970s, the emergence of oil distorted the export sector's contribution to the Gross Domestic Products (GDP), government and export earnings. Oil contribution shot up in the 1970s from about 11 percent of GDP, 26 percent of government revenue and 58 percent of export earnings to 22 percent of GDP, 81 percent of government revenue and 96 percent export earnings in the 1980s, and the effect of fluctuations of oil prices on the economy, were the dwindling of the revenue accruable to government. (CBN, Annual Reports, various issues). With such a clement revenue situation, the Federal Government embarked on huge investments in social, industrial, physical and economic investments. Most of the investments were rather ambitious and their productivity seemed to have been inhibited by lack of adequate human resources (personnel). The structure of

industrial investment embarked upon in both the private and public sectors encouraged manufactures based on imported raw materials.

In such sectors as roads, building, education, oil and power generation, substantial progress was made, but a large proportion of government revenue went to highly subsidised and unviable projects in virtually every sector of the economy. Such development projects were in most cases concentrated around the urban centres, and the agricultural sector was neglected. This was evidenced by the rapid increase in rural-urban migration. The neglect of agriculture also led to a reduction in the contribution of agriculture to total exports. For instance, agriculture's contribution to the GDP fell from 53.3 percent in 1965 to 27 percent in 1984 (CBN Statistical Bulletin vol.6, No.1 1995: 100).

The 1980/81 disturbance in the world oil market was severe while that of 1983 was even more severe; brought the distortions in the Nigerian economy into sharp focus and led to the restructuring of the economy through borrowing from the World Bank and the application to the IMF for loans rescheduling. According to Okongwu (1987), because of the fund's harsh conditions, the then civilian administration hesitated to take the loan.

With mounting trade arrears coupled with the reluctance of foreign trade creditors to grant credit facilities to our importers,

subsequent military administrations could not ignore the IMF loan. They became convinced of the necessity, as well as the desirability, of seeking external aid through the confines of an IMF/World Bank supported programme.

After the Buhari Military Administration was toppled on August 27, 1985, the Babangida Administration called for a national debate in 1985 on whether or not to accept IMF loan of US \$2.5 billion. Although the loan was rejected, a number of conditionalities proffered by the IMF were adopted, while a large proportion of government revenue went to highly subsidised and unviable projects in virtually every sector of the economy. Such development projects were in most cases concentrated around the urban centres, the agricultural sector was neglected, the Fund=s conditions even though harsh, were partially imposed on Nigerians. The country=s economic crisis worsened in 1986 following the unprecedented collapse of oil prices in the world market. Since oil was and is still Nigeria=s major source of foreign revenue, the drastic fall in price from \$28 per barrel to \$18 in July 1986 was a major setback, particularly as the budget was premised on \$20 per barrel. (International Finance and External Debt Management: UNDP & FMJN: 23 - 6).

Two major schools of thought are discernible on the debt crisis in Africa: the Neoclassical and the Marxian.

Neoclassical economists amongst whom are Hicks, Marshall, Chamberlin and Samuelson hold the view that the current crisis that has engulfed the African continent can be explained by the distortions in the internal operations of the African economies and their excessive dependence on the advanced countries. Currency over-valuation which has tended to scare away foreign investments and discourage domestic production in favour of cheaper foreign goods, over-regulation of the economies which had the effects of prolonging the time lag between project conception, planning and implementation; as well as promoting abuse of the utilisation of foreign exchange, low savings and low investments coupled with lack of sectoral linkages; low productivity of workers and high wages; and unregulated and excessive government expenditure have been posited as the major elements causing the internal distortions. (National Executive Council in Nigerian Sunday Standard, 1983; Osagie, 1983).

The effects of these distortions on external economic relations are: dependence on imported capital; the thwarting of domestic agricultural, scientific and technological initiatives and development; and increasing vulnerability to external shocks. Persistently adverse terms of trade, monopoly of trade in the advanced countries by giant corporations which ensures that industrial prices move forever

upwards leads to serious and persistent inflation of importation to developing countries. Similarly, huge military spending by the developing countries and the rise in fuel prices from 1973 as a result of OPEC action, also aggravated the economic problems of non-oil producing less developed African countries are additional causes of the crises (Toyo, 1988).

On the other hand, scholars of Marxian school of thought for example, Marx, Engels and Lenin see the neoclassical explanations of the economic crisis as mere symptoms of the capitalist economic system. They view the present debt problems of African and Latin American countries as a culmination of the contradictions and distortions inherent in the capitalist mode of production and distribution of wealth. They, therefore, contend that the genesis of the present crisis can only be understood within the context of the world capitalist system (Bangura, 1984), that the purported faulty policies of African countries have never been faulty because they have served and continue to serve effectively the purposes for which they were formulated - the promotion of the interests of the domestic and foreign capitalists (Ekuerhare, 1994).

Drawing on Marxist theory, Bangura (1984) identifies three sources of crisis leading to inflation, unemployment, balance of payments deficits, and slow or negative growth rates. These include,

- (a) the problem of reconciling social surplus with investments for the further expansion of production and the contradiction between production and exchange, otherwise called the realisation problem;
- (b) the tendency for rates of profits to fall, a product of capitalist expansion which brings about a proportional displacement of workers by machines; and
- (c) the contradiction between national and international accumulation which has become more pronounced in the period of international finance capital.

Neo-colonial dependence is an indirect outgrowth of Marxist thinking. It attributes the existence and continuance of Third World underdevelopment primarily to historical evolution of a highly unequal international capitalist system of rich country - poor country relationship (Todaro, 1997). This Todaro argues, that such inequalities are a fundamental reason/cause for the persistent third world debt problems.

1.2 STATEMENT OF THE PROBLEM

In an effort to bridge the foreign exchange and domestic resource gap so as to quicken the pace of her economic development, Nigeria has continued to raise both internal and

external loans. While there is nothing morally, economically and socially wrong with the raising of loans through internal and external sources; however such loans should be channeled to productive uses that will facilitate economic development and subsequently be serviced and liquidated.

The public debt charges on Nigeria=s external loans over the years, have maintained a steady increase. The figures rose from ₦3,915.6 million in 1988 to ₦8,820 million, ₦11,767 million, ₦40,500 million in 1989, 1990 and 1993 respectively. It however, fell slightly in 1994 to ₦39,600 million and rose sharply to ₦44,000 million between 1995 and 1998. This hit an all time high figure of external debt service of ₦148,818 million and ₦173,174.7 million in 1999 and 2000 respectively. In terms of percentages, these translate to 2.92%, 3.69% and 3.94% for 1988, 1989 and 1990 respectively. While 1993, 1994 and 1995 had 6.40%, 6.10% and 6.14%. Because of the size of Nigeria=s external debt, the external debt service in 1999 and 2000 were also very high. This translates to 6.77% and 7.69% of external debt service as a percentage of Gross Domestic Product (GDP). The effect of the debt service ratios on government=s ability to finance economic development is evident in budgetary expenditure performance.

Nigeria however, took to borrowing because it was thought that injecting the funds borrowed would enhance industrial/technological development, employment, growth in infrastructural facilities etc. However, from data, most of the money was not used for the purposes for which they were borrowed (Federal Ministry of Finance).

Nigeria had threatened to repudiate the debt because they were questionable thus the issue of corruption. Nigeria is said to be the 2nd most corrupt nation of the world according to Transparency International (2000). The question that readily comes to mind is, where did the money go? These monies (debts) then become a problem to the economy due to the servicing charges on them as the principal has to be paid.

Some states went into external borrowing for the purpose of establishing cottage hospitals/industries and the federal government likewise, borrowed for financing capital projects like the iron and steel industry were not utilized for the stated purposes. The development projects were either not carried out or abandoned half way.

The problem raised by this research project therefore, is, why have the external loans failed to achieve the desired objectives?

In view of this problem, the research raised the following questions:

1. What purposes were monies originally borrowed for?
2. What uses were borrowed monies put to?
3. What are the effects of misallocation of foreign loans and corruption?

1.3 OBJECTIVES OF THE STUDY

The major objective of this study is to investigate the relationship between foreign debts on Nigeria=s infrastructural development as it examines public infrastructure, employment and aggregative public sector investment.

The other objectives of this study include the following:

1. Examine the level of foreign loans.
2. Identify and assess the uses to which the borrowed monies were put.
3. Examine / assess the effects of foreign loans on the Nigerian infrastructural development.

1.4 RESEARCH HYPOTHESES

This study attempts to verify two main hypotheses for four independent variables supporting the theoretical posture of the research based on null hypothesis (H_0) and alternate hypothesis (H_1).

1. (H_0) That the level of Nigeria=s external indebtedness has no effect on her infrastructural development while the (H_1) state that it has a negative relationship.
2. (H_0) That corruption in government which in this study, is restricted to inefficiency and the mismanagement of public funds by government officials has no effect on Nigeria=s debt. (H_1) states that corruption in government has a negative effect on Nigeria=s debt position.

1.5 METHODOLOGY OF THE STUDY

Two methods of analysis have so far emerged in economics. The first emphasises quantitative and empirical analysis on the one hand, and the second stresses the need for theory.

In this research, both the theoretical and empirical analyses have been used.

The study utilised the quantitative and qualitative (theoretical) approaches to analyse External Debt as well as

corruption and Nigeria=s development, to see how Nigeria has fared and why with the huge external loans it had contracted over the years meant to quicken the pace of economic development has rather than achieve that purpose, turned into a burden to Nigerians.

Models have been developed by the researchers to test and verify the analytical relationships between Nigeria=s External Debt and Nigeria=s infrastructural development, and corruption and its effects on Nigeria=s development, using the Transparency International Corruption Perception Index (CPI) and type of administration – Civil or Military.

Data were obtained from the secondary source - Central Bank of Nigeria, Federal Office of Statistics, Debt Management Office, National Manpower Board, Supreme Court Judgment, Federal Government Panel Reports, Transparency International and the World Bank. The econometrics and statistical apparatus was used in analysing the data collected.

1.6 THE SCOPE AND LIMITATION OF THE STUDY

Nigeria is a country in West Africa with a population of about 120 million people (1991 Census). It covers a land mass area of one million square kilometres and is situated at the

heart of Africa. It is bounded on the South by the Atlantic, on the East by Cameroun and in the North by Niger Republic. West of Nigeria is the Republic of Benin. Created in 1914, by British colonialists when the Northern and Southern parts were amalgamated. Nigeria is divided into 36 states with Abuja as the Federal Capital Territory. Nigeria is blessed with a multiplicity of tribes (over 260) with three (3) of these, commonly referred to as the major tribes amongst which are the Igbos, Yoruba and Hausas. The people speak over 100 languages and dialects (Iloeje, 2001).

Economically, Nigeria is an agrarian state, with between 67 - 70% of the populace producing essentially for subsistence purposes and with crude farm implements. Nigeria is also blessed with huge deposits of oil and other mineral resources. Upon the discovery of oil and some other mineral resources, agriculture which hitherto had been the main stay of the economy was relegated to the background from the 1970s.

Nigeria has been picked as a case study because it occupies a prime position not only in West Africa, but in Africa, as a whole - commonly called the giant of Africa both in human as well as other resources. Another reason for which Nigeria was picked arise from the fact that Nigeria still has a long way

to go in addressing crucial issues of external debt problems and the development of the economy. The study shall covers effectively the period from 1980 to 2000. This is because government policies for example the National Economic Empowerment and Development Strategy (NEEDS), Financial Sector reforms i.e. Bank re-capitalization monetary policy etc. are recent policies which the study only made reference to since it is rather to early to measure their effectiveness.

1.7 SIGNIFICANCE OF THE STUDY

The significance of this research study is to explore into Nigeria=s external debt problems with a view of incorporating corruption into our analysis. The gap this research filled up amidst existing literature includes:

- a. The qualitative case studied provide justification for the researcher's time, money and efforts for the study as the huge sums of foreign debts misappropriated and the resultant loss of social welfare, poverty etc. makes the study of great significance.
- b. The incorporation of quantitative (empirical) analysis to the study. The study also built its own structural and working equation models in analysing the impact of debt

burden which results from international borrowing on the infrastructural development in the Nigerian economy. This will either prove or disprove the existing theoretical (descriptive) works of other authors.

- c. The incorporation of corruption using Nigerian example to contribute to the existing literature and employing a quantitative approach is unique as a major factor that has undermined the development of the Nigerian economy as it erodes the potential contribution of the external loans acquired in enhancing the pace of development in Nigeria.

1.8 JUSTIFICATION FOR THE MODEL OF THE STUDY

The justification/choice of the econometrics cum regression models, derive from their simple nature and the fact that they are easily understood by all as technicalities and ambiguity are avoided. This is employed to clearly bring out relationship between foreign debts and the infrastructural development in the Nigerian economy. While the Debt-Development indices equation models were used in buttressing the results of our finding for the purpose of lending credence to the work of earlier authors on the debt crisis.

1.9 **OUTLINE OF THE STUDY**

For easy analysis of the relationship between foreign debts, corruption and the infrastructural development in the Nigerian economy, this research work is divided into six chapters.

Chapter one is the introductory chapter followed by chapter two which reviewed the theoretical and empirical literature. Chapter three addressed the research methodology while chapter four presented the origin and causes of Nigeria's debt. Chapter five presented the research analysis and findings. Chapter six wrapped up the entire work by way of summarizing, concluding and proffering policy recommendations on how government should address the foreign debt problem and the corruption phenomenon in order to bring about meaningful infrastructural development in the country.

CHAPTER TWO

LITERATURE REVIEW

2.1 REVIEW OF RELEVANT LITERATURE

2.1.1 Development

There is a rich literature on the subject matter of development. The notion has evolved in economics from being viewed as synonymous with economic growth which has to do with measurable attributes e.g. increase in a nation's Gross National Product (GNP) to current views of human development which has to do with qualitative attributes e.g. human development. Basically the scope of development has been grouped into two main schools: The first school of thought represented by the modernisation school among whom are Rigg, Kamrava, Ross which see development as a desired state of affairs and akin to what has already taken place in the countries of Western Europe and North America. The characteristics here include: high level of modern science and technology, industrialisation, and economic growth measured mainly by GDP and per capita income. The second school of thought sees development as a continuing process and also in

terms of the beneficiaries. It conceives development in human terms (Amali, 1992).

This position agrees with that of Streeten, (1982) opined that, development must be redefined as an attack on the chief evils of the world today; malnutrition, disease, illiteracy, slums, unemployment and inequality. Measured in terms of aggregate growth rates in the United States, development has been a great success. But measured in terms of jobs, justice and the elimination of poverty, it has been a failure or only a partial success. Jhingan, (2002) reinforces this position by asserting that economic development is a wider term in that, it is related to qualitative changes in economic wants, goods, incentives and institutions. It describes the under-lying determinants of growth such as technological and structural changes.

Awoseyila (1996) thus saw economic development to entail a rising level of social and scientific consciousness and advancement in science and technology for the society in question. Development embraces growth but growth is not synonymous with development because poverty, unemployment, and inequalities may continue to persist due to the absence of technological and structural changes. According

to Meier, (1984) A Many studies of economic growth in advanced countries confirm the importance of non-material investment. These statistical investigations according to her, indicate that output has increased at a higher rate than can be explained by an increase in only the input of labour and physical capital. The Aresidual@ difference between the rate of increase in output and rate of increase in physical capital and labour encompasses many Aunidentified factors@, but a prominent element is the quality of inputs. Although some of this progress may be incorporated in physical capital, the improvement in intangible human qualities are more significant.@

This lends credence to Todaro (1982) who regards development as a multidimensional process involving the reorganisation and reorientation of entire economic and social systems. In addition to improvements in incomes and output, it typically involves radical changes in institutional as well as in popular attitudes and, in many cases, even customs and beliefs. Todaro agrees with the earlier position of the earlier school of thought by further pointing out that, in strictly economic terms, development for the past two decades has meant the capacity of a national economy, whose initial

economic condition has been more or less static for a long time, to generate and sustain an annual increase in its gross national product at rates of perhaps 5 -7% or more.

Emphasizing his point further, Todaro declared that development in its essence, must represent the entire gamut of change by which an entire social system tuned to diverse basic needs and desires of individuals and social groups within that system moves away from a condition of life widely perceived as unsatisfactory and toward a situation or condition of life regarded as materially and spiritually *Abetter*. Salvatore and Dowling (1977) agree with the two schools of thought and therefore, defined economic development as the process whereby a country=s real per capita gross national product (GNP) or income increases over a sustained period of time through continuing increases in per capita productivity.

This they pointed out is an acceptable shorthand definition that is frequently employed in the literature because of the easy availability of statistics. However, they admitted that there are conceptual and practical problems with this definition.

Per capita GNP figure overlook the distribution of income within society and the level of general well-being. Nnoli (1981) agrees with Salvatore and Dowling=s viewpoint as he states

that development is a continuing improvement in the capacity of people and their society to control and manipulate their physical environment as well as themselves for their benefit and those of mankind.

The post-world war II literature on economic development as Todaro, (1997) asserted, have been dominated by four (4) major and sometimes competing strands of thought:

- i. The linear-stages of growth model; this model views economic development to involve a particular growth pattern and various stages which an economy must pass through before attaining development. Its most influential and outspoken advocate was Rostow (1960).
- ii. Theories and patterns of structural changes; this theory focuses on the mechanism by which underdeveloped economies transform their domestic economic structures from a heavy emphasis on traditional subsistence agriculture to a more modern, more urbanised and industrially diverse manufacturing and service economy.
- iii. The International - dependency theory; this model

views under development as a result of institutional, political and dominance relationship between underdeveloped and developed countries. Mainwaring (1991) lends credence to Dos Santos as he defined dependence as a situation in which a certain number of countries have their economy conditioned by the development and expansion of another ... placing dependent countries in a backward position exploited by the dominant countries, and

- iv. Neo-classical, free market counter-revolution; the central argument of the neo-classical counter-revolution is that underdevelopment results from poor resource allocation due to incorrect pricing policies and too much state intervention by overly active Third World government. According to this school of thought, economic development is associated with the ability of a country to effect efficient resource allocation and freeing the economy from state intervention and allowing market forces to control the economy.

There is no doubt that the debt crisis has become the *Abete noire* of the North-South (centre-periphery) relations in the

1980s. While the debts of third world countries were recognised as problematic in the 1970s, the sheer volume of money involved in the debts have grown to the point where it is no longer seen solely as the problem of the Less Developed Countries (LDCs) which sometimes cannot pay for their imports or are unable to meet the next instalment of a loan. Instead, it is seen as a threat to the stability of the international economy, the potential cause of a new Great Depression.

Most of the literature on the debt crisis concentrate on three main questions: What are the causes of the mounting debt crisis? What are its effects? How are we to evaluate these effects? These are questions amongst others that are raised by citizens and policy makers today.

Concern over the debt crisis has involved more than words. Several countries today, have tried and are trying to implement various reform measures.

2.1.2 Causes of Mounting Debt

According to Adam Smith, as cited in Trevor and Stephen (1989), public debt can be attributed to three influences - the desire of government officials to spend, the unpopularity of

increasing taxes, and the willingness of capitalists to lend.

He, thus see government debt as an accompaniment of commercial or capitalist society.

Iyoha (1999) agrees with the views shared by Adam Smith that the external debt crisis of the Sub-Saharan Africa is best understood when considered as an integral part of the global debt crisis that emerged in 1982. The global debt crisis resulted from over-borrowing by the developing countries and reckless lending by international commercial banks in the 1970s, the collapse of world commodity prices (especially petroleum) in the early 1980s and the sharp increase in international interest (lending) rates in 1982. The phenomenal increase in foreign borrowing that preceded the debt crisis was triggered by the oil price shocks of 1973 and 1979, which resulted in acute current account deficits in most non-oil producing less developed countries.

There is a degree of consensus in debt literature that the present crisis is attributable to three sets of factors. They include - first, external shock in the world economy, such as the oil shocks of 1973 - 74 and 1979 - 80; second, economically inefficient domestic policies on the part of debtor states and

third, bad lending policies on the part of the commercial banks to which a large proportion of international debt is owed.

Tanzania's ex-president Nyerere identified an alternative explanation for Africa's indebtedness in the long term – decline in the terms of trade for primary commodities. He went on to state that in the last few years of world recession, the fall in commodity prices has been catastrophic. The prices of non-oil primary products declined by 27 percent in US dollar. As a proportion of their Gross Domestic Product (GDP), the result was a 2.4 percent loss of income for low income countries of Africa.

Others [Rimmer (1985), Ekwe-Ekwe (1985) and Lever and Huhne (1985)] explained the debt crisis by saying that many of the LDCs are highly interventionist and that their growing expenditure has contributed to large fiscal deficits. Often, these deficits are filled by printing more money, which contributes to high rates of inflation. Since domestic inflation in such countries is usually much higher than world inflation, the exchange rate tends to become over-valued. This gives a disincentive to domestic industry and leads to dependence on artificially cheap imports. This condition also tends to give rise

to habits of conspicuous consumption by the elite, who waste valuable foreign exchange on importing luxury goods. The result is a growing balance of payments deficit, which has to be filled by loans.

Nunnemkamp (1985) criticises the Banks for continuing to lend large sums to oil-importing third world countries during the early 1980s, when the effects of the oil shocks and inadequate domestic policies had become obvious. He also points to the unbalanced distribution of the loans, observing that certain US Banks had loaned the five main Latin American Debtors between 140 and 260 percent of their capital by 1982. The imprudence of these loans is partly explained by the fact that many of them were state guaranteed and the Banks seem to have assumed that the state would foot the bill. Where these failed there were still the Central Bank and the IMF to bail them out of trouble.

2.1.3 Colonialism and Neo-colonialism

Growth of external loan have been explained by many authors as being due colonialism and neo-colonialism. Korner and Maas et al (1984) attributed the growth of indebtedness to

colonialism and neo-colonialism. They noted that many LDCs were forced to adopt a mono-cultural, primary commodity based pattern of development by their colonial masters. Such economies are vulnerable to the vagaries of the world market in which many primary products are prone to a cycle of boom and slump.

On independence, the colonial governments handed over power to the urban and agricultural elites that had emerged from this economic context. This lent itself to preservation of the mono-cultural economy since these ruling groups derived their revenue from trade and primary commodity production rather than from industrial investments. Their lack of managerial and technical expertise, together with their orientation towards trade and consumption has led to a dependence on foreign capital to finance some limited economic diversification. Unfortunately, this is anti-developmental in the final instance since such investment leads to an outflow of capital in the form of profit repatriation, management and consultancy fees, and so forth. In this way, Korner, Maas et al relate debt to a colonial legacy that has shaped third world economies in such a way that they have an

inbuilt tendency towards balance of payments deficits which can only be filled by drawing on loans.

2.1.4 Prices of Primary Goods

According to Krum (1985), he stated that during the mid 1970s, many third world states, including several in Africa seemed to be attractive prospects for investments. He pointed out that the primary commodity boom of this period led to an expansion in government receipts from such products as cocoa, coffee, groundnut and sugar. Most of these states now seemed to be in a position to finance some level of development due to their increased exports receipts. They began to increase their expenditure and to take on loans to complement their export revenues. When the primary commodity bubble unexpectedly burst and boom turned to slump, many of them were unwilling to rein in their spending and continued to take on further loans to finance development programmes that often proved to be unproductive. This process through which many states first wasted their profits from the primary commodity boom and then took on loans to finance unviable projects, provided one of the bases for debt

crisis.

An anonymous author (1990) agreed with Krum=s (1985) earlier position as he opined that Nigeria=s external debt increased slightly in 1975 when Murtala/Obasanjo took over the mantle of leadership of Nigeria. But that, after the death of Gen. Murtala, i.e. at the inception of Obasanjo=s rule, Nigeria=s external debt problems started. He asserted that Obasanjo with a great desire to develop the nation at a speed above the level the nation could cope with and lack of prudent financial management, as well as projecting that petrol money would continue to pump in, into Nigeria, (3,000,000 barrels of crude oil per day at \$35 per barrel) took a jumbo loan of \$1billion from the International Capital Market (ICM). This loan increased Nigeria=s external loan from the million dollars group into the billion dollar group. With a great urge for debt, Obasanjo went further to take more loans. Successive governments after him, kept increasing the debt level. The loans so acquired were used for projects that were not self liquidating - the external debts were used in initiating a number of development projects- some useful, e.g. construction of roads, ultra modern stadium and theatre, hotels, the

development of the Federal Capital etc. Some projects or programmes were also useless e.g. the financing of Festac and the Boys Scout Jamboree.

While in 1983 for example, due to the drought experienced in most African Countries, Nigeria imported food to the tune of ₦896.60 million. In this process some government officials acting as contractors for procurement of certain imported food items such as rice, tinned tomatoes, corned beef, macaronies, apples, tooth picks etc diverted some of the loan into their own bank accounts (Financial Punch, Vol.3, No.9, 1983; Business Times, Dec. 5, 1983). It therefore becomes an external shock, if the borrowing has been used for unproductive purposes, for conspicuous consumption, irresponsible and reckless projects, misappropriated or embezzled.

2.1.5 Effects of Huge External Debt

Cuddington (1990) stated that the hope in 1982 when the debt crisis emerged was that it would be short-lived. Renewed economic growth in the major industrial countries would remove the potential threat to the stability of the international financial system, and previous levels of capital inflow to developing

countries would be restored. He observed that although the threat to the banking system has been alleviated, the debt problem continues to be the number one economic development issue, and it is likely to remain so for a long time. Without substantial debt forgiveness, the debt *work out* period to bring credit worthiness indicators back into the *acceptable* range will be a very long one. None of the countries that rescheduled debt in the 1980s has subsequently succeeded in obtaining voluntary loans from the private credit markets except in conjunction with World Bank cofinancing. Highly indebted developing countries and indeed Nigeria by implication, remain in a state of siege, threatened by impatient creditors, on the one hand, and restless domestic constituents, on the other. Vivekanand and Ihonvbere (1987) opined that Nigeria was forced for the first time to seek loans from the IMF, World Bank and other international financial institutions like the London, Paris and New York clubs. This phenomenon led to its systematic subjugation to Western Clubs who dictated the economic policy of the Nigerian government. The export oriented development aid programme of the IMF and World Bank they pointed out, has already succeeded in overthrowing

some governments and violated basic sovereignty of given nations. They also held the strong view that the falling prices of oil greatly helped in weakening the foreign reserves of the nation.

Magaji (2000) evaluated the use of foreign debt as a positive instrument of economic development on the one hand, and as a negative instrument of imperialist penetration into the Nigerian economy on the other hand. He observes that there is positive relationship between foreign capital and imperialism even though the capital can be used for economic development. Reviewing the case studies of Spain, Mexico, Venezuela, Turkey and Egypt on foreign capital and development, Magaji lends credence to Vivekananda and Ihonvbere (1987) when he avowed that western imperialists have trapped most of less developed countries with debt. The inappropriateness of foreign debt for Nigeria he observed, is that the debt is normally owed to a Acartel of creditors= who attach stringent conditions that culminate in destabilising Nigeria=s economy despite the creditors= role of presenting management policies.

2.1.6 Management of External Debts and Debt Servicing

Boothe and Reid (1992) agreed with Tobin (1963) and assign debt management dual objectives. Its primary objective is to act in concert with monetary and fiscal policy as one of the tools of macroeconomic stabilisation. Debt management's secondary objective is to minimise the interest costs of the public debt.

The traditional view of debt management policy, as described by Tobin, is that the term structure of the government's outstanding stock of debt should be determined by the dual objectives of achieving desired macroeconomic stabilisation goals and minimising the costs associated with that stock of debt. Using Brazil as a case study, Fakiyesi (1991) articulated Cohen's position with regard to some basic principles in formulating an effective debt management strategy for developing countries. He outlined the principles into four broad categories viz:

- (a) stretching out the repayment of debt. The main requirement here, is that the debt grows no faster than the country's revenues. This is to be achieved by

keeping the credit ceiling of the country low to avoid defaulting while, even where the country reaches her credit ceiling, she must not reduce her debt-to-export ratio. He opined that a country should stretch out the service of her debt so as to keep the debt-to-resource ratio constant.

- (b) Monitoring both GDP and exports option - here, what is needed is a measure of resources which is invariant with respect to the real exchange rate. A country may over value her currency in order to inflate the dollar value of the GDP if she feels that her new loans would depend on the GDP growth.
- (c) In the third option, developing countries should ignore the creditor=s capital loss. This is because, despite the decline in Brazil=s debt-to-export ratio, as a target given to Brazil to meet, her creditors were still not satisfied with her trade balance. The country=s debt still remained discounted in international market.
- (d) Watching the domestic deficit is the fourth option. When a country has achieved the external adjustment expected of it, it may be due to the rationing of imports which may

create a trade balance surplus. This would not necessarily guarantee the income the country needs to repay her debts. Examining the External Debt Management in Nigeria from a position in which Nigeria was under-borrowed in the late 1970s, to that which brought the country to lime-light as one of the most heavily indebted in sub-sahara Africa, Aiyedun (2000) asserted that, Nigeria=s per capita external debt in 1993, amounted to US \$300 million. This escalating external debt breeds the onerous crippling debt-service burden. The debt over-hang according to him, has reduced foreign investment and capital flows.

In addition to refinancing and rescheduling of external debts, Nigeria has also attempted to attain a sustainable debt burden by engaging in debt conversion schemes, including debt-equity swap. Ahmed (1990) and Sanusi (1990) asserted earlier on, that , given the high profile of debt and debt-service burden which loomed large in the 1980s, government resolutely embarked on comprehensive external debt management policy to contain the situation. Several initiatives were taken by the

Federal Government in this regard. These included embargo on new loans aimed at preventing accretion to the burden; the issuance of Federal government directive limiting each state government to a maximum of ₦200 million as external loan outstanding the refinancing of trade arrears and debt rescheduling.

Usman (1995) on his part, evaluated the different debt-relief initiatives put forward by the various creditor groups and international financial institutions to deal with the debt over hang of third world countries, especially in Sub-Saharan Africa. Using Nigeria as a case study, he noted that the various relief efforts proposed by the creditors have little effect on the debt problem partly because the initiatives are inappropriate and partly because the macroeconomic management of the debtor countries is ineffective. Usman proposed an unnatural solution of outright write off of a substantial part of the debt stock as the only feasible means of resolving the problem.

Fashanu (1995) admitted that although Nigeria achieved some debt and debt service reduction in

respect of debt owed to international commercial banks following the Baker and Brady plans, the debt overhang still persists because the Paris Club debt which formed over 60% of the overall debt stock has not been given similar treatment. He identifies the need to intensify efforts aimed at achieving overall debt and debt service reduction in respect of debt owed to the Paris Club.

Oguma (1995) on his part, saw Nigeria=s current external debt problem from the perspective of the debt stock and debt service payment obligations, both of which have assumed alarming proportions in the last ten years. Oguma traced the genesis of Nigeria=s debt problem to 1978 when loans worth more than \$1.8 billion were obtained from the Euro-Market. This he asserted, changed the character of Nigeria=s debt with the structural shift from concessional debts to medium term international capital market loans with tougher repayment terms. But of more importance is the fact that the funds that were borrowed to finance development projects were diverted to financing deficits in later year as oil export revenues fell sharply and government rather than embark

on expenditure slicing, chose to use external borrowing to finance the gap. A large proportion of the debt he pointed out, was not only in the form of medium term loans contracted at floating interest rates, but also their maturities were heavily concentrated at periods that coincided with dwindling oil revenues. Consequently, debt service obligation in 1984 was about 200 percent of the stock of available external reserves and over 25 percent of export revenues.

Olukole (1991) posited that government made conscious and discernible efforts to adopt debt relief measures following the accumulation of trade debt arrears in 1993 during which time, the available lines of credit to Nigeria had been blocked for lack of necessary foreign exchange resources to pay the import bills when due. The most popular debt relief measures Nigeria have adopted include refinancing, rescheduling and restructuring of debt arrears. The debt cancellation, debt forgiveness and debt write-off advocated by other authors in order to be relieved of our debt problem Olukole asserted , would impair the nation=s credit worthiness,

erode the confidence of the international community in the economy and probably portray Nigeria as a bankrupt nation.

Olukoshi, (1990) viewed one of the most complex issues which various Nigerian governments have had to address in their effort to manage the country=s external debt as the question of determining the amount owed to various international private and public organisations. This is an issue that has created a great deal of acrimony and mutual suspicion between the federal government and the holders of the country=s promissory notes and, as we noted earlier, the massive fraud built into the loan procurement system, did not help matters. For instance, when the London Club of Private Financiers submitted claims totalling US \$8.8 billion to the federal government, Nigeria importers replied with counter-claim of US \$6.4 Billion. For much of the period between 1982 and 1987, nobody could come up with firm data on the exact position of Nigeria=s external debt. What is more, the problem has been compounded by the revelations of fraud in many of the debts as pointed out by Bangura,

(1987).

At the time of their writing, Frank and Cline (1971) observed 21 instances of 11 countries which experienced such severe difficulties in servicing their international debt that they negotiated with creditor countries to postpone payments of interest or principal. In some cases, these negotiations were preceded by a period in which arrears of payments occurred. The debt rescheduling, according to the authors, have taken two different forms. The so-called Paris and Hague Club negotiations and the Ghanaian reschedulings are most often described as *ad hoc* informal meetings of major creditors. The creditor countries in these negotiations have done their best to maintain the idea that debt relief is not an institution but a very serious and unique event whenever it occurs.

Ikem (1995) viewed the adverse effects which the collapse of oil prices in the early eighties on Nigeria's economy to include among others, the accumulation of massive trade debt arrears the inability of the country to keep up with the foreign payment obligations on them. In a bid to solving these problems, Nigeria in 1984 sought relief by refinancing the trade arrears. Ikem believes that the refinancing deal, which attracted

the interest of international investors and led to the emergence of a secondary market in promissory notes, is the best relief package ever obtained by Nigeria but cautions that unless the issue of the official debts is similarly addressed, it would be difficult for the country to get out of the debt trap.

Abubakar, (1990) agreed with general acknowledgment that mismanagement has been a major factor crippling the Nigerian economy. The issue of the mismanagement of the economy becomes clearer if it is noted that the debt service ratio in the last seven years from 1980 to 1986 was only 7.31% on average and the total outstanding debt for that period was just 8.64% of the country's total Gross Domestic Product (GDP). What this suggests is that, if there was proper planning and management of resources, Nigeria may not have found itself in the present debt crisis.

Ojaide (1992) saw debt servicing as the ability of a debtor nation to continue to repay the principal and interest components of an outstanding loan as and when due. He posits that the proportion of interest payments in total debts service in Nigeria, has been high in absolute terms and that it is still on the increase. Interest payments constitute a major cause of

concern in the country=s debt servicing difficulties. The implications of the debt problem for the national economy according to him, are quite obvious. The completion of a number of projects is frustrated because of the inability of the country to obtain new credit facilities, such as medium and long-term financing. Suppliers build in a risk premium on their prices in an attempt to overcome the delays in payments for goods and services. The debt servicing Ojaide agrees, utilises a substantial amount of the country=s foreign exchange resources.

Since in the wake of these crises, the prospects are dim for the immediate resumption of net resource transfers from rich to poor countries through traditional means. Cuddington and Smith (1988) stressed key factors that should be considered when a country=s foreign loans have become so burdensome that they exceed total value of the economy=s future stream of national output. They are:

- a. The country=s willingness to pay, not its ability to pay, is a key consideration when sovereign risks are involved. This is because there is not supranational legal system governing international loans. Foreign debtors therefore

have the option, albeit a costly one, of repudiating their debt obligations if they become too onerous.

- b. The existence of repudiation risk recognising. This is central to an understanding of the functioning of the international credit market.
- c. Credit rationing -that is lenders may set a credit limit as well as the interest rate for the borrowing country in order to reduce the probability that the borrower will face repayment difficulties and elect to default. Harberger (1988) posited that developing countries typically face an upward-rising supply curve of capital funds. Therefore the marginal cost to the country of additional borrowing exceeds the average cost. This he sees as genuine negative externality that in principle justifies a tax on foreign borrowing (that is, each additional foreign loan tends to increase the country=s risk premium to be paid as other foreign loans are renewed or new ones made.

2.1.7 Alternatives to Debts

As the debt crises of developing countries continue with no end in sight, the structure and aggregate amount of these

countries= obligations are receiving increasing attention. A structure dominated by general-obligation, floating-rate of borrowing etc is far from ideal and has contributed to the severity of the crisis. The alternative in resolving the crisis according to Lessard (1990), are receiving even greater attention, but with much less agreement. Debt-equity swaps and other variants that combine debt buybacks with alternative forms of finance, typically voluntary exchanges, are held out as the leading way of the crisis by institutional observers, bankers, private sector groups in developing countries and a few academics. Much of this debate he posits, rests on the false premise that one must choose between debt conversion and debt reduction. There is no logical or institutional reason that a reduction in debt should not be accompanied by improved efficiency of the claims structure or that conversion somehow precludes reduction. According to Ahmed (1990), it is necessary to clarify what constitutes debt relief. Under the current practice, it is commonly believed that debt relief is granted to debt-ridden countries when their foreign creditors engage in concerted new lendings to them. Such lendings however, only enables the debtors to be current in their debt

servicing obligations as at the end of the day, the so-called new lendings are channeled back to the creditors in the form of interest payments so that no new resources are left for the debtor countries to support their structural reforms. Thus, concerted new lendings do not represent genuine debt relief. Actual cancellation or forgiveness of the debt owed offers total relief. Whether interest is capitalised or reduced, there is still the expectation of payments in the future. Olukoshi, (1990) lending credence to Nyerere asserts that, the starting point in the search for an alternative blue-print for Nigeria=s debt management is the need to recognise that the country=s debt and those of other Third World Countries cannot be repaid. This is not just because of the sheer magnitude of the debt and the fact that even without contracting new loans, the high interest rates and other fees charged on the debt ensure that it continues to grow rapidly, but also because there are crucial structural determinations of the debts which are inherent in the capitalist system of accumulation. Other alternatives according to Olukoshi include the repudiation of all parts of Nigeria=s external debts, backed by co-ordinated mass action of the working people, and the rescheduling of old debts. Osagie

(1992) went on to suggest alternatives to external debt rather than hope in debt rescheduling which is not really a solution to external debt problem. These include

- a. Good balance of payments policies - This is expected to cut down on the high propensity for imports and thus, bring about a reduction in the outflow of foreign exchange.
- b. Inflow of genuine direct foreign investment, with long-term interest in the economy.
- c. Debt-Equity Swap and
- d. Change in attitude of Nigerians to economic issues such as the issue of unemployed school leavers.

Osagie charged that the external debt problem is a symptom of a far more serious problem in the Nigerian economy. That the overwhelming national ethic is dominated by an irrational and immoral craze to make money and to become wealthy overnight. He finally asserted that this alternative i.e. (d) above is probably the most important for Nigerians. What this requires is a reorientation of our social values, a task in which our religious organisations have a leading role to play.

In summary, the debt crisis was evidently caused by the

desire of government officials to spend, and the willingness of the capitalists to lend. This is further exacerbated by the external shocks in the world economy, economically inefficient domestic policies on the part of debtor nations and bad lending policies by the creditors.

This phenomenon subjugated Nigeria into the western clubs who dictate economic policy of the Nigerian government, thus violating basic sovereignty of the nation. The various debt management/servicing strategies employed to deal with the debt over hang problem, had at best, only little effect partly because the macro-economic management of the debtor countries is ineffective while the alternative in resolving the debt crisis, centre around the conventional debt-equity swaps, debt buy-backs, debt conversion and reduction, debt rescheduling, relief, forgiveness and cancellation.

2.2 CORRUPTION

There are almost as many different definitions of corruption as there are contributions to the research on the phenomenon. Corruption, is a multi-dimensional variable which include bribery, misappropriation of funds, misallocation of resources,

diverting public funds or equipments to private pockets, hoarding of files in offices until palms are greased etc. Corruption can be perceived and approached from various angles. However, for the purpose of this study, the subject matter of corruption shall be streamlined and defined to be the illegal profiteering (mismanagement of public funds) by a government official from his or her position as a representative of the government. Barreto (2000) asserted that Corruption, can therefore take place in any economic transaction involving the public sector. As in any economic transaction, both parties mutually benefit. The extent of corruption in any economy therefore, is as Monte et al., (2001) puts it, a decision variable in the maximisation of expected revenue accruable to that economy.

Corruption on the one hand, reduces economic growth through a negative influence on investments in human capital, while on the other hand, it has strong negative effects on economic growth by lowering the amount and quality of public infrastructure and services supplied to the nation as a whole. Once corruption is introduced at whatever degree, the efficiency of public expenditure decreases.

Bardhan (1997) and Azariadis and Lahiri (1997) are in agreement that the case of corruption appear relevant in underdeveloped countries where the organisation of the state is especially inefficient, democratic control of the civil community over government actions is absent, and bureaucrats have wide discretionary powers. Pleskovic and Stiglitz (1997) lend credence to Bardhan and Azariadis et al. in emphasising that, the private sector can be an important check on the arbitrary exercise of power by government, but only if citizens can find out what government is doing. The result of corruption, Igun, (1994) stated, has been a progressive pauperization of the people as their leaders wallowed in unearned and nauseating opulence even as these countries accumulate massive national debts.

Corruption becomes a special concern in a poor country like Nigeria, where bribes, mismanagement, inefficiency expropriate the nation=s limited wealth, leaving little for its poorest citizens.

Given the negative effect of corruption on Nigeria=s infrastructural growth and development, the Obasanjo government, in a bid to fight corruption, passed into law the

anti-corruption law which forces within the same government, have been fighting against.

It is in the light of the onerous effects of corruption on the huge external debt of Nigeria, that this study gives a special focus to corruption as variable amongst others that will be analysed.

The endemic nature of corruption in Nigeria shall be given a special attention in this work. Corruption has severely undermined national, social and economic development and often leads to national collapse, as witnessed in Zaire, Somalia, the Philippines, Albania and Pakistan to mention a few examples.

Simply put, corruption is a major underlying factor manifested in the form of bad roads, decaying infrastructures, inadequate medical services, poor schools, falling educational standards and the disappearance of foreign aid as well as foreign loans. Corruption distorts the economy through the waste, misallocation and misappropriation of resources, thereby contributing to the debt problem in Nigeria.

The stance/position of this research therefore, is that with the huge external loans injected as funds into the country as

funds to fill the domestic resource gap, Nigeria ought to have attained a higher level of employment, industrial, technological, infrastructural development than she has presently. The huge amount of money devoted to debt servicing yearly, also ought to have drastically reduced the level of debt burden were they properly utilized for that purpose.

Corruption which has played a major role in this debt problem therefore, is a potent vice that must be fought and reduced to the barest minimum possible, with every iota of seriousness and sincerity if real economic growth and development is to be achieved.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Nigeria, like other developing countries of the world has incurred huge external debts which stifle her economic growth and development. This is because, the provision of social overhead capital in less developed countries (LDCs) requires huge sums of money. In order to provide such facilities, African countries have borrowed heavily to bridge domestic resource gap.

This research examines Nigeria=s debt crisis with a view to ascertaining why it has remained intractable. This debt crisis is at the very centre of the problems of development facing Nigeria today. In a bid to understand the root causes of the phenomenal growth in the LDCs= debts over the years, a wide range of explanations have been put forth. These explanations can be grouped under the most dominant frameworks of macro-economic analysis - the neoclassical and the Marxist frameworks.

It is necessary to state here, that Nigeria=s debt problem

has its origin as Okoli (1994:48) puts it,

in the administrative ineptitude of most of our leaders. This ineptitude is a manifestation of gross misplacement of priorities consequent upon the inability of these leaders to act properly as 'organized men' or decision makers.

Thus, Onimode (1988) argued that the African crisis is not merely an economic crisis but rather that it is fundamentally a crisis of underdevelopment. Nigeria's debt problem therefore, like those of other developing economies, has its root in the tradition of unfair world trade which results in unfavourable terms of trade.

Corruption

Corruption and economic growth and development are intimately related. When government officials mismanage huge amounts of resources meant for welfare and provision of infrastructures, the effect on the national economy is great. Corruption is unethical and the Nigerian government is fighting corruption albeit, staunchly and against all odds.

The Obasanjo's 4th republic, enacted the anti-corruption law in 2000 as part of its commitment to stamp out corruption from the country. Corruption is a very wide phenomenon with

multiplicity of dimensions. This include bribery, embezzlement, diversion of public properties and equipments to one's personal use, hoarding of files in offices until one's palms are "greased ", changing of scores for students etc.

Corruption, for the purpose of this research study, is defined as the illegal profiteering (mismanagement of public funds) by a public officer from his/her position as a representative of the government. Corruption, according to Linton (2000) wastes resources, distorts budgetary allocation, breeds inefficiency and unpredictability, slows and erodes development and lowers respect for constituted authority. There is also a negative relationship between high levels of corruption and economic growth.

Corruption and indeed, inefficiency have played a significant role in eroding the potential contribution of the huge sums of money borrowed to economic growth and development. The debt crisis can also be traced to the renter nature of the state in Nigeria where corruptible transactions take place i.e. award of government contracts which have been grossly inflated by government officials to friends, their family members or even to themselves directly. (Kolade, 1999).

Corruption in any economy therefore, is as (Monte et. al., 2001) puts it, a decision variable in the maximisation of expected revenue accruable to that economy.

Transparency International (2000) published a global report which categorised Nigeria as the 2nd most corrupt country on earth, among 89 countries in the world, using its Corruption Perception Index (CPI). The spate of corruption in Nigeria necessitated the setting up of the following:

- § The Christopher Kolade=s panel which was constituted by Obasanjo to review contracts, licenses and appointments. The tribunal was to try fraudulent officers of the Abdulsalami Abubakar=s military administration. The panel=s final report, was not implemented.
- § The Justice Kayode Eso panel which was set up to clean up the steep corruption in the nation=s judiciary, indicted 47 Judges which the report stated, are not worthy to retain their seats on the bench. Till now, only a few of them have been dealt with.
- § The Justice Anthony Okuribido panel was set up to probe the contracts awarded by the Federal Ministry of Works between 1979 and 1983. Nothing came out of the report,

although it was discovered that numerous contractors owed the Federal Government over ₦240 million for contracts paid but not executed.

§ The late Sani Abacha, was hard on corruption. He declared War against Indiscipline and Corruption (WAIC), but it was all lip service to the social malaise.

§ In the last dispensation, most of the state governors were indicted and there were petitions against them supported with vital documents over misappropriation of public funds and personal enrichments. The ICPC could not bring such people to book. This major lapse eroded the confidence of the masses in the commission. The failure of the president, who is at the forefront of the crusade against corruption to insist on proper trial of the indicted governors affected the public's estimation of his commitment to eradicating the malaise

3.2 RELEVANCE OF MACRO-ECONOMIC RELATIONSHIPS BETWEEN VARIABLES

The macroeconomic relationships between variables used in this research work, and their relevance to the debt

problem at hand are stated below.

3.2.1 Exports of Primary Produce and Debt

Supply of Nigeria=s exports is inelastic since they consist majorly of primary produce or low value-added goods. With low value-added goods whose supply are inelastic, the desired inflow of foreign exchange cannot be achieved, instead, given Nigeria=s exports are inelastic and her demand for imports elastic, the Balance of Payments position becomes unfavourable; thus having a negative effect on external debt and ultimately infrastructural development.

3.2.2 Imports and Debt

Nigeria=s imports are highly elastic in demand resulting in a high marginal propensity to import. With an elastic import, the Balance of Payments position becomes unfavourable; and this has a negative effect on external debts and ultimately economic development.

3.2.3 Government Revenue, Expenditure and Debt

Government revenue is predominantly derived from crude

oil sales and taxes imposed on the private sector which most of the time, are inadequate to meet government's ever increasing expenditures. This results in budget deficit and borrowing in order to bridge the resource gap. This has a strong bearing with the study as, once government resorts to borrowing, an injection of the amount so borrowed, affects the total money stock, which in turn affects price level in the economy.

3.2.4 The Price of Petroleum Exports and Debt

The price of petroleum exports lie outside the control of the government. Nigeria has had to rely predominantly on revenues from crude petroleum given the significant contribution of crude petroleum to Nigeria's revenue. The price of the crude in some cases have fallen thereby given rise to external borrowing to fill resource gaps resulting from the uncertainties of OPEC regulated quotas and prices.

3.2.5 Foreign Exchange Rate

The value of the US dollar per naira has consistently been high for example, US\$1 exchanges for ₦145 and since Nigerians are wont to consume virtually any commodity

produced in the advanced industrialized countries, they have to pay much more in exchange for the goods. This depletes the foreign exchange of the country thus affecting economic growth and development of the country.

3.2.6 Current Account and Debt

The current account is normally divided into two accounts: the visible balance and invisible balance.

- a. The visible balance, often referred to as the balance of trade, refers to the difference between the value of a country's import and export of merchandise goods. The balance of trade is said to be positive or favourable, or show a surplus if the value of exports exceeds that of imports. On the other hand, it is negative or unfavourable, if the reverse case occurs.
- b. The invisible balance or trade relates to services such as shipping of goods, and profits on foreign investment (payment for the service of lending capital funds, and to tourist expenditure). These items are called 'invisible' not because their values are not known, but because they involve intangible services which do not pass through

custom warehouse. The invisible balance may be positive or favourable, negative or unfavourable.

Taking the balance of currency flows, relating to both visibles and invisibles, one can obtain the current balance commonly referred to as Balance of Payment. The term *Acurrent* indicates that it concerns the main transactions which have involved goods and services as opposed to the *Acapital* transaction which are purely monetary in nature.

3.2.7 Capital Account and Debt

This covers a wide range of different inflows and outflows of currency, both long and short term. However, the distinction between long and short term capital flows are no longer applied. We simply talk of other capital flows and investments, which include investment abroad or at home by foreigners, lending or borrowing externally which may involve government or private individuals and businesses.

3.2.8 Corruption and Debt

Corruption, which includes inefficiency, as it has been earlier pointed out for the purpose of this research study, is the

mismanagement of public funds/resources by government officials. Corruption and debt (Nigeria=s external debt) are intimately related as the external loans acquired, which is injection of funds into the economy to bridge domestic resource gap thus enhance development are either channeled into other areas for which they are not intended (inefficiency) or embezzled (corruption).

Corruption therefore, erodes the potential contribution of debt (the huge sums of money borrowed) to economic growth and development thus increasing the debt burden through service charges on the loans acquired (debt), which ought to have impacted on the national economy.

This research shall particularly employ the use of the analytical tool of econometrics and the regression analysis to draw its final conclusion. The research then explored the effects of corruption in Nigeria and its effects on the infrastructural development in the Nigerian economy.

For the purpose of analysis, the following indices of development are examined in order to ascertain the effect of external debt on the economic development of Nigeria. These indices include:

- a. Infrastructures (roads, hospitals, housing)

- b. Employment
- c. Public sector investment

The choice of the above indices stems from the fact that, firstly, they represent key areas where huge government expenditure is involved, and development is easily noticeable and measured by these.

Secondly, reliable data on the indices of development mentioned above was sourced and this in turn, yielded reliable results in the analysis of the study.

For the purpose of this analysis, a set of model assumption and two (2) sets of model equations have been drawn: The Debt-Development Indices equation models and the coefficient of simple and multiple determination that is, Ordinary Least Squares (OLS).

The Debt-Development indices equation models is economically sound not only in the analysis of the effect of debt (Debt Burden) on Nigeria=s development, it is also a standard form of measurement, and therefore, a useful tool for policy makers (government) in evaluating the present debt crisis and taking measures that would help reduce the debt problem to a minimal or manageable level. The conclusions derived from

the empirical results was used in buttressing the results of the econometric cum regression analysis later in the work in analysing the impact of SAP through devaluation on the development of the Nigerian economy.

3.3 RESEARCH HYPOTHESES

This study verified two main hypotheses. They are:

1. H_0 : The level of indebtedness has no effect on Nigeria=s infrastructural development.
 H_1 : The level of indebtedness has a negative significant effect on Nigeria=s infrastructural development
2. H_0 : Corruption in government (which was measured by the Transparency International Corruption Perception Index) has no effect on Nigeria=s debt and infrastructural development.
 H_1 : Corruption in government has a negative effect on Nigeria=s debt position and infrastructural development.

3.4 METHODOLOGY OF THE STUDY

In order to analyse the variables of this study, published data with respect to the Nigerian economy was collected essentially from the Central Bank of Nigeria=s Annual Report and Statement of Accounts; Reports by the Federal Ministry of Finance on the specific uses of external debts; publications from the Debt Management Office (DMO); the Judgement of the Supreme Court of Nigeria on the management of Nigeria=s external debt (states vs federal government) and the Christopher Kolade (1999) panel report on corruption was used for the data analysis. The research then implored the quantitative and qualitative methods in analysing the effects of corruption on the economic development of Nigeria.

Debt servicing is the ability of a debtor nation to continue to repay the principal and interest components of an outstanding loan as and when due. The implication of the debt servicing or problem for the national economy as Ojaide (1992) puts it, is enormous as the completion of a number of projects is frustrated because of the inability of the country to obtain new credit facilities and also because, debt servicing utilizes a substantial amount of the country=s foreign exchange

resources thus resulting in debt burden.

The standard ratios for measuring the burden of debt have been used to empirically and descriptively discuss the impact of debt on the Nigeria economy. The ratios and their definitions were sourced from Umamikogbo (1994) and Olukoshi (1990).

The ratios are:

- i. Debt / Export ratio
 - ii. Debt / GDP ratio
 - iii. Debt Service / Capital expenditure ratio
- i. **Debt/Export Ratio:** This is the most common measure of the debt burden of a country. The ratio measures the level of resources that must be set aside each year to assist a country settle its external debt obligation as they fall due. Debt service is the sum of actual repayments of principal (amortization) and actual payments of interest made in foreign currencies, on external public and publicly guaranteed debt. An increasing level of debt service ratio, signify a deteriorating level of foreign resources from the external sector, necessary to sufficiently service the external debts of the country. It

also indicates that the country is facing pressure on the balance of payments as exemplified by declining exports and rising imports of goods and services.

- ii. **Debt/Gross Domestic Product Ratio:** This measure ascertains the proportion of the domestic product which is committed to servicing the country's debt. It highlights the relationship between the level of resources committed to debt service and the domestic resource base. According to Falegan (1992), the relevance of this ratio is that it takes cognisance of the rate of entry of external financial resources in form of foreign capital inflows (direct investment, portfolio investment etc.) into the domestic economy and then treats external debt arising there from, as contractual obligations.
- iii. **Debt Service/Capital Expenditure Ratio:** Debt service essentially is made from government revenue. Thus, the debt service/government's capital expenditure is an important measure of the debt burden of a country. In a situation where the ratio is high or increasing, it could be concluded that the country has a high economic burden and this impairs or reduces the amount of money

(revenue) devoted to capital expenditure in the economy.

In order to facilitate the analysis of this work, the following basic model is drawn to show the relationship between development and debt (debt burden).

$$\text{Devt} = f(\text{DB})$$

$$f < 0$$

and;

$$\text{DB} = f \left(\frac{\Delta D}{\Delta \text{Exp}} - \frac{\Delta D}{\Delta \text{GDP}} - \frac{\text{DS}}{\text{CE}_t} + \text{CE}_t \right) \dots \dots \dots 1$$

$$f_1 < 0; f_2 < 0; f_3 < 0; f_4 > 0$$

Where:

Devt = Development

DB = Debt Burden.

♠D = Change in Debt Stock

♠EXP = Change in Export

♠GDP = Change in Gross Domestic Product

DS = Debt Service

CE_t = Capital Expenditure in time t.

Equation (1) relates infrastructural development to the domestic burden of debt. The relationship is expected to be inverse. That is the lower the burden of debt, the higher the level of development. For example, a high debt service ratio

(which is an indicator of burden) impacts negatively on development by reducing the resources available for the domestic economy - It signifies a high level of resource outflow. In a country facing enormous resource constraints both in terms of foreign exchange earning and also in terms of local or domestic value generation, an outflow reduces the volume of resources with which development may be effected within the domestic economy. The provision of basic development infrastructures must in this circumstance compete with the outflows over available resources.

From the basic model stated above, the following working equations are derived to show the impact of debt burden that results from foreign debts on the development of the Nigerian economy.

$$\Delta \text{Pub Infra} = f \left(\frac{D}{\text{EXP}} + \frac{D}{\text{GDP}} + \frac{DS}{\text{CE}} + \text{CE} \right) \dots\dots\dots 2$$

$f_1 < 0; \quad f_2 < 0; \quad f_3 < 0; \quad f_4 > 0$

Where:

♠ Pub Infra = change in Public Infrastructures

D = Debt stock which captures the level of indebtedness

Exp = Export

GDP = Gross Domestic Product.

DS = Debt Service which is a flow

CE = Capital Expenditure which is a flow

From the equation (2), the level of public infrastructural facilities available in the economy (Pub Infra) is inversely related to the debt-export, Debt-GDP and Debt Service-Capital expenditure ratios. The higher the ratios, the lower the amount of money (resources) available for the provision of public infrastructures. While the expenditure on public infrastructure is positively related to government's capital expenditure in the economy. That is, the higher the capital expenditure, the higher the level of public infrastructures. The study assumed that infrastructural facilities are available and that people have access to the facilities as there is no price rationing through payment of user charges to prevent them from accessing the infrastructures.

This function is stated in a linear form as:

$$PF_t = \beta_0 - \beta_1 DE_t - \beta_2 DGDP_t - \beta_3 DSCE_t + \beta_4 CE_t + U_i \dots 3$$

Where:

PF_t = Current level of public infrastructure

DE_t = Current debt/export ratio

DGDP_t = Current debt/GDP ratio

DSCE_t = Current debt service/capital expenditure ratio

CE_t = Capital expenditure

Δ = A dot over a variable signifies change

%₀ = Intercept term

%₀₁, %₀₂, %₀₃, %₀₄ = are parameters/coefficients.

U_i = Error term.

$$\text{Emp}_t = f \left(\frac{\text{DS}}{\text{CE}} + \frac{\text{D}}{\text{GDP}} + \text{GE} \right) \dots\dots\dots 4$$

f₁ < 0; f₂ < 0; f₃ < 0;

Where:

Emp_t = Employment at time t

DS = Debt Service

CE = Capital Expenditure

D = Debt

GDP = Gross Domestic Product

GE = Government Expenditure

Equation (4) postulates that the level of employment in the economy at time t (Emp_t), has an inverse relationship with the Debt-Service and Debt-GDP ratios. As the values of the ratios get larger, the rate of employment in the economy

decreases and vice versa, while the level of employment at time t (Emp_t) is positively related to government expenditure in the economy.

This function is stated in a linear form as:

$$\dot{Emp}_t = \%_0 - \%_1 DSCE_t - \%_2 DGDP_t + \%_3 GE_t + U_i \dots\dots\dots 5$$

Where:

Emp_t = Current level of employment.

$DSCE_t$ = Current Debt service/capital expenditure ratio.

$DGDP_t$ = Current Debt-GDP ratio.

GE_t = Current Government Expenditure.

! = A dot over a variable signifies a change

$\%_0$ = Intercept

$\%_1, \%_2, \%_3$ = Parameters/coefficient.

U_i = Error term

$$PSI = f \left(\Delta Pub Infra + \frac{BB}{GDP} \right) \dots\dots\dots 6$$

$f_5 > 0$

Where:

PSI = Public Sector Investment (The PSI captures government=s aggregate capital expenditure over the years)

BB = Budget Balance

Since $S = I$, Budget Balance is government savings which determines public sector investment and is proxied by the gap between government revenue (GR) and government expenditure (GE) which is symbolised here as BB.

GDP = Gross Domestic Product

Equation (6) states that public sector investment (PSI) which is government's aggregate capital expenditure over the years, is inversely related to the debt-export, debt service-capital expenditure and budget balance-GDP ratio. The larger the values of the first-two components, the lower the amount of money available to be channeled into public sector investment, while the smaller the value of the 3rd component, the smaller the fund available for PSI, while the 3rd component (Budget Balance-GDP ratio) is positively related to Public Sector Investment. That is, the higher the Budget Balance, the higher the PSI.

The function above is stated in a linear form as:

$$\bullet \text{PSI}_t = \beta_0 - \beta_1 \text{DEXP}_t - \beta_2 \text{DGDP}_t - \beta_3 \text{DSCE}_t + \beta_4 \text{CE}_t - \beta_5 \text{BBGDP}_t + U_i$$

.....7

Where:

PSI_t = Current level of public sector investment.

$DEXP_t$ = Current Debt-Export ratio.

$DGDP_t$ = Current debt-GDP ratio

$DSCE_t$ = Current debt-service - Capital expenditure ratio.

$BBGDP_t$ = Current Budget Balance-GDP ratio.

! = Signifies a change

$\%_0$ = Intercept

$\%_1, \%_2, \%_3, \%_4, \%_5$ = Parameters/coefficients

U_i = Error term.

Taking a sample period of 21 years (1980 - 2000), analysis of the independent variables; current account, export, import and capital account would be carried out and a multiple regression analysis on all four independent variables will also be carried out.

Assumption of this Research Model

The model for the purpose of this study, focuses on five variables (Current Account, Exports, Imports, and Capital Account) in the Nigerian economy. Four out of the five variables are independent variables while the 5th (Balance of Payments) is the dependent variable. It therefore, assumes an open economy.

1. The null hypothesis (H_0) states that the current account has a negative impact on Nigeria=s Balance of Payments, as a result of adopting the Structural Adjustment Programme (SAP).
2. That Export has a positive relationship or impact on Nigeria=s Balance of Payments.
3. That Import has a negative impact on Nigeria=s Balance of payment.
4. And that the Capital account has a positive impact on Nigeria=s Balance of Payments. The simple linear coefficient of determination is given by the following formula:

$$r^2 = 1 - \frac{\sum (Y - \bar{Y})^2}{\sum (\bar{Y} - Y_1)^2}$$

$$r^2 = r^2 \frac{(n - 1)}{(n - 2)}$$

adjusted to degrees of freedom.

A similar measure exists for measuring the collective association of several independent variables and the dependent variable. This measure is correspondingly called coefficient of multiple determination; and it is given by the following formula:

$$R^2 = 1 - \frac{\sum (X_1 - \bar{X}_1)^2}{\sum (X_1 - \bar{X}_1)^2}$$

The values of the coefficients of simple and the multiple determination range from zero for non-relationship to one for perfect relationship and less than one for a negative relationship.

The unexplained variation is the numerator of the standard error of regression and the total variation.

$$\left[\sum (X_1 - \bar{X}_1)^2 \right] \text{ of } X_1$$

3.5 SPECIFICATION OF THE MODEL

In the light of the above, this research work shall employ the use of both theoretical and empirical methods of analysis. It shall use the regression techniques, i.e. Ordinary Least Squares (OLS) linear regression to determine the existence of or the non-existence of a relationship between foreign debt and the development of the Nigerian economy. This regression model for this research would be of the form:

$$Y_i = B_0 + B_i X_i + U_i \dots\dots\dots \text{eqn (1)}$$

Where:

Y_i = Nigeria=s external debts

X_i = Expenditure on infrastructural facilities in the country .

U_i = Random variable

B_0 and B_1 are parameters to be estimated from the above equation.

The apriori expectation of this study expects B_1 to be greater than zero (0), because, the higher the expenditure on infrastructures, the greater the effect of the borrowed funds on Nigeria=s developmental level; all things being equal.

Analytical tools of the (OLS) was employed in analysing both external debt and corruption using the Nigerian example.

$$b_0 = \bar{Y} - \hat{b}_1 - X \dots \dots \dots \text{eqn (2)}$$

Other important computations to be used are;

$$B_1 = \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sum x^2 - \frac{(\sum x)^2}{n}} \dots \dots \dots \text{Eqn (3)}$$

$$\text{var}^2 \frac{1}{n - k} (Y^2 - B_1 X_1 Y_1) \dots \dots \dots \text{Eqn (4)}$$

$$\text{var}^2 B_0 = \sqrt{\frac{\sum X^2}{n}} \dots \dots \dots \text{Eqn (5)}$$

$$\text{var}^2 B_1 = \frac{U^2}{nx^2} \dots \dots \dots \text{Eqn (6)}$$

Where:

n = number of observation

k = number of parameters to be estimated.

$$R^2 = \frac{\hat{b}_1 \hat{A}x_1 Y_1}{\hat{A}Y^2} \dots \dots \dots \text{Eqn (7)}$$

3.5.1 Estimation of the Model

This deals with obtaining the numerical estimation of the coefficients of the parameters and it is presented thus:

Estimated regression line $St = \hat{\alpha} + \beta + a St$.

$$\bar{Dt} = \frac{\sum Dt}{n}$$

Where n = number of years

$$\bar{St} = \frac{\sum St}{n}$$

$$\bar{X} = \frac{\sum x}{n}$$

To calculate $\hat{\alpha}$, $\hat{\beta}$, and a ; we have;

$$\sum Dx = \hat{\beta} \sum x^2 + a \sum xs$$

$$\sum Ds = \hat{\beta} \sum xs + a \sum s^2$$

^

Estimated regression line, $D_t = \alpha + \beta x + a St$

Coefficient of Determination R^2

$$R^2 = \frac{\beta \sum dx a \sum ds}{d^2}$$

Standard Error

$$S_m = \sqrt{\frac{\beta d^2 - \beta \sum dx - a \sum ds}{n - k}}$$

Standard Error of β (S_{β})

$$S_{\hat{\beta}} = \sqrt{\frac{\sum x^2 - (\sum s)^2}{\sum s^2}}$$

Standard Error of "a"

$$S_{\hat{a}} = \sqrt{\frac{\sum s^2 - (XS)^2}{\sum X^2}}$$

t-Test

The t-test is used to confirm statistically the validity of the theoretical hypothesis or the estimate of the parameters.

$$t^*_{\beta} = \frac{\hat{\beta}}{S_{\hat{\beta}}}$$

Where $\hat{\beta}$ = slope of the variable X on the estimated regression line;

$$S_{\hat{\beta}} = \text{Standard error of } \hat{\beta}.$$

Since this research work entails an econometric analysis, we therefore cannot stop evaluation at the test for goodness of fit which is a statistical test. We would therefore proceed to test

for autocorrelation.

A basic assumption of OLS is that the successive values of the random variable U are temporarily independent, that is, the value which it assumes in any one period is independent of the value which it assumed in any other period. This assumption implies that the covariance of U is equal to zero.

The violation of this assumption, results in the successive values of random variable U being correlated. We shall therefore employ the Durbin-Watson Test to search for the presence or otherwise of serial correlation.

The formula is given by:

$$DW = \frac{\sum (U_t - U_{t-1})^2}{\sum U^2}$$

Where: $U_t = Y - \hat{Y} = \text{Residual}$

$U_{t-1} = U_t$ lagged by one period

Test For Autocorrelation Using DURBIN WATSON TEST:

HYPOTHESIS:

Ho: There is no autocorrelation

Hi: There is autocorrelation

Level of significance = 5%

Decision rule:

$(4-DL) < DW < 4$ rejection H_0

$(4-DU) < DW < (4-DL)$, indeterminate

$2 < DW < (4-DU)$, Accept H_0

$DU < DW < 2$, Accept H_0

$DL < DW < DU$, Indeterminate

$0 < DW < DL$ Reject H_0 .

$$D-W \text{ D - Statistic or } d (DW) = \frac{n \sum_{t=1}^n (e_t - e_{t-1})^2}{n \sum_{t=1}^n e_t^2}$$

Where: D-W = Durbin Watson

 n = number of observations

e_t = error for Renol t.

CHAPTER FOUR

ORIGIN OF NIGERIA=S EXTERNAL DEBT

4.1 INTRODUCTION

In a mixed economy such as Nigeria=s, government plays an important intervention role in order to achieve the broad macroeconomic objectives of stability and growth. The case for government intervention is further strengthened in situations of market failures such as monopoly, non-provision of some public goods and services. Very often therefore, the financial requirements of government expenditure programmes exceed available financial resources mobilised through taxation, resulting in a deficit or budgetary gap. This therefore makes borrowing imperative to fill the gap.

In financing the budget deficit, public sector borrowing can either be from external or domestic sources or both. Consequently, Odozi (1996:11-12) asserts that “public sector borrowing results in public debt which may be either domestic or external public debt.”

In this chapter, we shall look at the origin of Nigeria=s external debt and their causes, growth and features of Nigeria=s debts borrowing policies, structure and finally, the implications of the debt on Nigeria=s economic development.

4.2 **ORIGIN OF NIGERIA=S EXTERNAL DEBT**

The main reason for raising external loan by developing countries, Nigeria inclusive, is to bridge the domestic resource gap in order to accelerate economic development. Such borrowing, is healthy provided the loans are judiciously used for production (not consumption) and handled in such a way as to facilitate the eventual repayment and liquidation of the debt. Nigeria according to Sanusi (1991:31) “started to borrow externally in order to quicken the pace of her economic development.”

The origin of Nigeria=s external debt dates back to the pre-independence era. Nigeria contracted her first loan from the World Bank in 1958. The loan was a relatively small amount of US \$28 million for railway extension in the country. The external debt remained

relatively low during the oil boom years. During that period, Sanusi (1991:35) asserts that

the country=s foreign exchange position was so healthy that Nigeria had to lend money to such institutions as the International Monetary Fund (IMF) under the Aoil facility@ in 1974. During the oil boom, it was the general perception that Nigeria was relatively Aunder-borrowed@.

However, the position changed dramatically in 1977 as the oil boom collapsed and was replaced by an oil glut. The reverse in our oil fortunes brought a lot of pressure on government finances and consequently, it became absolutely necessary to borrow for balance of payment support. This led to the first major borrowing of \$1.0 billion from the International Capital Market (ICM). This loan was generally referred to as the AJumbo loan@. The loan had a short maturity period with very high interest rate.

From 1978, Nigeria=s external borrowing rose rather sharply. Most of the loans were raised from private capital markets as funds from the bilateral and multilateral institutions were not easy to source. In order to further complicate issues, some state governments resorted to

borrowing from external sources to finance of projects regardless of their viability. Most of the loans were used to finance unproductive projects.

It has to be noted here, that while the debts incurred between 1970 and 1978 consisted mostly of soft long-term loans from bilateral and multilateral institutions, the borrowings after 1978 were from private capital markets with very high interest rates.

The sharp decline in oil earnings as a result of the oil glut led to Nigeria=s difficulty in meeting her external loans obligations. Consequently, from 1982, the country started to incur payment arrears and also became incapable of paying her imports bills, as and when due. This development, Olusanya and Olukoshi (1991:35) posit “impaired the international credit worthiness of the country as most international organisations became reluctant to give additional lines of credit to the country.”

Nigeria=s external debt outstanding stood at ₦3,121,725.8 million as at 31st December, 2000. (See Tables 4.1-4.3 and Figures 1-3 below) compared with ₦1,866.8 million in 1980, ₦10,577.7 million in 1985, ₦133,956.3 million in 1988, ₦298,614.4 million in 1990, and ₦617,320 million, ₦595,931.9 million, ₦633,017 million in 1996, 1997 and 1998

respectively. Much of the increase since 1985 is accounted for by the impact of the various interest rates at which most of the earlier loans were contracted, the capitalisation of interest on existing debt stock which could not be paid as they fell due and the depreciation of the dollar vis-a-vis other key currencies in which most of the debt obligations were contracted. Figure 3, clearly shows that Nigeria's interest payments on her external debt gulps higher amount of revenue than her capital payments.

**TABLE 4.1: NIGERIA=S EXTERNAL PUBLIC DEBTS OUTSTANDING
1980-2000 (x`MILLION)**

Years	Multilateral	Paris Club	London Club	Promissory Notes	Others	Total Debt	GDP Current Market Price	Total Debt as % of GDP
1980	179.1	1,576.5	-	-	111.2	1,866.8	50,848.6	3.7
1981	179.6	1,975.9	-	-	175.7	2,331.2	50,749.1	4.6
1982	530.4	5,747.4	1,981.7	-	832.9	8,819.4	51,709.2	17.1
1983	566.4	6,002.2	2,758.8	548.9	701.4	10,577.7	57,142.1	18.5
1984	1,271.2	6,360.4	5,443.7	1,155.1	578.3	14,808.7	63,608.1	23.3
1985	1,293.5	7,726.4	6,164.3	1,273.9	842.5	17,300.6	72,355.4	23.9
1986	4,670.7	21,725.3	8,444.7	4,152.6	2,459.1	41,452.4	73,061.9	56.7
1987	8,781.5	63,205.6	6,766.5	20,634.7	1,400.8	100,789.1	108,885.1	92.6
1988	9,991.8	75,445.3	14,986.1	25,742.1	7,791.0	133,956.3	145,243.3	92.2
1989	21,473.6	121,229.6	42,840.0	35,067.6	19,782.9	240,393.7	224,796.9	106.9
1990	34,606.3	154,550.6	53,431.8	40,950.5	15,075.2	98,614.4	60,636.7	114.6
1991	39,458.3	173,051.2	58,238.1	43,561.9	14,144.3	328,054.3	324,010.0	101.4
1992	89,274.3	324,729.9	41,890.6	64,140.0	24,229.3	544,264.1	549,808.8	99.0
1993	81,456.3	400,380.9	45,323.8	69,665.7	36,317.7	633,144.4	697,095.2	90.8
1994	97,056.6	404,212.6	45,367.9	70,069.1	32,106.8	648,813.0	914,940.0	70.9
1995	97,042.0	476,731.2	44,946.0	69,256.0	28,846.4	716,865.6	1,960,700.0	36.6
1996	102,630.0	420,002.0	44,946.0	47,080.0	2,662.0	617,320.0	2,740,500.00	22.5
1997	96,199.0	417,568.8	44,946.0	35,375.9	1,742.2	595,931.9	2,835,010.0	21.0
1998	93,214.0	458,257.8	44,946.0	35,151.6	1,447.6	633,017.0	2,765,670.0	22.9
1999	361,194.9	1,885,664.8	187,627.1	136,523.8	6,363.8	2,577,383.4	3,338,070.0	77.2
2000	379,043.0	2,353,134.0	223,834.6	158,486.0	7,230.3	3,121,725.8	3,614,280	86.4

Sources: (1) Federal Ministry of Finance and Economic Development
(2) Federal Office of Statistics (FOS)
(3) Central Bank of Nigeria

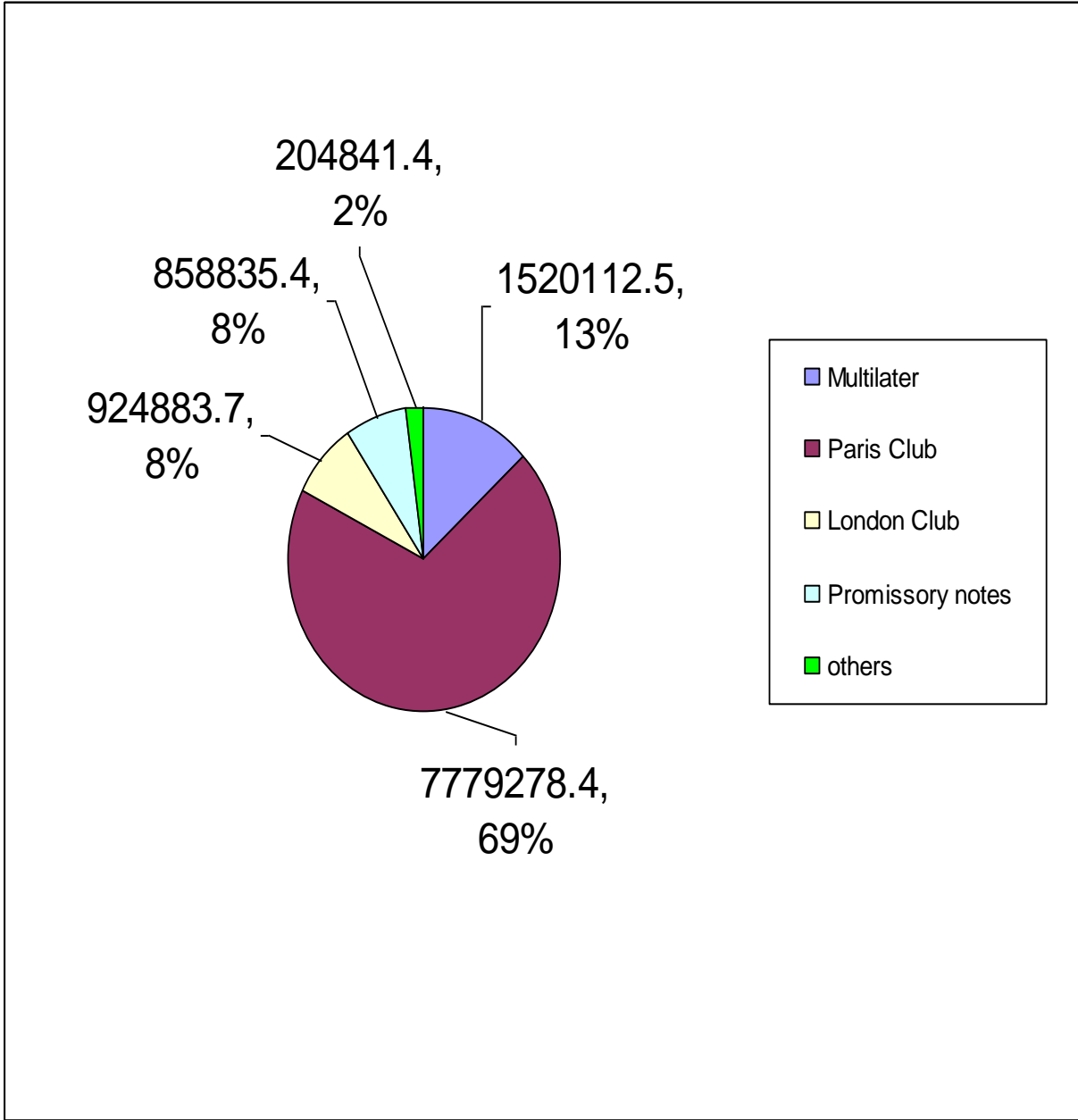


Fig 1:Nigeria's External Public Debts Outstanding

**TABLE 4.2: NIGERIA=S PUBLIC DEBT OUTSTANDING AS % OF GDP:
1960-1998**

Year	Domestic Debt (N Million)	External Debt (N Million)	Total Debt (N Million)	Domestic Debt as % of Total Debt	External Debt as % of Total Debt	Domestic Debt as % of GDP	External Debt as % of GDP	Total Debt as % of GDP
1960	23.5	94.5	118.0	19.9	81.0	1.0	3.9	4.9
1965	216.2	141.8	368.0	60.4	39.6	6.4	4.2	10.7
1970	1,111.9	175.0	1,286.9	86.4	13.6	19.8	3.1	22.9
1975	1,678.9	349.9	2,028.8	82.8	17.2	7.8	1.6	9.4
1980	9,231.5	1,866.8	10,098.3	81.5	18.5	16.2	3.7	19.9
1985	27,925	17,300.6	45,252.6	61.8	38.2	38.6	23.9	62.5
1990	84,124.6	298,614.4	382,739.0	22.0	78.0	32.3	114.6	146.8
1995	341,082.3	716,865.6	1,057,947.9	32.2	67.8	17.2	36.2	53.5
1998	537,490.9	633,017.0	1,170,507.9	45.9	54.1	18.9	22.3	41.3

Source: Central Bank of Nigeria Annual Report

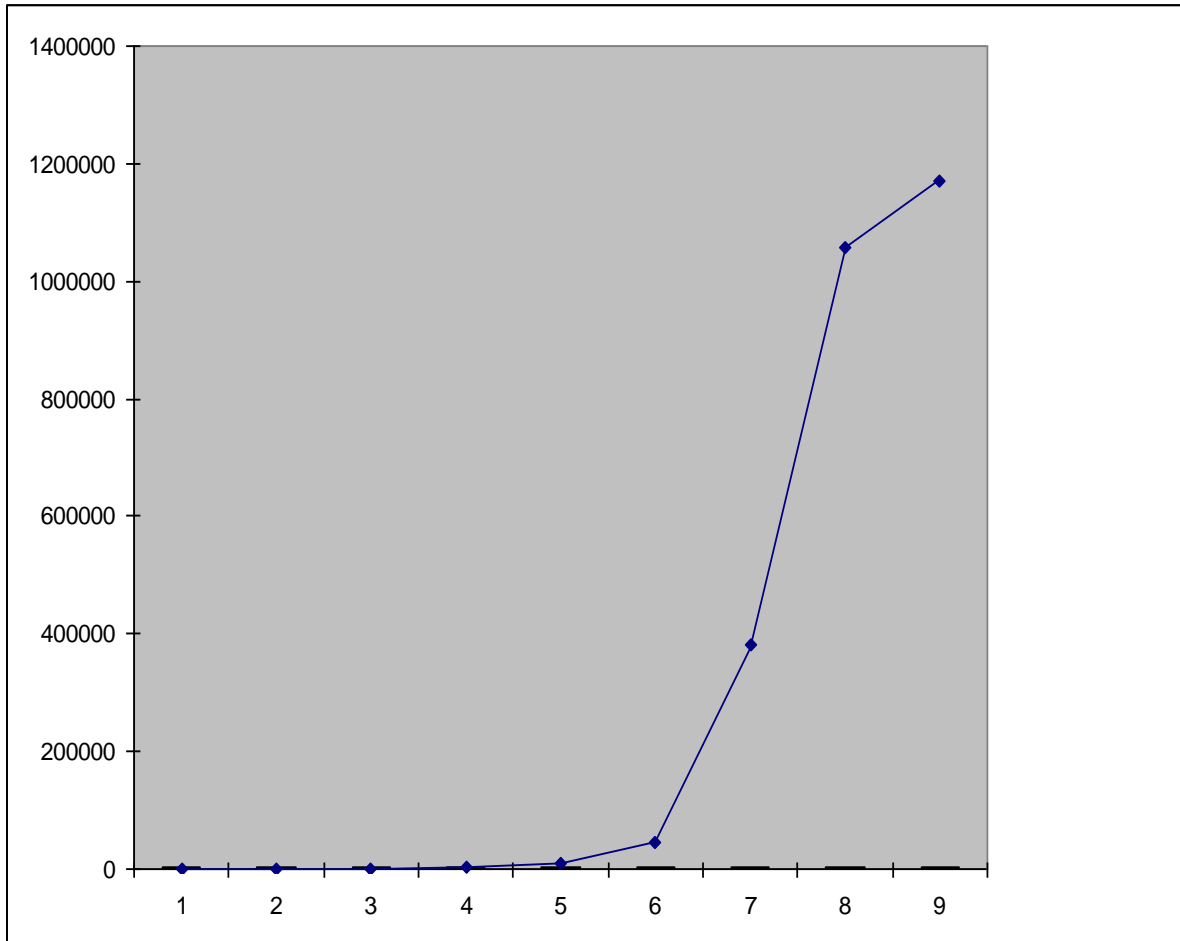


Fig 2: Trend of Nigeria's Public Debt Outstanding 1960-1998

**TABLE 4.3: NIGERIA=S EXTERNAL DEBT OUTSTANDING
INTEREST AND CAPITAL PAYMENTS: 1960 - 1998**

Year	Interest Payment	Capital Payment	Total	As % of GDP	% of Exports
1960	-	-	-	-	-
1965	16.2	0.0	15.2	0.5	2.8
1970	31.0	0.0	31.0	0.6	3.5
1975	32.7	0.0	32.7	0.2	0.7
1980	278.3	0.0	288.3	0.5	2.0
1985	980.5	2,737.5	3,718.0	5.1	33.3
1990	15,361.0	15,494.8	30,855.8	11.8	28.1
1995	17,252.4	18,398.6	35,651.0	1.8	13.8
1998	11,704.0	16,291.0	27,995.0	1.0	14.2

Source: Central Bank of Nigeria Annual Report

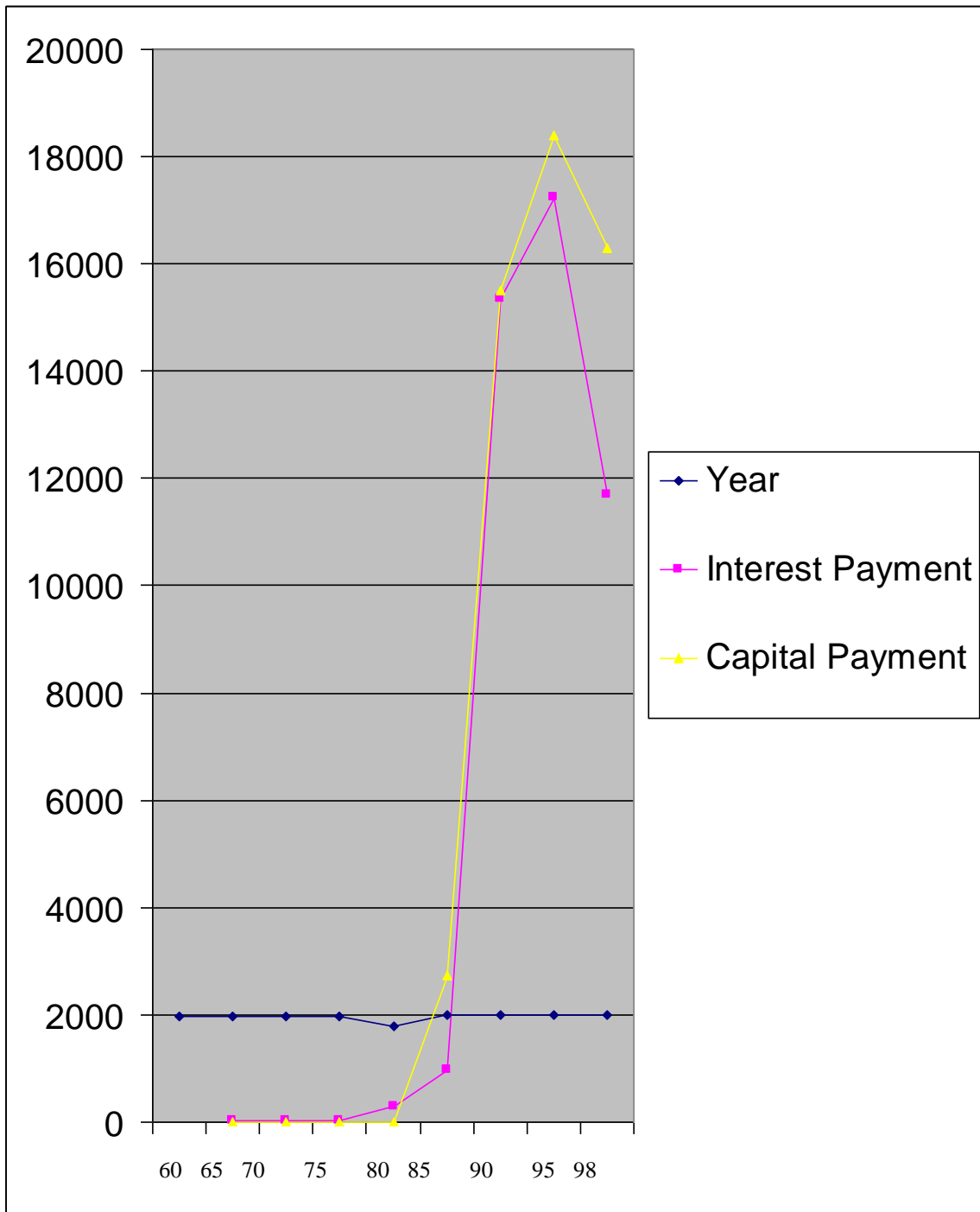


Fig 3: Trends of Interest and Capital Payments on Nigeria's External Debt 1960-1998

4.3 CAUSES OF NIGERIA=S EXTERNAL DEBT

The debt problem in Nigeria became manifestly noticeable in 1978 when Nigeria started borrowing from the International Capital Market (ICM). The ICM loans attracted higher interest rate, and shorter maturities and grace periods. These loans were not tied to specific economic projects whose returns on investment would make the loans self-liquidating. Factors that have accounted for debt problems are both endogenous and exogenous.

4.3.1 ENDOGENOUS FACTORS

Low Savings: Low savings propensity of Nigerians is one of the major factors responsible for Nigeria=s debt. Nigeria had in the past, a high propensity to consume. In the oil boom era, Nigerians developed exotic and expensive tastes, wasted and squandered resources. Even when the resources were drying up, the extravagance continued while expenditure both at the public and private sectors were not

adjusted to align with the country's low-income flow. Hence, the high accumulation of short-term debts.

- a. **Unrealistic Exchange Rate:** Unrealistic exchange rate coupled with the low marginal propensity to save and the consumption level aggravated the debt problem. Both the monetary and exchange rate policies of Nigeria did not respond quickly enough to reflect the external value of the naira at the time when there was a drastic decline in the inflow of resources as a result of depressed oil market. Consequently, the naira became highly over-valued and this brought severe pressure on the economy. The existing rate of exchange at the time made it possible for individuals, corporations and even state governments to incur foreign obligations which the country's resources could not sustain and this led to the accumulation, especially of short term trade debts. The over-valuation also caused linkages and capital flight which substantially depleted the country's external reserves.

- b. **Poor External Debt Management:** The acquisition of external loans should normally, be for development purposes or for balance of payments support. In deciding on the optimal level of commitment, it is expected that a carefully planned schedule of acquisition, utilisation and retirement of such loans be prepared. Moreover, realistic estimates of foreign exchange earning as well as projected returns from investments financed with the loans would be required. All these would help to determine the ability of the country to service, without undue strain, the existing loans and the desirability or otherwise of contracting new loans. In the Nigerian case, there was a general lack of consideration of the factors. For instance, the provision of Decree No. 30 of 1978 which imposed a ceiling of ₦5.0 billion on outstanding debt at any point in time, was openly disregarded. At times, both the federal and states governments allowed political considerations rather than economic reasoning to prevail in determining which project to be financed with loans. Consequently, some of the projects financed with such loans

were either unproductive or lacked adequate cost control measures. A number of such projects were abandoned before completion. In the end, the country would still have to pay for such ill-conceived projects in terms of debt servicing as they were financed by external loans.

- c. **Financing of Long-Term Projects with Short-Term and Medium-Term Loans:** The structure of Nigeria=s debt as would be observed tilted in favour of short and medium term debt which accounted for about 85% of total outstanding debt in 1986. Unfortunately, most of these medium term loans were drawn to finance long term projects. Loans from ICM invariably have relatively short grace periods and repayment period is between 5 to 8 years. In other words, in cases where the projects were externally financed, they were hardly completed when amortization became due. A situation of debt service bunching then resulted which compounded the debt problem.
- d. **Diversion of the Proceeds of Loans into Other Uses:** Some of these loans contracted in the last few years,

especially during the civilian rule, were reported (according to the various tribunals) to have been diverted to other uses instead of being invested in projects for which they were contracted. To the extent that such malpractices existed, the external debt of the country increased without any corresponding increase in the official assets that would enable the country to service such loans eventually.

- e. **Over-Dependence on Imports:** Nigeria maintains a culture of over-dependence on imports. The consumption pattern of most Nigerian=s had been in favour of foreign goods and services; thereby increasing the level of the country=s foreign exchange commitments. This situation resulted in a massive build up of trade arrears which exacerbated the external debt problem.

4.3.2 **EXOGENOUS FACTORS**

- i. **Declining Foreign Exchange Earnings:** Nigeria=s major foreign exchange earner early 1970s has been crude oil. Unfortunately, the glut in the international market has

affected adversely the country's foreign exchange earnings from oil since the early 1980s. This unfortunate development in the external sector seriously constrained the ability to amortise the country's loans and service her debts when they fell due.

ii. **Appreciation of the US Dollar against Other Currencies:**

One major contributing factor to Nigeria's external debt was the appreciation of the US dollar against other major international currencies in which the original loan was contracted. Since the Nigerian debt stock is denominated in dollars, the conversion of debts contracted in French Franc, Japanese Yen, Deutschmark, Swiss Franc, Pound Sterling etc. into dollar when the dollar gains its value will increase the dollar amount of the debt stock.

iii. **Capitalisation of Unpaid Interest:** Another factor is the capitalisation of unpaid interest. Whenever there is a difficulty in the interest payment, the interest accrued due is always added to the principal thereby increasing the debt stock. This was the case when Nigeria reduced payment of

interest due to the London Club in May 1990 from the contractual rate of about 9.5% to 3%. The default persisted that year. In some cases, penalty interest is again added to the original interest which accrued but was unpaid.

- iv. **Increase in Variable Interest Rate:** When variable market based interest rate applicable to a particular loan increases, Wright (1986:35) posits that the variable interest rate responds to the market situation and thus, constitute additional burden on the debt problem.

Obadan (1981: 1) states that “external debts did not become an issue of major economic importance in Nigeria until after 1983.” From table 4.4 and figure 4, Nigeria=s external public debt increased from ₦49.8 million in 1960 to ₦175.0 million in 1970, ₦365.1 million in 1977, ₦1,252.1 million in 1978, ₦17,300.6 million in 1985, ₦41,452.4 million in 1986, ₦100,789.1 million in 1987, ₦240.393.7 million in 1989, ₦716,865.6 million in 1995, declined to ₦617,320.0 million and ₦595,931.9 million in 1996 and 1997 respectively, and increased to an all time high of ₦2,577,383.4 million and ₦3,121,725.8 million in 1999 and 2000 respectively.

4.4 GROWTH AND FEATURES OF NIGERIA=S DEBT

Table 4.4 Growth in Nigeria=s External Debt (in × million)

year	External Debt
1960	49.8
1970	175.0
1977	365.1
1978	1, 252.1
1985	17, 300.6
1986	41, 452.4
1987	100, 789.1
1989	240, 393.7
1995	716, 865.6
1996	617, 320.0
1997	595, 931.9
1999	2, 577, 383.4
2000	3, 121, 725.8

Source: CBN, Statical Bulletin and Annual Reports 2000

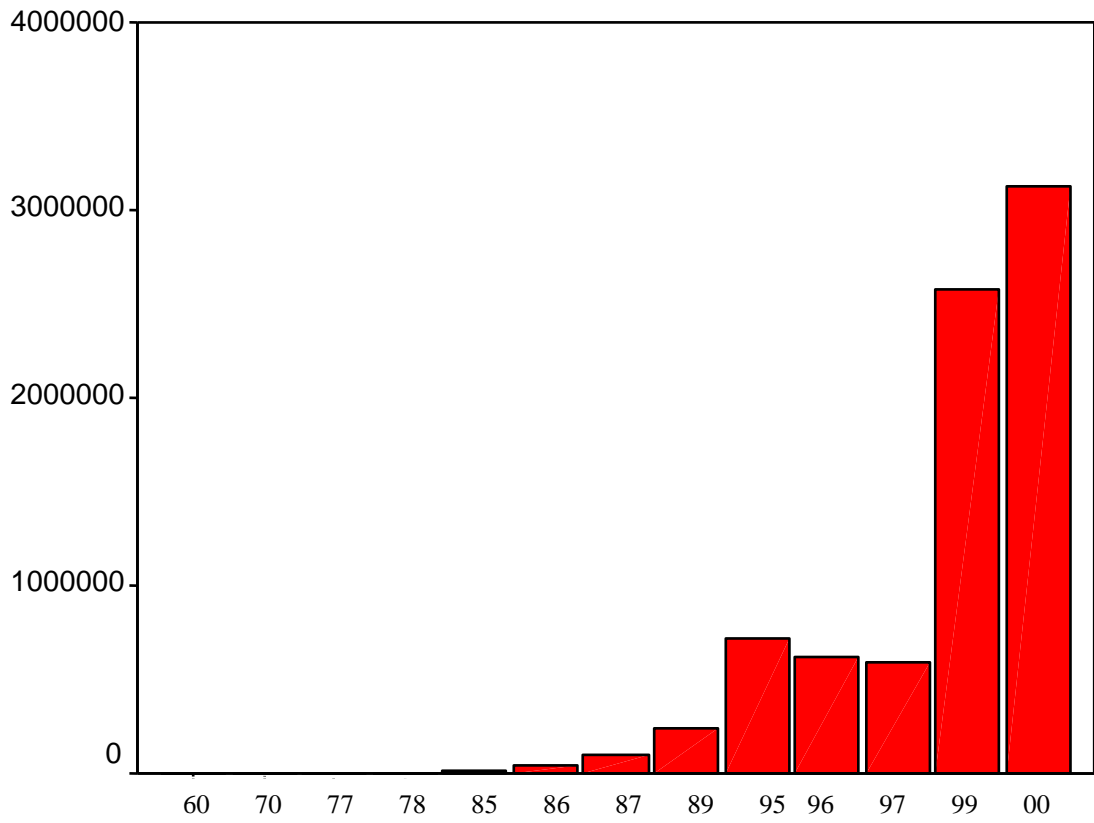


Fig 4: Growth in Nigeria's External Debt

In other words, Nigeria=s external debt increased by an average rate of 13.4% per annum between 1960 and 1970, 11.0% per annum between 1970 and 1977, 65% per annum between 1977 and 1985, 67.3 % per annum between 1985 and 1995, 70 % per annum between 1995 and 2000. By December 2000, following the massive depreciation in the exchange rate of the naira, the value of Nigeria=s external debt stood at $\times 3,614,280.0$ million.

In terms of debt burden and debt service capacity, Nigeria and indeed African countries are constrained to use more than 30% of their export earning for debt servicing (Banini, 1994). Since the foreign exchange earnings of many of these countries are inadequate, it is apparent that reducing the already insufficient amount by that much (30%) would leave gross inadequate resources for financing development.

The total debt service payment in 1997 amounted to US\$1,496.5 million compared with US\$1,876.6 million in 1996. The debt service comprised principal repayments amounting to US\$885.7 million, interest payments of US\$529.5 million as well as penalties and other charges totaling US\$4.5 million and US\$76.9 million

respectively. A further breakdown of the debt service shows that US\$800.2 million or 53.5% was paid to the multilateral institutions, US\$306.0 million or 20.5% to the Paris Club (mainly for post-cut-off debts), US\$226.8 million or 15.2% to promissory note holders while US\$35.8 million or 2.4% and US\$127.7 million or 8.5% were paid to the London Club as interest on Par Bonds and non-Paris Club bilateral creditors respectively. Actual debt service payments were US\$503.5 million or 25.2% lower than the US\$2,000.0 million budgeted for meeting external debt service obligations in 1997 and represented only 30.0% of the total service obligations of US\$4,987.3 million, which fell due during the year (see Table 4.5 and Figure 5 below).

Nigeria, Ogbu (2003:1) asserted,

requires \$4.9 billion for external debt servicing, including arrears and penalties for 2003 according to the records obtained from the Debt Management Office. The \$2 billion (x252 billion) appropriated by the National Assembly for external debt servicing for the year 2003, indicates that the country

TABLE 4.5: EXTERNAL DEBT SERVICE PAYMENTS (\$ MILLION)

CREDITOR CATEGORY	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
A. Official																
1. Paris Club	410.9	182.6	186.9	531.8	246.6	1672.9	1506.7	536.0	234.6	59.2	271.8	359.7	306.1	228.5	644.5	812.7
2. Multilateral	98.2	231.6	244.3	460.7	514.7	640.1	733.4	810.0	643.2	758.9	826.9	814.4	800.2	680.2	659.2	623.2
3. Others	10.10	7.50	0.50	4.70	128.80	453.3	502.20	141.9	442.80	626.60	109.00	336.40	127.7	19.77	34.80	1.52
Sub-Total	519.2	421.7	431.7	997.2	890.10	2766.3	2,742.3	1487.9	1320.6	1444.7	1207.7	1510.5	1234.0	928.5	1338.5	1437.4
B. Private																
1. Promissory Note	0.00	0.00	0.00	0.00	248.3	340.9	376.6	267.3	256.1	254.8	251.9	238.4	226.8	216.3	258.7	149.5
2. Banks (London Club)	981.5	856.9	308.3	584.7	1029.9	465.2	316.1	637.4	195.8	143.5	161.0	127.7	35.8	127.7	127.7	129.1
Sub-Total	981.5	856.9	308.3	548.7	1278.2	806.1	692.7	904.7	451.9	398.3	412.9	366.1	262.6	344.0	386.4	278.6
Grand Total	1500.7	1278.6	740.0	1581.9	2168.3	3572.4	3435.0	2392.6	1772.5	1843.0	1620.6	1876.6	1496.6	1272.5	1724.9	1716.0

Source: Debt Management Office, Nigeria (2002)

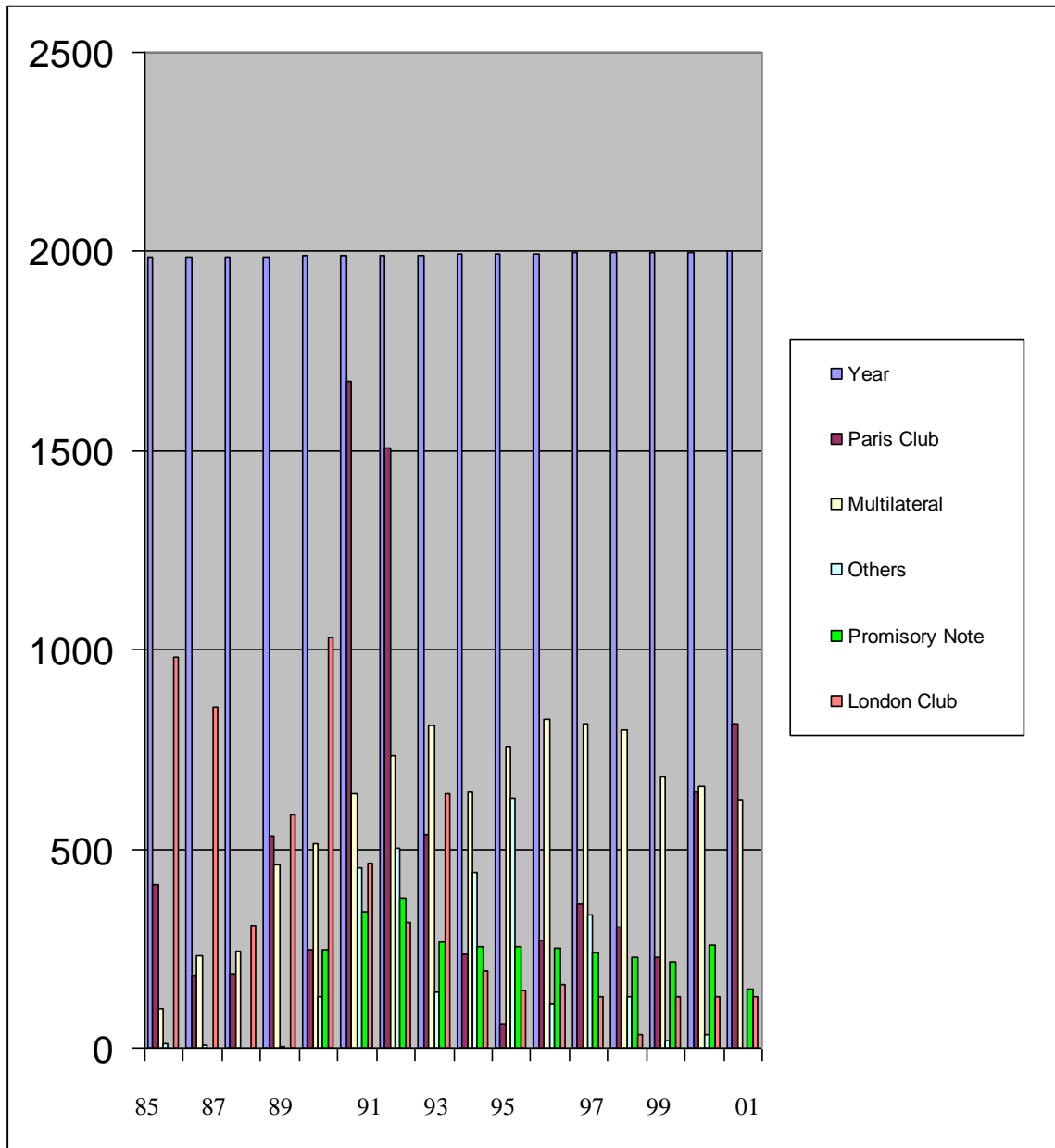


Fig 5: Creditor Category External Debt Service payment

would, once again, fall short in servicing its external debt obligations in the year, as it was in 2002.

In 2002, the total debt service due was \$3.3 billion, out of which only \$1.5 billion was approved by the National Assembly in that year=s budget for debts repayment to the country=s external creditors. The country was however, able to repurchase par bonds worth \$604 million, which helped to mitigate the effect of the underpayments and reduced the 2002 unpaid arrears to \$1.2 billion. By the account of the Debt Management Office (DMO), the interest arrears alone added \$1.2 billion, the penalties added \$0.2 billion, while fluctuations in dollar against Euro resulted in \$0.4 billion increase.

Nigeria committed the sum of \$6,775 billion to servicing her external debts in the past four (4) years. These payments incidentally, fell short of the total debt obligations due for repayment in the period, resulting in a rise in the total debt stock of the country to \$29.5 billion.

External debt outstanding at the end of 1997 amounted to \$27,087.8 million (x595,931.6 million) compared with \$28,060.0 million (617,320.0 million) in 1996 while at the beginning of 2002, Nigeria=s debt stock stood at \$28.35 billion.

The reduction in the debt stock between 1996 and 1997, was attributable to principal repayments, debt reconciliation, particularly the Paris Club debts and conversion of some debts under the Debt Conversion Programme (DCP). As a proportion of GDP, external debt stock fell further to 70.7% from 80.5% in 1996. A breakdown of the total external debt showed that \$4,372.7 million (×96,199.0 million) or 16.1% was owed to the multilateral institutions, \$2,043.0 million (×44,946.0 million) or 7.6% to the London Club in respect of collateralised par bonds, ×1,612.5 million (×35,475.9 million) or 6.0% to the promissory note holders and \$79.2 million (×1,742.2 million) or 0.3% to non-Paris Club bilateral creditors. Total debt obligations to the Paris Club of creditors amounted to \$18,980.4 million (×417,568.8 million) representing 70.0% of the total. The reduction in 1997 was achieved in all categories of debt except the collateralised par bonds. See Table 4.7 below:

In trying to overcome her liquidity problems, Nigeria like other African countries has sought the classical solution of rescheduling her external debts. Since creditors usually perceive debt servicing problems as arising from poor economic management (McDonald, 1982), the negotiations preceding the rescheduling agreement usually involve a long drawn out battle on the necessity of adopting certain economic policy reforms.

TABLE 4.6: EXTERNAL PUBLIC DEBT OUTSTANDING (US\$ MILLION)

Holders	1993 (1)	1994 (2)	1995 (3)	1996 (4)	1997 (5)	1998 (6)	1999 (7)	2000 (8)	1993 (9)	1994 (10)	1995 (11)	1996 (12)	1997 (13)	1998 (14)	1999 (15)	2000 (16)
Multilateral	3,694.7	4,402.3	4,11.0	4,665.0	4,372.2	4,237.0	3,933.3	3,460.0	81,456.3	97,056.6	97,042.0	102,630.0	96,199.0	93,214.0	361,194.9	397,043.0
Paris Club	18,160.5	18,334.3	21,669.6	19,091.0	18,980.4	20,829.9	20,534.3	21,480.0	400,308.9	404,212.6	476,731.2	420,002.0	417,568.8	458,257.8	1,885,664.8	2,353,134.0
London Club	2,055.8	2,057.8	2,045.0	2,043.0	2,043.0	2,043.0	2,043.2	2,043.2	45,323.8	45,367.9	44,900.0	44,946.0	44,946.0	44,946.0	187,627.1	223,832.6
Promissory Notes	3,159.9	3,178.2	3,148.2	2,140.0	1,612.5	1,577.8	1,486.8	1,446.7	69,665.7	70,069.1	69,256.0	47,080.0	35,475.9	35,151.6	136,532.8	158,486.0
Others	1,647.3	1,456.3	1,311.2	121.0	79.2	65.8	69.3	66.0	36,317.7	32,106.8	28,846.4	2,662.0	1,742.2	1,447.6	6,363.8	7,230.3
Total Debt Outstanding	28,718.2	29,428.9	32,584.8	28,060.0	27,087.8	28,773.5	28,066.9	28,495.9	633,144.4	648,813.0	716,775.6	617,320.0	595,931.6	633,017.0	2,577,383.4	3,121,725.8

Sources: i. Federal Ministry of Finance
ii. Central Bank of Nigeria (2001)

These policy reforms would assure the creditors that enough foreign exchange would either be generated or saved to facilitate the servicing of the debts under the new terms of the rescheduling agreement.

Although refinancing and rescheduling of debt payment postpones the burden and eases the problem for the time being, it is only at the expense of added costs in the form of additional interest payments. Refinancing and rescheduling of debts not only increase the cost of debt servicing but also make the nation vulnerable to disruption in capital earnings. All these erode confidence in the credit worthiness of the nation.

New loan facilities have the implications of providing short-term finance for imports or for servicing outstanding debts but they will also go a long way in compounding the debt service problems of the nation. The nation's debt service ratio may increase astronomically due to continuous acquisition of new loans and this might result in unmanageable debt crisis. And since parts of the new loans are devoted to servicing old loans, only part of the new debt is available for investment. Foreign debts as Alkali and Shettima (1994) put it , erodes a country's

prestige, pride and respect. Indiscriminate accumulation of these debts also impede development as all kinds of blackmail are used to ensure that the debts are serviced even if it means having little to meet domestic obligations.

4.5 **EXTERNAL BORROWING POLICY**

In 1987, an external borrowing policy was approved by the federal government. Since then, the policy has gone through several stages of fine-tuning and is still being further reviewed from time to time. The objectives of the policy include:

- i. Outline strategies for increasing foreign exchange earnings and thereby reducing the need for external borrowing.
- ii. To set out the criteria for borrowing from external sources and determine the type of projects for which external loans may be obtained.
- iii. To outline the mechanics for servicing external debts of the public and private sectors of the economy.
- iv. To outline the roles and responsibilities of the federal and state governments as well as private sector in the management of external debts.

The policy took into consideration the following factors:

1. the absorptive capacity of the nation=s economy
2. the nature of a project and its potential to generate foreign exchange for the amortisation of a loan,
3. the procedure for negotiating, disbursing and repaying loans, to avoid their further accumulating into debts due to non-repayment. Consequently, clear criteria for obtaining foreign loans was set out under the policy as follows:

- a. For projects in the economic sector, there should be a positive internal rate of return which is at least as high as the cost of borrowing while projects in the area of social services or infrastructure will be ranked on the basis of cost/benefit ratios. All projects will be subjected to comparative minimum unit cost tests using national and appropriate international yardstick.
- b. Projects to be financed with external loans should be to the maximum extent possible be supported with feasibility studies.
- c. External loan requirements of the private and public sector projects that are of a commercial and quick yielding nature

may be sourced from the International Capital Market (ICM).

While concessionary financing may be secured for social service and infrastructural projects.

In addition to setting out the above criteria Sanusi (1991:38) goes on to emphasize that,

the policy prescribes a new procedure for obtaining loans. The procedure was in response to the problem of lack of coordinating or controlling authority for foreign loans, which led to the indiscriminate borrowing by state governments and other governmental agencies especially in the period of the late 1970s and early 1980s.

Thus, under the policy;

1. State governments and parastatals must obtain approval before contracting fresh (new) loans. Contracts of projects requiring external financing should therefore not be signed by state governments and parastatals until there is assurance that the required loan would be guaranteed by the federal government. In the case of private sector borrowing, approval will not constitute a federal government guarantee or currency undertaking but applies solely to ensure that the external borrowing conforms to national objectives and priorities.

2. State government may obtain external loans after obtaining Federal Government=s consent that it would guarantee the loan.
3. All external borrowing proposals of the state governments in a fiscal year should be submitted in good time to Federal Ministry of Finance and Economic Development for vetting and incorporation in the external borrowing programme of the public sector in the annual budget.
4. All foreign loan agreements should first be discussed with the Federal Ministry of Finance and Economic Development and the Central Bank before negotiation with creditors.
5. Down payment and counterpart funding required in external loans should be deposited in an account preferably before the loan agreement is signed so as to avoid the perennial problem of payment of commitment charges without any drawing from the loan.

4.6 STRUCTURE OF NIGERIA=S EXTERNAL DEBT

External debt can be broadly classified into private and official debts. The private debts constitute uninsured short term trade debt

arrears that were contracted through such media as bills for collection and open account. and through commercial banks. These are debts contracted through loans and/letters of credit (often referred to as London Club debts). On the other hand, the official debt comprise Paris Club debts (that is, the debts insured by exports credit agencies of Paris Club members). Multilateral debts as Omoruyi, (1995:362) puts it,

are debts owed the regional and international financial institutions such as the African Development Bank (ADB), European International Bank (EIB) and the World bank. Other financial debts referred to as non-Paris Club bilateral debts are those debts owed to country governments which are non-members of the Paris Club group of creditors such as Russia.

4.7 CORRUPTION IN NIGERIA AND ITS EFFECTS ON DEBTS AND ECONOMIC DEVELOPMENT

Corruption is a multi-faceted phenomenon, as its nature has both ethical and normative dimensions. This is manifested in the difficulty in obtaining consensus as to what constitutes a corrupt behaviour. Corruption however, is manifested by the desire to use the instrumentality of office for private gain to the benefit of the official, his relations, ethnic group or friends at the expense of the general good. In

his view, Khan (1996) defined corruption as an act which deviates from the formal rules of conduct governing the actions of someone in a position of public authority because of private - regarding motives such as wealth, power or status.

Although corruption is a worldwide phenomenon, the fundamental issue about this menace as Olayiwola (2001) puts it, rests on its effects on the developed and developing countries. In developed countries for instance, the fight against corruption is a fight for fairness and increased efficiency in markets that are already well structured. In developing countries on the other hand, corruption could be pervasive to the extent that it can undermine the state and hinder economic development. The implication of this is that corruption is entrenched and systemic in developing countries of the world. Given this phenomenon therefore, in a corruption-entrenched society, citizens become very helpless because they have little or no practical alternatives for dealing with it (Kaufam, 1999).

Corruption is known to flourish in any economy where there is high level of lack of transparency and accountability in government business and transactions. Such deficiencies are known to thrive more under dictatorial and non-democratic governance. In Nigeria, long years

of military dictatorship with its attendant lack of transparency and accountability multiplied the opportunities for graft. A lot of money was misappropriated by the political leadership and corrupt government officials by exploitation of government's loose procurement and project execution procedures. This led to outrageously high project cost and encourages the twin problems of over invoicing of imports and under invoicing of exports, and other corrupt practices like indefensible inflation of contract costs or termination and re-award of the same contracts at will by public service officials.

The methodology and techniques adopted for perpetuating corruption in Nigeria are diverse and as Olopoenia (1998) puts it, one can hardly be exhaustive in documenting them because the perpetrators are always several steps ahead in their capacity to evolve new techniques for their trade. Atojoko S. (1998) cited a few examples of corruption in Nigeria with the African Development Bank (ADB) loans meant for infrastructural development, which were misappropriated. By October 1996, 71.73% of the aforementioned loans for the projects had been disbursed by the ADB. However, the projects completion rate was only 17%. The report attributed the poor completion rate to unethical conduct, diversion of funds, embezzlement, corruption

and lack of commitment to the implementation of projects by Nigeria Officials.

The ADB loans suffered a great deal of misappropriation in different states. For instance, in Ogun State, the projects implementation unit of ADB projects diverted \$42,000.00 from the projects foreign account to Habib Bank, London Branch. Out of this, the sum of \$20,000.00 was transferred to Abeokuta Branch of the Bank which soon vanished.

In Niger State, top government officials signed and collected 4,269,987.00 French Franc for the Niger State water supply project. Record was not made of the transaction and the state administrator then wrote the ADB that the revolving fund could not be traced.

In Ibadan, the Asejire water project valued at \$39,000.00 was a failure. The state government merely refurbished the said water project rather than expand it. The Hadeija valley irrigation project is another case in point, where a soft loan of \$55 million was granted in 1991, the project became a victim of diplomatic intrigues of the French government and was abandoned. These projects which should have brought about some measure of economic development to the nation became victims of corruption and were abandoned. (See table 4.7 below).

TABLE 4.7: ADB PROJECTS IN NIGERIA AS AT OCTOBER, 1996

S/N	Project	Year Approval	Amount Million	Percentage Disbursement	Status
1.	Anambra Enugu Rural infrastructure project	1998	\$122.55	62.70	Inadequate counterpart funding and unsatisfactory performance of local contractors
2.	Edo/Delta water supply project	1990	\$118.11	100.04	75% completed loan exhausted with cost overruns.
3.	Ibadan water supply project	1986	\$39	75.96	-
4.	Forestry development project Ondo/Ogun	1986	\$104	38.12	Inadequate local counterpart contributors.
5.	Nigeria Agriculture & Cooperative Ban, NACB, Agricultural strengthening project.	1995	\$6.9.5	66.81	Poor management/irregular audit report and quarterly progress reports.
6.	Savannah Sugar rehabilitation				
7.	Hadeja Valley Irrigation	1991	\$68.7	-	Notice of cancellation given
8.	Forestry Resource study	1993	\$4.05	26.65	Default in implementation schedule.
9.	Bacita sugar Expansion	1989	\$101.22	78.51	On-going.
10.	Plateau State Water supply	1991	\$141	49.87	-
11.	Bauchi State health	19900	\$33.655	100	85% completed loan exhausted without overruns.
12.	Bauchi township water supply	1988	\$67.425	100	Completed satisfactorily.
13.	Kwara / Kogi / Niger health project	1991	\$1962	55.14	Inadequate counterpart funding.
14.	Multi-state health services rehabilitation Kebbi/Ondo/Ogun/Sokoto	1992	\$82.89	6.10	Inadequate counterpart funding.
15.	Rivers State Rice Development Study	1991	\$2.09	72.46	Loan cancellation notice given.
16.	Line of credit to Nigerian industrial development NIDB	1989	\$120	84.91	-
17.	River Basin irrigation planning study	1992	\$5.52	-	Loan cancelled in October 1996 for being inactive.
18.	Annual vaccine and drug reduction	1992	\$0.78	-	Loan cancelled in October 1996 for being inactive.
19.	Ibadan-Ilorin highway	1994	\$161.7	-	Unsigned loan cancelled in May, 1996.
20.	Industrial export support	1993	\$225	-	Loan cancelled in October 1996 for being inactive
21.	Bank Note and Security paper	1994	\$85.59	-	Unsigned loan cancelled in May, 1996
22.	Gombe Water Supply	1994	\$76.65	-	Unsigned loan cancelled in May, 1996

Source: Newswatch Magazine, 1998.

One of the reasons advanced why the ADB projects in Nigeria suffered great setbacks was that the projects originated from various parties, promoters, commission agents, interested ADB staff, consultants, contractors, states and the federal government. As a result of the many interests, rules of procurement and prequalification tenders were open to corruption. For instance, ADB staff engaged in escalation of costing by making contingency for fluctuation of the foreign currency through which kick backs are built in (inflate the contract).

Corruption therefore, creates artificial need for external assistance/aid to compensate for corruption B mismanagement/misappropriation of local/domestic resources. Corruption in all its ramification has the severe consequence of undermining national, social and indeed, economic development.

4.8 EFFECTS OF CORRUPTION ON THE ECONOMY

Corruption has debilitating effects on any economy where it is pervasive. First, it aggravates capital shortage problems in the economy by making less money available for developmental purposes. In contrast, it accentuates capital flight with political and other elites competing for private accumulation of public capital meant for welfare

and developmental purposes which is often deposited in overseas banks where they are deemed to be safe. Such monies are therefore, unavailable for capital formation purposes.

Corruption debase the value system of the society by placing emphasis on wealth accumulation, irrespective of the method and process, as an index of success. Accordingly, the virtues of dignity, labour and hard work become relegated to the background. This results in the younger generation adopting *inappropriate* methods for attaining success in life.

When the common wealth is misappropriated by a few through corruption, the resultant effect is the aggravation of the poverty level of the populace who become easily manipulated for political and other personal purposes of the leadership. This leads to a vicious circle of more corruption and worsening poverty, and infinitum.

The striking effect of corruption on the Nigerian economy can be gleaned from the circumstances in which the country found itself in the last two decades. These include:

- (1) rapid regression into deep poverty and deprivation in spite of the enormous amount of resources which have been at the disposal of the country during these years,

- (2) a society that is gradually losing its social capital of trust, devotion to duty, and communal interdependence, and
- (3) a polity in which no government which started out pursuing an anti-corruption agenda has been known to last and/or knows no peace or is somewhat, destabilised. While in contrast, others with demonstrable overt preference for the venal, have tended to survive much longer and enjoyed relative peace.

4.9 NIGERIA'S EXTERNAL DEBT AND IMPLICATIONS FOR ECONOMIC DEVELOPMENT

The causes of indebtedness which are essentially imperialism, international capital flows and unequal trade are concomitant with the internationalisation of the capitalist system and the impoverishment of the post-colonial societies. Julius Nyerere aptly summed up the problem when he declared as cited in Olusanya and Olukoshi, (1991: 36-37) that,

Africa is now beginning to discover that political independence, alas, is not enough. We have to have economic independence, and it is vital that the problems in areas of economic domination should be politically perceived before we can push the process of liberation to its logical conclusion.

The debt problem does not arise just because a nation owes money. It arises when a debtor country cannot meet her debt servicing problems and enjoys economic growth at the same time. Debt servicing presents crisis when growth and development are arrested, there is poor balance of payments, and an imbalance in external payments.

The implications of the debt problem for the nation therefore, cannot be over-emphasised. These implications are:

As a result of the increasing debt problems, credit facilities gradually dries up as the full ramifications of the debt problem become clearer. Absence of medium to long-term financing means that the completion of a number of projects will be stalled, while absence of short-term cover further drains the foreign exchange reserves by denying the country of the traditional mode of importing financing.

It also results in accelerated deterioration of the terms of trade, as suppliers raise prices to build in a risk premium against delays in payment thus compounding the payments difficulties. The inflexible obligations of debt servicing builds a rigidity into the balance of payments which because of the dependence of the economy on oil

made the latter extremely sensitive to debt service obligations. This rigidity is one of the factors necessitating severe import compression.

Compressing imports of immediate inputs lead along with other factors, to under utilisation of installed capacity with dire consequences for the level of income and employment. Reduction in imports of capital goods contribute in reducing capacity expansion and affect the ability to produce and maintain capital stock both of which are essential ingredients for sustained adjustment.

Very importantly, debt service Ajayi, (1989;25) asserts, “absorbs a significant portion of the available pool of savings at a time when new borrowing adds virtually nothing.”

Other implications of the debt problem are inflation, which keeps rising. For example, in 1985 the inflation rate was 5.5%. This declined very slightly to 5.4% in 1986 and then rose sharply to 10.2%, 38.35%, and 40.9% in 1987, 1988, and 1989 respectively. This declined in 1990 and 1991 to 7.5% and 13% respectively and rose again to 44.5%, 57.2% and an all time high of 72.8% in 1992, 1993 and 1995 respectively. By 1999 and 2000, this had declined to 6.6% and 6.9% respectively.

Unemployment, hunger, disease, retrenchments, financial collapse, political instability, social and political unrest, increasing crime and prostitution are the other effects of the debt problem. These become detrimental to the country's international image and thus, scare away domestic and foreign investors, whose activities would have brought about economic development in the country.

The need for Nigeria to pursue accelerated growth in order to reduce its debt problem and more importantly, break out of its vicious cycle of poverty makes it imperative to investigate how far external indebtedness affects future growth. The effect of debt on socio-economic growth and development of Nigeria can be captured in the Lewisian theory of the existence of the Zero marginal productivity of labour in the Less Developed Countries (LDCs) gained currency, labour and by an unfortunate extension, the entire human factor has been emphasised as a major constraint to development in LDCs. This has given rise to the two-gap model, which suggests the dearth of capital resources as the main constraint to development in Nigeria in particular, and the LDCs in general. The model suggests that a massive importation of foreign capital is necessary if the LDCs are to break the cycle of poverty. It envisages only two constraints on capital formation,

and consequently, on the growth rate of GDP, and these are the domestic resources and foreign resources.

The apriori salvaging role assigned to foreign capital by the two-gap model (Vijay, 1988) notwithstanding its contribution to economic development in LDCs has been, a posteriori, found questionable by some studies on a number of grounds viz: foreign capital inflow generates huge debt servicing charges on the recipient=s economy; there are poor rates of return on loan-financed investment; and such inflow leads to reduction in domestic savings (Wesskopt 1972, Griffin and Enos 1970; Rahoman 1968). Some other studies (Dowling and Hienmenz 1983; Krashe and Toira 1974; and Papanek 1972) found positive correlation between foreign capital inflow and growth.

It has been long recognised that borrowing is a catalyst for development. Foreign capital has the effect of transferring real resources to the developing countries and thereby, helping to bridge a number of gap such as savings, foreign exchange and technology, that constrains development in these countries, Nigeria inclusive. In this way borrowing plays a crucial role in the development process.

Arguing from this perspective, some economists have called for more assistance to the developing countries to speed up their

development process. Higgins (1959), Pearson (1969), and Symonds (1970), posited that indebtedness through external borrowing by LDCs would help transform their economies, characterized as they are by low or zero growth rates into economies capable of adequate and sustained growth. To them, external borrowing by LDCs is necessary and serves to supplement domestic resource gaps with positive effects.

Generally, theoretical discussion on borrowing reveals that debt is a double-edged sword that cuts both ways in that it has both merits and demerits. As a result of domestic resource shortage, developing countries such as Nigeria require credit to augment available resources in order to achieve their development objectives. In a way, external financing could be beneficial to development by helping to bridge some critical gaps in the development process. However, debt resources have to be carefully managed to ensure that maximum benefits are derived from them otherwise it can be counter productive (Ogbu, 2002).

CHAPTER FIVE

DATA ANALYSIS AND INTERPRETATION OF RESULTS

5.1 INTRODUCTION

This chapter deals with the analysis of data. The data used are obtained from secondary sources – Central Bank of Nigeria, Federal Office of Statistics, Debt Management Office, National Manpower Board, Supreme Court Judgment, Federal Government Panel reports, Transparency International, and World Bank.

Quantitative (econometric, statistical) and qualitative (descriptive) tools have been employed in analyzing the data generated. From table 5.1, Nigeria's external debt rose over the years except for 1994, 1996 and 1998 which recorded decrease. Furthermore, the debt stock rose faster than the country's exports. Between 1980 and 1986 (except for 1982), Nigeria's Cross Domestic Product (GDP) grew faster than her debt stock. Thereafter, from 1987 to 2000, the country's debt stock took a sharp turn and more than doubled her GDP. While the amount of money devoted to debt service kept an astronomical increase, the amount devoted to capital expenditure dwindled.

5.2 PRESENTATION OF DATA

The data employed in analyzing our data are presented as follows:

Table 5.1: **Debt – Export, GDP Ratio, Debt service, Capital and Government expenditure, Budget Balance, Public sector investment in (Nmillion) and employment rate**

Year	Debt	Export	Debt/Export	GDP at 1984 factor cost	Debt/Export	Debt Service	Capital Expenditure	Government Expenditure	Budget Balance	Government Expenditure on Infrastructures	Public Sector Investment (PSI) (N Billion)	Employment Rate % of Labour Force	Unemployment Rate % of Labour Force
1980	1866.8	14186	0.1315945	96186.6	0.0194081	518.9	10654.1	14.96	-1,975.2	49061.3	10.163	93.6	6.4
1981	2331.2	11023.3	0.2114793	70395.6	0.0331157	634.1	6564.2	11.41	-3,902.1	53984.1	6.567	-	-
1982	8819.4	8206.4	1.0746978	70157	0.1257094	674.6	7998	11.92	-6,104.1	56112.0	6.417	-	-
1983	10577.7	7502.5	1.40989	66389.52	0.1593278	742.0	6807.3	9.63	-3,364.5	58004.4	4.886	-	-
1984	14808.7	9088	1.6294784	63006.4	0.2350348	948.5	5114	9.92	-2,660.4	58698.6	4.100	93.8	6.2
1985	17300.6	11720.8	1.4760597	68916.3	0.2510378	1,500.70	6516.4	13.04	-3,03.7	64500.2	5.465	93.9	6.1
1986	41452.4	8920.5	4.6468696	71075.9	0.5832131	1,278.60	5445.9	16.22	-8,254.3	67783.3	8.527	94.7	5.3
1987	100789.1	30360.6	3.3197335	70741.4	1.4247541	740.00	4759.4	22.01	-5,889.7	69423.3	6.373	93.0	7.0
1988	133956.3	31192.8	4.2944622	77752.5	1.7228552	1,581.90	10588.6	27.7	-12,160.9	73167.4	8.340	94.7	5.
1989	240393.7	57971.2	4.1467781	83495.2	2.879132	2,168.30	9297.1	41.02	-15,134.7	80929.8	15.034	95.5	4.5
1990	298614.4	109886.1	2.7174902	90342.1	3.3053737	3,572.40	12555.6	60.26	-22,116.1	86094.0	24.049	96.5	3.5
1991	328054.3	121533.7	2.6992867	94614.1	3.4672876	3,435.00	13085.4	66.5	-35,755.2	89312.1	28.341	92.1	7.90
1992	544264.1	205613.1	2.6470303	97431.1	5.5861434	2,392.60	15975.9	92.7	-39,532.5	94900.8	39.763	92.25	7.75
1993	633144.4	218765.2	2.8941733	100015.2	6.3304818	1,772.50	18600	191.2	-107,735.3	105324.3	54.501	92.32	7.68
1994	648813	206059.2	3.1486728	101330	6.4029705	1,843.00	31000	160.89	-70,270.6	109920.9	70.918	92.41	7.59
1995	716865.6	825669.6	0.8682232	103510	6.9255685	1,620.60	44559	248.7	+1,000	124653.4	121.138	92.49	7.51
1996	617320	1125691	0.548392	107020	5.7682676	1,876.60	48000	288.09	+37,049.4	165013.0	212.926	92.59	7.41
1997	595931.9	1091131.4	0.5461596	110400	5.39793339	1,496.60	115990	356.2	-5,000	145399.3	269.652	89.8	10.20
1998	633017	689066.2	0.9186591	112950	5.6044002	1,272.54	185375	443.5	-133,389.3	175931.1	309.016	90.0	10.00
1999	2577383.4	1189005.9	2.1676792	116400	22.142469	1,724.90	136984	947.6	-285,104	176545.9	498.028	87.5	12.50
2000	3121725.8	1945762.3	1.6043715	120640	25.876374	1,716.01	311609	701.05	-103,777	208644.3	239.451	81.99	18.01

Sources: a) CBN Statistical Bulletin 2001 (b) DMO Nigeria (c) FOS Annual Abstracts of statistics, various issues
 (d) CBN Annual Report and Statement of Accounts, various issues (e) CBN Statistical Publication 2000. Macro Economic Analysis Department of National Planning Commission July 2004 (f) Nigeria Labour Market Information Published by National Manpower Board. (g) CBN proceedings of the 10th Annual Conference of the Zonal Research Units June, 2000.

The budget balance of government was persistently in deficit except for 1995 and 1996 which recorded surpluses. The remaining nineteen (19) years recorded enormous deficits.

Table 5.2 and figure 6, reveal that the country generated consistently high earnings from export attributable majorly to revenue from oil sales. The imports also maintained a steady increase, an indication of Nigeria's high marginal propensity to import foreign goods. Government also committed more of her resources to current expenditures in contrast to its capital expenditures while the country's Balance of Payments was consistently in deficit for most of the years under review due to excess importation of both capital and consumers' goods over the nations exports.

The Transparency International's Corruption Perception Index (CPI) to the best of our knowledge remains the most reliable data on corruption in spite of the present civilian regime refuting some of the statistics. President Obasanjo is part of the founding members of Transparency International. The bone of contention so far is, why has the statistics remain consistent without Nigeria's position improving. This is a political dimension as the Obasanjo's led government has always contested statistics that is not favourable to its operation.

Table 5.2: Nigeria's Export, Import, Current and Capital Accounts and Balance of Payment (₦ million)

Year	Exports	Imports	Current	Capital	BOP
1980	14,186.7	9,095.6	13057.9	97.4	-1398.30
1981	11,023.3	12,839.6	10070.3	929.5	-3020.80
1982	8,206.4	10,770.5	7980.9	3,470.9	-1398.30
1983	7,502.5	8,903.7	6752.3	2,735.7	-301.30
1984	9,088.0	7,178.3	8234.3	171.9	354.90
1985	11,720.8	7,062.6	10738.9	-2555.0	349.10
1986	8,920.6	5,983.6	8006.6	-1,900.9	796.40
1987	30,360.6	17,861.7	17138.2	-16,743.3	159.20
1988	31,192.8	21,445.7	31586.1	-18,447.3	-2294.10
1989	57,971.2	30,860.2	59112	-30,221.9	8727.80
1990	109,886.1	45,717.9	79810.1	-49,245.3	18498.20
1991	121,535.4	87,020.2	51969.8	-27,482.9	5959.60
1992	207,266.0	145,911.4	93680.5	-138,755.6	-65272.60
1993	218,770.1	166,100.4	-34414.7	-23,060.6	-43060.40
1994	206,059.2	162,788.8	-52304.3	11252.8	-42623.30
1995	950,661.4	755,127.7	-186084.6	-3254	-195216.30
1996	1,309,543.3	562,626.6	240180	-290200.5	-53152.00
1997	1091131.4	845716.6	268899.3	-263360.2	1077.70
1998	689066.2	837418.7	-331429.5	116718.5	-220667.60
1999	1189005.9	862507.3	41074.1	-361559	326635.00
2000	1945762.3	69223.3	706977	-382266.5	314148.70

Source: a) CBN Statistical Bulletin 1998 and 2001
b) CBN Annual Statement of Accounts (various issues)
c) Federal Office of Statistics 2000

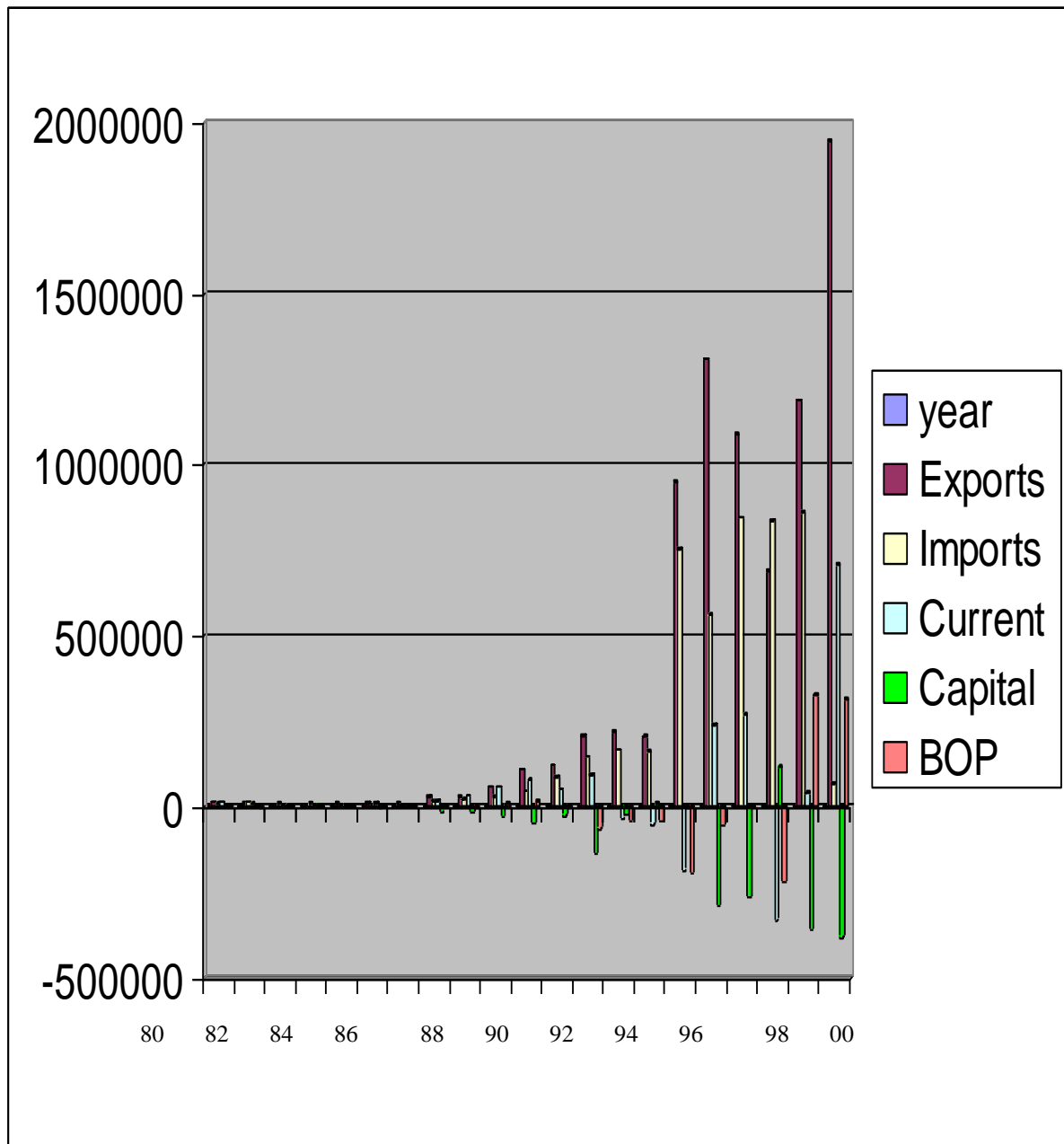


Fig 6: Nigeria's Export, Import, Current and Capital Accounts and Balance of Payment

**Table 5.3: Nigeria's Corruption Index and other Development Indices
(N000)**

Year	X corrupt	Y1 emplrate	Y2 gdp	Y3 debstoc	Y4 capexpen	Y5 govexpin	Y6 typerule (Civil (1),military(0))
1981	.00	.	70395.60	2331.20	6564.20	49061.30	1.00
1982	.00	.	70157.00	8819.40	7998.00	53984.10	1.00
1983	.00	.	66389.52	10577.70	6807.30	56112.00	1.00
1984	.00	93.80	63006.40	14808.70	5114.00	58004.40	00
1985	.00	93.90	68916.30	17300.60	6516.40	58698.60	00
1986	.00	94.70	71075.90	41452.40	5445.90	64500.20	00
1987	.00	93.00	70741.40	100789.1	4754.40	67783.30	00
1988	.00	94.70	77752.50	133956.3	10588.60	69423.30	00
1989	.00	95.50	83495.20	2403394	9297.10	73167.40	00
1990	.00	96.50	90342.10	298614.4	12555.60	80929.80	00
1991	.00	92.10	94614.10	328054.3	13085.40	86094.00	00
1992	.00	92.25	97431.10	544264.1	15975.90	89312.10	00
1993	.00	92.32	100015.2	633144.4	18600.00	94900.80	00
1994	.00	92.41	101330.0	648813.0	31000.00	105324.3	00
1995	.00	92.49	103510.0	716865.6	44559.00	109920.9	00
1996	.00	92.59	107020.0	617320.0	48000.00	124653.4	00
1997	1.00	89.80	110400.0	595931.4	115990.0	165013.0	00
1998	1.90	90.00	112950.0	633017.0	185375.0	145399.3	00
1999	1.60	87.50	116400.0	2577383	136984.0	175931.1	1.00
2000	1.20	87.50	120640.0	3121726	311609.0	176545.9	1.00
2001	1.00	.	.	.	.	208644.3	1.00
2002	1.60	.	.	.	.	.	.

- Sources:** (a) Nigeria Corruption Perception Index, Transparency International, 2002 TI's corruption perception Index Range from a totally corrupt 0 to a clean 10.
 (b) CBN Statistical Bulletin 2001
 (c) CBN growing the Nigerian Economy; First Annual Monetary Policy Conference, Nov. 2001
 (d) National Rolling Plan 1997 – 1999 (Vol. 1 & 2).

5.3 ESTIMATION OF THE MODEL

This study parsimoniously adopts the relationships between the variables in theoretical expositions in estimating, analyzing and interpreting the model used.

5.4 RESULTS OF ANALYSIS

5.4.1 Public Infrastructure (PF)

$$PF = \alpha_0 + \alpha_1 DE + \alpha_2 DGDP$$

$$\hat{PF} = 83635 - 5713.3DE + 5787.64 DGDP$$

$$T\text{-Stat: } 7.3 - 1.33 + 6.7$$

$$F\text{-Stat: } = 24$$

$$R^2 = 0.72$$

$$Dw = 0.9$$

$$PF = C + DGDP - DSCE - DE$$

$$\hat{PF} = 92769 + 4979.9 DGDP - 127040.5DSCE - 894.69DE$$

$$T\text{-Stat: } 7.0 + 4.8 - 1.318 - 0.161$$

$$SE \quad (13153) \quad (1037) \quad (96332) \quad (5557)$$

$$F\text{-Stat} = 17$$

$$R^2 = 0.75$$

$$DW = 1.0$$

Where: PF = Current level of public infrastructure.

C = intercept

DE = Debt/Export ratio

DSCE = Current debt service/capital expenditure ratio

DGDP = Current Debt/GDP ratio

The estimates indicate that the intercept is highly significant suggesting the omission of some other explanatory variables that is,

inconsistent/doubtful data. The Cochrain Occult iterative technique was applied in view of the low Durbin Watson statistic. The overall result did not improve significantly even though the Durbin Watson statistic improved slightly. The low Durbin Watson does not affect the unbiasedness or consistency of the Ordinary Least – Squares regression estimators, but it does affect efficiency of the estimators. DW procedure yields (generalized difference) more efficient set of parameter estimates than the Cochrain – Occult procedure because the iterative technique of Cochrain Occult procedure may lead to local rather than a global minimum. The coefficient of determination $R^2 = 0.75$ is significant. This implies that the higher the stock of external debt, the lower the level of infrastructural facilities provided for the development of the Nigerian economy. This result and its narration confirms our first hypothesis (H_1) that the level of indebtedness has a significant negative effect on the development of the Nigerian economy.

5.4.2 Employment Level (EMP)

$$\begin{aligned}
 EMP_t &= C - DSCE - DGDP + GE \\
 \hat{EMP}_t &= 93.9 + 3.997 DSCE - 0.19 DGDP - 2.08GE \\
 T - Stat: & 114.4 + 0.97 - 2.542 - 3.139 \\
 SE & (0.8209) (4.1006) (0.0729) (6.639) \\
 F - Stat & = 40 \\
 R^2 & = 0.90
 \end{aligned}$$

$$DW = 1.9$$

Where: C = intercept

DGDP = Current debt/GDP ratio

DSCE = Current debt service/capital Expenditure ratio

GE = Government Expenditure

EMP_t = Employment level

The coefficient of determination $R^2 = 0.90$. Since the R^2 is very close to one, it implies a positive relationship exists between external debts and the level of employment in the country. Thus, the current high level of unemployment level) can be explained from our data analysis which indicated that the loans were not used for employment generating ventures which would have otherwise absorbed more labour in the unemployment market. The result in the employment model agrees with our first alternative hypothesis (H_1). We therefore reject the first null hypothesis (H_0) since the level of indebtedness from our result have a negative effect on employment level in the country and its economic development.

5.4.3 Public Sector Investment (PSI)

$$PSI = C - DE - DGDP - DSCE - BBGDP$$

$$\hat{PSI} = 98.3 + 0.764 DE + 0.764 DGDP - 0.661 DSCE - 0.699 BBGDP$$

$$T\text{-Stat: } 2.58 - 0.37 + 1.79 - 2.63 - 1.85$$

$$SE \quad (38.175) \quad (3.783) \quad (212.06) \quad (38.911)$$

$$R^2 = 0.74$$

$$\text{Adjusted } R^2 = 0.69$$

$$DW = 0.78$$

Where: PSI = Government aggregate capital
expenditure over the years

C = intercept

DE = Debt/Export ratio

DGDP= Current debt/GDP ratio

DSCE= Current debt service/capital expenditure ratio

BBGDP= Budget Balance/GDP ratio – Budget Balance is government savings which determines public sector investment over the years and is proxied by the gap between government revenue (GR) and government expenditure (GE).

Even though the coefficient of determination $R^2 = 0.69$ which implies that a significant relationship exists between public sector investment (PSI) and Nigeria's external debt, the other variables i.e Debt service – capital expenditure ratio and Budget Balance GDP ratio show negative relationship with the PSI while the debt-export and debt – GDP ratios show a weak relationship. This is so because, part of the external loans contracted, which Nigeria has not been able to pay back (now external debts) were used for public

sector investment. The ratios that are negative imply that the higher the amount of debt service, Budget Balance and the higher the debt stock over the export, the lower the amount of capital expenditure devoted to public sector investment respectively. This is in conformity with our apriori expectation and thus agrees with our first alternative hypothesis (H_1). Besides, a number of the public sector investments never really kicked off (see the report of FGN panel to investigate what the external loans of Nigeria were used for or not used for).

5.4.4. Foreign Debt (FD)

$$FD = \alpha_0 + \alpha_1 Pf$$

$$\text{i.e } FD = C + PF$$

$$\hat{FD} = 902348 + 14.3 PF$$

$$T - \text{Stat: } - 3.716 + 6.53$$

$$SE \quad (242806) \quad (2.19)$$

$$F - \text{Stat} = 43$$

$$R^2 = 0.69$$

$$DW = 1.09$$

Where: PF = Expenditure on infrastructures

C = intercept

5.4.5 Foreign Debt (FD)

$$FD = \alpha_0 + \alpha_1 IM$$

$$FD = C + IM$$

$$\hat{FD} = 56473 + 1.97 IM$$

$$T - \text{Stat: } 0.3914 + 5.46$$

$$SE \quad (144295) \quad (0.36)$$

$$F - \text{Stat: } = 30$$

$$R^2 = 0.61$$

$$DW = 0.89$$

Where: C = intercept

IM = Import

Imports have a direct bearing on the country's debt level, and impacts negatively on development. This is because, it serves to drain the country's foreign exchange earnings, which ought to be invested in capital projects that would enhance development. The coefficient of determination $R^2 = 0.61$ suggesting a significant relationship exist between imports and foreign debt. This represents an increase in the value of imports attributable to increased funding of imports by government from foreign borrowing which in turn, increases the country's debt stock. This agrees with the regression analysis results. From these analyses, a positive relationship exist between public infrastructure (PF), employment level (emp), public sector investment (PSI) and foreign debt (FD). This confirms the first

research hypothesis raised thus, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1).

5.5 MULTIPLE REGRESSION ANALYSIS

Stated below is the estimated multiple regression equation for all (four) independent variables (X_1 , X_2 , X_3 and X_4) on the dependent variable (Y).

$$Y = C + X_1 + X_2 + X_3 + X_4$$

$$\hat{Y} = 14958.6 + 0.154X_1 - 0.126X_2 - 0.131X_3 - 0.722X_4$$

$$t = (-.775) \quad (1.165) \quad (-2.457) \quad (-2.962) \quad (-2.755)$$

$$R = .860$$

$$R^2 = .740$$

$$\bar{R}^2 = .675$$

$$F = 11.403$$

$$DW = 1.400$$

Interpretation of Result

Assumptions of the multiple regression model.

1. The null hypothesis (H_0) states that the current account has a negative relationship on Nigeria's Balance of Payments as a result, borrowing is triggered off.

2. That export has a positive relationship on Nigeria's BOPs due to government's borrowing which was invested in production in the economy.
3. That import has a negative relationship on Nigeria's BOP due to Nigeria's high marginal propensity to consume imported goods and services.
4. And that the capital account has a positive relationship on Nigeria's B.O.Ps as a result of external borrowing to bridge the resource gap and thus beef up the capital account base, used for development projects in the economy.

Table 5.2 Shows a summary statement of Nigeria's Balance of payments in the period 1980 – 2000.

The simple linear coefficient of determination is given by the following formula:

$$r^2 = 1 - \frac{\sum(Y - Y_1)^2}{\sum(Y - \bar{Y})^2}$$

$$r^2 = r^2 \frac{(n-1)}{n-2}$$

adjusted to degrees of freedom.

$$[\sum(X_1 - \bar{X}_1)^2] \text{ of } X_1$$

Thus, Current Account	=	X ₁	}	Independent variables
Export	=	X ₂		
Import	=	X ₃		
Capital Account	=	X ₄		

And the Balance of payments } = Y Dependent variable

The estimated simple regression equations for our individual independent variables are stated below for Current account (X_1), Exports (X_2), Imports (X_3) and Capital account (X_4) respectively.

$$Y = C + X_1$$

$$\hat{Y} = 47547 + 1.087561X_1$$

$$R = 0.069136$$

$$R^2 = 0.47798$$

$$\bar{R}^2 = 0.45050$$

$$F = 17.3968$$

$$Y = C + X_2$$

$$\hat{Y} = 372658 + 1.915710X_2$$

$$R = 0.43094$$

$$R^2 = 0.18571$$

$$\bar{R}^2 = 0.14285$$

$$F = 4.33326$$

$$Y = C + X_3$$

$$\hat{Y} = -43774 - 1.909718X_3$$

$$R = 0.57847$$

$$R^2 = 0.33463$$

$$\bar{R}^2 = 0.29961$$

$$F = 9.55567$$

$$Y = C + X_4$$

$$\hat{Y} = -68381 - 0.779801X_4$$

$$R = 0.71055$$

$$R^2 = 0.50488$$

$$\bar{R}^2 = 0.47883$$

$$F = 19.37487$$

The simple regression on search of the independent variables yielded the following results.

$$\text{Current account} = X_1;$$

The coefficient of determination $R^2 = 0.47798$. Since R^2 is less than one, it implies a weak relationship. So, we accept the Null hypothesis (H_0) which states that the current account has not made a significant impact on Nigeria's Balance of payments. Thus, the current account recorded deficits which reflected the huge decline in the surplus on merchandise account and increased level of deficit in the services and incomes account (CBN, Annual Reports Dec 1988 and 2002).

$$\text{Export} = X_2;$$

The coefficient of determination for export $R^2 = 0.18571$. Since R^2 for export is less than one, it implies a very weak relationship. So, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). Since the (H_0) states that export has a positive relationship on Nigeria's Balance of Payments. Thus, the purported increase in export by Export Office of the Foreign Operation Department, the N.N.P.C and the Federal Office of statistics only had

a weak impact on the country's Balance of Payments which was attributable to the persistent depreciation of the Naira exchange rate which reduced the total Federal Government revenue from both the oil and the non-oil sectors as prices were made lower and relatively cheaper thus encouraged borrowing (Olokun, 1987).

Import = X_3 ;

The coefficient of determination for import $R^2 = 0.33463$.

Since R^2 is less than one, it implies a weak relationship. So, we accept the Null hypothesis (H_0) which states that import has not made a significant contribution to the Nigerian economy via the Balance of payments in spite of the huge foreign exchange expended on machineries and other capital intensive projects that were suppose to bring about development in the economy. This therefore, represents an increase in the value of imports which is attributable to increased funding of imports from autonomous sources by the authorized dealers.

Capital account = X_4 ;

The coefficient of determination for capital account $R^2 = 0.50488$ denotes a moderate relationship exist between capital account Nigeria's balance of payments. So, we accept the Null hypothesis (H_0) and reject the Alternative hypothesis (H_1). Since the (H_0) states that the capital account has a positive or significant

relationship on Nigeria's Balance of Payments which was as a result of the decline in short – term capital outflow, increased inflow in favour of direct investment was attributed to the increase in oil sector inflow, while other long – term capital recorded large deficits while short – term capital account deficits narrowed down at a margin. This was traceable to the increase in deferred payments on external debts (CBN, Annual Report Dec. 1990). On the whole, the effect of all these still ended up in the capital account having a significant influence on Nigeria's Balance of Payments.

Multiple coefficient of Determination of Y on X_1 , X_2 , X_3 and X_4 (i.e the multiple coefficient of determination R^2).

$$R^2 = 1 - \frac{\sum (X_1 - \bar{X}_1)^2}{\sum (X_1 - \bar{X}_1)^2}$$

$$R^2 = 0.740$$

The aggregate or over all impact of all four independent variables (current account, exports, imports, and capital account) on the dependent variable Y, (balance of payments) is still negative. So, we accept the null hypothesis which implies that the aggregate impact of the current account X_1 , Export X_2 , Import X_3 and capital account X_4 on the Balance of payments Y, is negative since it is less than one. Thus, the results of this multiple and simple linear regression analysis have shown that the four variables have not

contributed significantly to Nigeria's Balance of payments nor the infrastructural development of the Nigerian economy.

For government to meet its targeted level of recurrent and capital estimates in a fiscal year, especially in a situation where total revenue is inadequate, government will have no option but to increase its level of budget deficits, as Nigeria has done over the years see Table 5:5. level of government expenditure (see table 5:7) has not contributed significantly to the country's infrastructural development.

On corruption and inefficiency and their impact on the development of the Nigerian economy, a selection of projects (infrastructures) for which external loans were procured are analysed across some states in the country to buttress the devastating effects of corruption and inefficiency on the Nigerian economy, and how these impede development.

5.6 **CORRUPTION**

In order to provide a quantitative frame work to buttress the descriptive analysis on corruption in Nigeria, the following linear equation is adopted to show the relationship between the independent variables (employment rate Y1, GDP Y2, Debt stock Y3, Capital expenditure Y4, Government expenditure on infrastructure Y5, and Type of administration Y6) measured and corruption (X) in the Nigerian economy.

$$X = a + b_1Y_1 + b_2Y_2 + b_3Y_3 + b_4Y_4 + b_5Y_5 + b_6Y_6$$

where:

X = Corruption level

a = Constant or intercept

b_{1-6} = coefficients of the estimates measured

Y_{1-6} = Independent variables

The a priori expectations for the correlation coefficients are:

b_1Y_1 - is expected to be negative implying an inverse relationship exists between employment rate in the economy and corruption.

$b_2Y_2 - b_5Y_5$ - a positive relationship is expected to exist between the correlation coefficients of these other independent variables and corruption to prove that as the values of independent variables increase, the corruption level also increases.

b_6Y_6 - The coefficient of correlation for the 6th independent variable (type of rule) is expected to exhibit either a positive or negative sign implying that type of rule may either increase or decrease the corruption level.

5.6.1 Interpretation of the Results of the linear equation model on corruption

Employment rate(Y_1) and Corruption(X): have a strong but inverse relationship that exists between them (-0.801). This is

consistent with the apriori expectation of this study and explains economic theory (Anyanwu, 1997) which postulates “that as the level of employment increases in the economy, all things been equal, the corruption level decreases” as resources meant for welfare and development upon which corruption feeds on have been channeled into creating job opportunities and payment of workers’ salaries.

GDP (Y_2) and corruption (X): the relationship between the GDP and corruption is positive amounting to (0.657). This also agrees with theoretical studies on corruption that increase in GDP results in an increased income for the country. From the result of our data analysed, increased income fans the embers of corruption in the Nigerian context as there was more money circulating in the award of contracts and thus, embezzlement and supplies that were never delivered.

Debt stock (Y_3) and corruption(X): from our analysis, a positive relationship also exists between debt stock and corruption in the country suggesting that as the country accumulates debt contracts were awarded on projects for which contractors were fully paid but such contracts were never executed or at best, abandoned half way.

Capital expenditure(Y_4) and corruption(X): A strong positive relationship exists between capital expenditure and corruption. Coefficient of correlation of 0.839 supports our inclusion of Y_4

variable in the model. Nwaobi (2004) posit that as the amount of money ear marked for capital expenditure in the country increased, so did the corruption level as the monies voted for investment in projects were diverted into personal accounts by way of embezzlement. It is however, expected that the rate of corruption would drop with the government's implementation of the Budget Monitoring and Price Intelligence Unit otherwise known as 'DUE PROCESS' in the award of contracts all things been equal.

Government expenditure on infrastructure (Y_5) and corruption

(X): a strong and positive correlation of 0.827 exists between government expenditure on infrastructure in Nigeria and corruption level. From the data analysed, corruption thrived when government expenditure on infrastructures increased. As contracts were awarded based on increased allocation from the federation account, there was simultaneously, the increase of the "usual" 10% "kick back" contractors paid government officials, non-execution of projects and the eventual misappropriation of the monies meant for specific projects by government officials. This devastating trend had immiserized and worsened the development of infrastructures in Nigeria inspite of the vast increase in revenue allocation for infrastructural facilities. Hence expansion and structural changes appear to create more opportunities for corruption.

Type of administration (civil or military) Y_6 and corruption (X):

Type of rule and corruption have a coefficient of correlation of 0.441. Even though this indicates a weak relationship between the type of rule in Nigeria and corruption, the military as well as civil governments have fanned the embers of corruption. Nigeria's military spending as Aderinto (1992) puts it, is on the average twenty times the total military spending of her neighbours and about four times the total amount spent by the other fifteen West African countries. Obasanjo (1990) had to decry the situation whereby 56 percent of Nigeria's foreign exchange earning was spent on the military and debt servicing. Out of a total projected foreign exchange earning (revenue) of \$7,787 billion in 1990 for instance, military appropriated \$2,294 billion while \$2,114 billion was used for debt service. The "New Nigerian" editorial of July 8, 1978 also cites the Egyptian army that was double the size of the Nigerian army and better equipped with less than Nigeria's budget to demonstrate the inefficiency in Nigeria's military spending. Nigeria's large coastal area, the large and heterogeneous population, the level of participation in international politics and other domestic policies have further encouraged high military spending which have supported corruption. Both types of rule (military as well as civil), have had to set up many panels to look into cases of corruption in the country with the

government not exercising the desired political will to implement the panel reports. This has to some extent helped corruption to grow in the Nigerian context.

$$X = a + b_1Y_1 + b_2Y_2 + b_3Y_3 + b_4Y_4 + b_5Y_5 + b_6Y_6$$

$$\hat{X} = 3.255 - 0.03189Y_1 - 0.00001544Y_2 - 0.0000004939 Y_3 - 0.000003288 Y_4 + 0.00001303 Y_5 - 0.09698 Y_6$$

$$t = (0.358) (-0.336) (-1.123) \quad (-0.314) \quad (1.352) \quad (1.363) \quad (-0.270)$$

$$R = 0.890$$

$$R^2 = 0.792$$

$$\text{Adjusted } R^2 = 0.667$$

$$DW = 1.515$$

From the result of our findings in the linear equation model, if the coefficient of employment rate increases by a unit of ₦1,000, corruption decreases by ₦ 31.890m. While, when the coefficient of GDP increases by ₦ 1,000 for instance, corruption increases by ₦ 0.01544m. If the debt stock of the country increases by ₦ 1,000, corruption level increases by ₦0.000494m. As capital expenditure increases on the other hand by ₦1,000, corruption would increase by ₦ 0.003288m.

The negative signs of the coefficients b_2 and b_3 which negates our apriori theoretical expectations can be attributed to error terms or data deficiency following orthodox econometric expositions (Koutsoyiannis, 1983).

Finally, the $R=0.890$ and the coefficient of multiple determination $R^2 = 0.792$ as well as the adjusted $R^2 = 0.667$ are significantly high suggesting that a strong positive relationship exist between all the independent variables measured and corruption. While the $DW = 1.515$ which is close to 2 showing that there is a positive serial correlation that corruption is a function of all of the independent variables measured, thus we reject our second hypothesis (H_0) and accept our second alternate hypothesis (H_1) that corruption in government has a significant effect on Nigeria's economic development as it diverts resources meant for development into private hands.

5.6.2 Descriptive analysis of corruption

This descriptive analysis buttresses the above quantitative analysis on corruption. In 1996, the Federal Government ordered an appraisal of all projects financed with external loans. The purpose of the exercise was to ascertain the extent of the success or failure of the projects with a view to determining whether or not the nation obtained value for the external loans with which they were financed. These loans accounted for nearly 70% of Nigeria's external debt stock of US\$ 32 billion as at June 30, 1996. Arguments and counter arguments have however ensued between Nigeria and her external

creditors as to the exact amount of debts owed. This led the government to set up the Debt Management Office (DMO) to verify the claims of the creditors. While the creditors put the amount of debts owed at US \$31.9 billion, the DMO holds that it was US \$28.5 billion at the end of December 2000.

The country was divided into four zones for effective coverage by four teams of Federal Ministry of Finance. The data quoted in this segment of study were derived from the Federal Ministry of Finance report on projects in the country. Table 5.4 gives a summary of foreign loans secured by different states of the Federation for infrastructural development followed by the detailed descriptive analysis.

In Abia State, Two projects were visited. Four other projects, which would have been visited, were not operational at the time of the appraisal exercise.

The Umuahia Urban Water Supply Project was financed with a loan of CHF 49, 100,000 contracted on 13th November, 1980 under the agency of Ultrafin of Italy. The water supply scheme was completed and is currently providing potable water to Umuahia Township and some rural communities around the state capital. Unfortunately, irregular power supply and lack of spare parts

TABLE 5.4: SUMMARY TABLE OF FOREIGN LOANS SECURED BY DIFFERENT STATES OF THE FEDERATION FOR INFRASTRUCTURAL DEVELOPMENT AND THE COMPLETION OF SUCH INFRASTRUCTURES (PROJECTS)

S/N	STATE	TOWN (LOCATION OF PROJECT)	PROJECT FOR WHICH LOAN WAS SECURED	TOTAL AMOUNT OF LOAN SECURED	AMOUNT OF LOAN DRAWN	AMOUNT OF LOAN NOT DRAWN	AMOUNT OUTSTANDING OF THE LOAN	LEVEL OF COMPLETION OF PROJECT
1.	ABIA	Umuahia	Urban wafer supply	CHF 49,100,000	ALL	-	-	Completed
		-	For Expansion	CHF 15,300,000	ALL	-	-	No any expansion.
		Umuahia	Extension of ceramic factory	CHF 43,300,000	ALL	-	-	No evidence of extension.
2.	AKWA IBOM	Arodukwu- Obafia	Water scheme	GBP 12,360,000	ALL	-	-	Did not take off.
		-	Rural Electification	USD 23577,745	ALL	-	-	No site of project seen.
		Ukana ikot ekpene	Qua steel products	DM 73,080,000	71,344,350	DM 1,735,650	119,738,170	Completed but closed down
3.	Anambra	-	Sun shine batteries	DM 62.33m	ALL	-	-	Completed but collapsed.
		Ihiala	Biscuit factory	ATS 86.52m	ALL	-	-	completed but closed down due to ban on wheat importation
		-	carpet manufacturing	GBP 11,811,023.02	ALL	-	-	Loan diverted by government functionaries
4.	Bauchi	Yankari	Spring water	PES 5,220,011,160	ALL	-	-	Failed: as equipments were carted away.
		Bauchi	Mango processing co	FRF 29,168m	ALL	-	-	Management claimed ignorance
5.	Benue	Makudi	Sheraton international Hotel	USD 2.74m	ALL	-	USD 2.74m	92.5%
6.	Borno	-	and USD 35m	FRF 101,137,869	ALL	-	-	50%
		Maiduguri	Sheraton Hotel	FRF 116.75m	ALL	-	-	Incomplete
7.	Cross River	-	Mobile workshop	DM 4.03m	₦190,000,000	-	-	Never took off
		Warri	Tractors and equipments	GBP 252m	ALL	-	-	Not supplied
8.	Delta	Warri	Limestone project	ATS 138, 880,000	ALL	-	-	Completed but close down as never made profit
9.	Edo	-	Farm project	GBP 9,578,151	ALL	-	-	Completed but never took off
		Warri / Benin	Roads project	GBP 27,647,470 and USD 23,510,000	GBP 23609504 and USD 19993867	GBP 4,037,965.66 & USD 3, 516, 133.44	-	Was abandoned
10.	Enugun	Enugu	Road Dualisation	USD 38,682,523	ALL	-	-	50% and abandoned
		-	Irrigation pumps	USD 10,511,252	ALL	-	-	Did not really take off
		Enugu	Rural Electrification project I- III	DM 144,367,837	ALL	-	-	40% success
11.	IMO	Ohebe-Dim	Aluminium project	DM 95 million	ALL	-	-	Collapsed due to maladministration
		Ezzamgbo	Building materials industry	-	ALL	-	-	Completed but broke down
12.	Kaduna	Arutu,obowo	Modern poultry	USD 32 million	ALL	-	-	Completed but closed down-poor management
		Owerri	Concord Hotel	CHF 54.6m	ALL	-	-	Only phase I
13.	KOGI	Kaduna	100 New buses.	FF 60,605,31550	ALL	-	-	Officials denied the loan.
		Ajaokuta	Steel company	FRF 639.68m and FRF 582.54m	ALL	-	-	98% but operation halted
14.	Lagos	Lagos	Six water works	GBP 589.23m	ALL	-	-	100% -successful & working.
		Lagos	Mini-steel project	USD 37.57m	USD 28.11m	USD 9.46m	-	Equipments dumped in Bush & abandoned
		Lagos	Egbin thermal power station	JYP 209.17m and FRF 1, 074M	ALL	-	-	Completed but no records of payments of loan.
15.	OSUN	Ede/Oshogbo	Water scheme	GBP 101.27m	GBP 77.1m	GBP 24.17m	GBP 7.7m (repaid)	Completed and commissioned
		liesha/Ejigbo	Water scheme	USD 58.99m	USD 11.2m	USD 47.79m	USD 5.92 (repaid)	Complete failure- as abandoned.
16.	Yobe	Damaturu	Factory	GBP 3.62m	ALL	-	-	Factory could not be located.

SOURCE: Federal Ministry of Finance

prevented it from operating at full capacity. Another problem confronting the project was lack of working capital, which made it impossible for the State Government to purchase chemicals for treating the water. In addition to the original loan, a supplementary loan of CHF 15,300,000 was contracted from Creafin S.A. Bank through Ultrafin to expand the water scheme but no visible effect of the additional loan acquired could be seen in the project, although it was fully drawn.

Arochukwu Ohafia Water Scheme: The project did not take off due to misappropriation of the funds. A loan of GBP 12,360,000.00 was obtained from Lazard Bros of UK, which was fully drawn. There was no record to show the alternative project on which the loan proceeds was utilized for.

Rural Electrification Project: The project was supposed to have been financed with a loan of USD 23,577,745.00 contracted from Llyods Bank PLC on November 12, 1981. The loan was fully drawn. However, the staff of the state Rural Electrification could not give any reasonable explanation as to how the loan was utilized. They could not also point to the sites of the project as they feigned ignorance of the loan.

Umuahia Ceramic Factory: The Abia State officials could not relate the loan amount of CHF 43,300,000.00 obtained for the extension of the project to any work done on the project. Records in the FMF showed that the loan was obtained from a consortium of Banks under the Agency Ultrafin AG on June 11, 1981.

In Akwa-Ibom state, the Qua steel products Limited, was a project financed with a loan of DM 73, 080,000.00 contracted from a consortium of 13 banks led by Samuel Montagu Ltd, UK out of which DM 1,735,650.00 remained undrawn. While a total of DM 119,738,170 was recorded as the unpaid outstanding from the loan, a contract for the construction of the mill was awarded to Daniel SPA of Italy. Despite the successful completion of the project, the factory is closed down. The Aladja Steel Complex which was the only supplier of billets to the factory was out of production. The Qua Steel needed about 500 tonnes of billets per month but even when in production, the Aladja Steel Complex could supply only 60 tonnes per month. Another problem confronting the factory was erratic power supply.

Sunshine Batteries Limited, Ikot Ekpene: The factory located in Ukana, in Ikot-Ekpene LGA was built with a loan of DM 62.33million

contracted by the then Cross River State Government from Klockner Ina of Germany. The project was completed and commissioned. It went into full operation but lack of working capital brought about its collapse. Added to this was the problem created by the closure of the parent company, SUNSHINE Battery of Germany. The liquidation of the parent company also impacted negatively on spare parts procurement, so that when the memory of the computerized machines taken to Germany for repair was not brought back, the Nigerian company had to close down. Efforts by the State Government to invite private investors failed.

International Biscuit Factory, Ukana, Ikot Ekpene: The company was incorporated as a private limited liability company on January 17, 1980 to manufacture biscuits and other allied products. The factory was built with a loan of ATS 86.52 million from Austria. The factory had since closed down and the entire premises covered by bush. The ban on wheat import was said to have precipitated the closure since efforts to substitute maize and sorghum failed. By the time the ban on wheat was lifted, the factory had deteriorated to such an extent that the available capital and manpower could not resuscitate it. The factory had also been extensively vandalized.

Carpet Manufacturing Project, Ihiala: In Anambra State, this project was supposed to have been located at Ihiala town. The Anambra State Government on July 1, 1982, entered into a contract agreement with Crossocean Ltd, UK for the establishment of the fibre filament/tufted carpet factory at a total cost of GBP 11,811,023.02. The project cost was to be met from two loans of GBP 10,039,370.00 (Paris club) and USD 3,100,000.00 (London club) which the Government obtained from Samuel Montagu of UK. A Nigerian firm, multi source was to undertake the civil work at a cost of N3,900.000. Both Crossoceans and multi source neither supplied any of the contracted goods nor carried out any civil work. Crossocean in collusion with some functionaries of the State Government managed to fraudulently draw the proceeds of the loan into their accounts as follows:-

- (a) The entire Euro-Dollar loan of USD 3,100,000 and
- (b) GBP 7,356,721.95 out of the other loan.

The project and its covering loans were subject of an inquiry in 1984/85 and the State Government functionaries found guilty were asked to refund the money which they illegally drew (in addition to other punishments) but there is no evidence that the refund was made.

Special Hospital Project: The project was built with a loan of PES 5,220,011,160 (Spanish Pesetas) from Banco Exterior de Espana contracted by the former Anambra State Government for the building of a specialist hospital and health centers in some Local Government Areas of the State. The main specialist hospital was built in Abakaliki (now in Ebonyi State). About 15 of the health centers were located in the former Enugu State while about 23% of the project, made-up of 8 health centers were located in the present Anambra. Overall, the project was a failure because of neglect by the State Government. The doctor in charge of one of the health centers at Magbakwu near the Anambra state capital, carted away the hospital equipments and used them to open a private clinic for himself.

Dimare Yankari Spring Waters Company: The project was established to tap the natural spring waters which abound in the highlands of the Yankari Games Reserves in Bauchi State, for sale locally and for export. The project which had passed from one government to another, was financed with a loan of FRF 29,168 million contracted from the Societe General Bank of Paris, France in 1973. During the evaluation exercise, the management of the company claimed ignorance of the loan.

Bauchi State Mango Processing Company: The USD 2.74 million loan for the project was contracted in 1988 from Ingra Zegreb of Croatia, Yugoslavia for the purpose of setting – up a Mango and tomato processing plant in Kumo, Bauchi State. The loan had been fully drawn and the state of project completion estimated at 92.5%. The amount outstanding on the loan – remained USD 2.74 million at the end of December, 1995.

BENUE STATE

Benue State represented one of the states that were weighed down by external debt burden. The unfortunate irony about the state was that the projects financed with the loans remained unproductive and in some cases uncompleted and abandoned.

Makurdi Sheraton International Hotel: The proposed 300 bed hotel was expected to be of a five (5) star standard. Financed with two loans of Export Credit facility of FRF 101,137,869 and a Euro-Dollar facility of USD 35million. The loans were contracted by the State Government in August 1982 and guaranteed by the Federal Government. Even though the loans were fully drawn, only the structural works of the hotel has been built. Also, of Three generating plants and an electric transformer supplied under the

loans, only one could be traced. In the two warehouses located within the premises, some building materials were found already dilapidated. Work had terminated on the project for over 5 years. The amount of FRF 91.81 million had been rescheduled with COFACE of France while the amount of USD 24.6 million was restructured under the London club on the two loans.

The project could be said to be 50% completed and it would appear that the State Government had no resources to carry it on. An approval granted the State Government by the office of the Chief of General Staff sometimes in 1989 to source the equivalent of USD 20 million locally to facilitate the completion of the project did not materialize.

The Taraku Soya Mills got closed down awaiting electrical extension from Taraku town (the mills since inception had been operating on gas fuel). The mills were expected to become fully operational again as soon as they were connected to NEPA's national grid. The State government claimed that it would require over N8.5 million for that purpose.

BORNO STATE

In Borno State, there was a spate of project failures as only three projects out of the seven projects financed with foreign loans were

fully executed. There were gory incidents of disappearances of some containers conveying equipments for some of the projects.

Maiduguri Sheraton Hotel Project: The Hotel was financed with a loan of FRF 116.75 million obtained from Societe Generale Bank Paris, France. The draw down on the loan could not be matched with the goods delivery invoices. There were tales of the disappearance of containers which brought in the goods that were procured with the external loan between the port of discharge in Nigeria and Maiduguri. The State government estimated that it would require additional N76 million to make the hotel operational.

Mobile Workshop: A loan of DM 4.03 million was contracted on February 5, 1983 from Imax Rau of Germany to finance the mobile workshop. It was an unguaranteed medium/long term credit. The Borno State Government made a down payment of N190,000,000 through Bank of the North. The project never took off but the credit was for rescheduling under Nigeria's Rescheduling Agreement I with Germany.

Tractors and Equipments: A loan of GBP 2.52 million, unguaranteed buyers' credit, was contracted between the former

Borno State Government and Mass Ferguson of the United Kingdom to finance the purchase of tractors and other farming equipments. About fifty (50) tractors valued at GBP 361,202.00 were not supplied to the Borno State Government and no one was able to proffer any explanation on their non – delivery or where about.

CROSS RIVER

The Cross River Limestone Project: This project in its present form, was originally conceived as a source of supply of high quality limestone to the Delta Steel Complex at Aladja, Warri and also the Ajaokuta Steel Complex. Apart from this, it was also expected that it would feed glass factories, local feed mills, the Okuibokun paper mills in Akwalbom State, and Calabar cement Company (Calcemco). A foreign loan of ATS 138, 880,000 was completed on schedule and went into production in 1988 but never made any profit until it closed down and got abandoned.

DELTA STATE

Warri Farm Project: The Warri farmProject was executed with a loan of GBP 9,578,151 obtained from Lazard Brothers and Company Ltd, London by the former Bendel State Government in 1983. The project, located at Ibeju, in the Warri-South Local Government Area

of Delta State, was not executed in conformity with the draw down of the loan. The equipments and machineries for the project were purchased but the project never took off. The items were abandoned at the site for a long time and were exposed to looting and adverse climatic conditions. The State functionaries at the time were said to have embezzled much of the proceeds of the loan.

EDO STATE

The Roads Project: Two loans of GBP 27,647,470 and USD 23,510,000 were contracted from Banque Paribas on 10th December, 1982. The first loan was a suppliers credit while the second was a Euro Dollar facility for the financing of the three road projects. The loans were fully drawn down as the amounts of GBP 4,037,965.66 and USD 3,516,133.44 were left undrawn. Despite the fact that the contractor was paid about 85% of the contract amount, only one third of the job was done. The project had been completely abandoned.

Warri/Benin Road Dualization Project: The Federal Government obtained a loan of USD 38,682,523.00 from Daewoo corporation on 4th January, 1990 for the dualization of the Warri/Benin Road. The contract was awarded to the firms of Messrs Road Construction Company (RCC) while Niger Cat Construction Company handled the

Sapele to Warri axis. About 50% of the job was carried out and the contractors abandoned the project for non-payment of work done.

ENUGU STATE

Purchase of Irrigation Pumps: A loan of USD 10,511,252.00 was contracted from M & W Pump of Florida, USA through the USEXIM by the Enugu State government for the purpose of irrigation pumps on 12th October, 1992. The loan was in two tranches. The first tranche of USD 5,528,575 was for irrigation purposes to help the dry season farmers while the second tranche of USD 4,982,677 was for the supply of water to Enugu town. The two components of the loan were managed by two different Government agencies. The irrigation scheme was managed by the Ministry of Agriculture while the Enugu Water Supply Scheme was handled by the Enugu State Water Corporation. The irrigation project did not really take off. Most of the equipment were not delivered while a number of irrigation pipes are yet to be fabricated. On the Enugu State Water Scheme, there were a lot of problems created by the poor management of the corporation. All the items supplied by M & W Pump were in short supply. None of the staff was trained to install or operate the equipments. Three pumps got burnt during installation because of the inexperience of the staff.

Rural electrification Project I – III: The project was implemented with a total loan of DM 144,367,837.00 contracted by the former Anambra State Government from Brown Boveri & CRR,A.G Mannheim of Germany. The first loan of DM 59, 500,000.00 was obtained on November 24,1977 while the second obtained on February 29, 1980 was for the amount of DM 84,867,837. About 30% or DM 43,310,351 of the loan was used for the areas now under the present Anambra State while 70% or DM 101,057,485 was used for the electrification of areas in the present Enugu State. The rural electrification scheme in Enugu State achieved 40% success of coverage of the rural communities in the State. However, the problems of vandalization and the stealing of the Board's equipments rendered the operations of Rural Electrification Board (REB) ineffective.

Enugu Aluminium Project Company: The project located at Ohebe – Dim near Enugu is no longer functioning. Lack of working capital and maladministration brought about the collapse of the project. This project is one of the three industrial projects built with a DM 95 million loan which was part of DM 358 million from a consortium of European Banks.

The second of the industrial projects is the **Enugu Building Materials Industries Ltd:** This project, located at Ezzamgbo near Abakaliki had since been shut down. This was due to the breakdown of the plant operating the machines. With the closure of the project, the machines started rusting and were eventually vandalized.

The last of the industrial project and indeed the only surviving one is the sunrise flour mill located at Emene.

IMO STATE

Imo Modern Poultry Ltd, Arutu in Obowo LGA: Financed with USD 32 million, was designed as a modern integrated poultry farm capable of producing 50 million eggs and 2 million broilers per annum with a capacity to recycle all waste materials. The project was designed to generate funds for the amortization of the loan. These goals were not achieved due to poor management and other factors, which eventually led to the farm's collapse. Before its demise however, it paid off USD 9.6 million of the loan, leaving a rescheduled balance of USD 22.4 million as at December 31, 1995.

Imo Concord Hotels Ltd, Owerri: The project, located at Owerri, the Imo state capital was originally designed to be a 5 star hotel in

order to stimulate tourism in the state. The state government contracted a loan of CHF 54.6 million from Del Gottardo, Switzerland on July 31, 1986. The loan was completely drawn down. Only the first phase of the project was completed. The second phase was yet to take off. Nothing was paid on the loan before it was rescheduled as part of a unilateral refinancing package by the Imo State Government. The capacity utilization of the hotel was about 20% due to the fall in economic activities. The hotel is a shadow of a 5 – star hotel. Staff of the hotel decried yawning corruption in the hotel and the unholy alliance between the management and the government functionaries. Frequent black-outs was the order of the day as one of the 100 KVA generators serving the hotel was removed for servicing but later sold at an abysmally low price.

KADUNA STATE

Purchase of 100 New Buses: This project is listed in the books of Federal Ministry of finance as a loan of FF 60,605,315.50 was contracted from Banque National Depairs on July 14, 1987 for the purchase of 100 new buses to boost the transportation network in the State. Officials of the Kaduna State Government however, denied knowledge of the loan.

KOGI STATE

Ajaokuta Steel Company Ltd: The only Federal Project located in Kogi State, is the Ajaokuta Steel Company Limited. The project covers an area of approximately 24,183 hectares out of which the Steel plant itself covers 800 hectares. Incorporated on 18th September, 1979 by the Federal Government, the company is charged with the task of producing and marketing iron steel products in Nigeria. The Government signed the global contract with M/S V/O Tiajpromexport of the then USSR in 1979. The civil works contracts were awarded to Ms fougerville, Julius Berger and Dumez in three Lots I, II and III respectively while PACS – MECON of India were appointed the consultants.

The Ajaokuta Steel plant was planned to be built in three stages. The first stage of 1.3 million tonnes was meant to produce long steel products followed by immediate expansion to 2.6 million tonnes for the production of 1.3 million of flat products in addition to the products. The third stage is the expansion of the complex to produce 5.2 million tonnes of various types of finished and semi-finished steel products including heavy plates and heavy section. All in all, the plant is designed such that it can be expanded up to 10 million tonnes eventually, subject to demand. The Federal Government contracted

eleven (11) external loans from the International Capital Market (ICM) and Ms. Tiajpromexport for the financing of the Ajaokuta Steel Plant. The total amount of the loan was fully drawn. The funds allocated for the civil contract exhausted prematurely and in view of the non – completion of work as scheduled, and the increasing cost of construction materials, amendments to contract Agreement known as Addendum No. 1 and Addendum No. II were made. When arrears on outstanding amounts continued to mount and the counter agreement failed, the Government agreed to a refinancing arrangement for the settlement of the debts. The refinanced amounts were FRF 639.68 million and FRF 582.54 million and were obtained on March 15, 1989 for LOT III and LOT 1 respectively.

The major civil works in the three LOTs of the plant were completed and the percentage of completion was put at about 98%, while 97% of the erection works were commissioned in 1983 and 1984 for the bars and rods products and wire rods and coils respectively. The commercial operation of the two mills eventually halted due to lack of working capital. The Billet Millet was commissioned in 1986 with a capacity of 795,000 tonnes of billes. The Thermal power plant that started operation in 1990 has since broken down and left unrepaired. The major constraints of the steel plant are lack of working capital

and indebtedness to the Russian contractor and the civil works contractors which led to their abandoning the site.

LAGOS STATE

The Lagos State six mini water works and later that of four mini water works were all a case of success. The project was implemented with a loan of GBP589.23m. All of the water projects are on ground and are functional. The reason for the success of the water projects was the high commitment put in by government to ensure that the water problem in Lagos was tackled once and for all.

The Mini-steel Project (LAPEC): This project was conceived in 1981 with a loan of \$37.57 million from the Export- Import Bank of the United States. The project was supposed to be a joint venture between the Lagos State Government and the Pennsy/vaia Engineering Company, hence the name Lapec. An amount of USD 28.11 million was drawn, and was later rescheduled. The equipments and materials needed for effective take-off were procured but dumped into a thick bush by the state government. This project is shrouded in controversy because the ownership was said to have been transferred to a new management. The state government now claims only 15% equity contribution in the project

with the new management outfit. The possibility of making the steel mill functional is very remote as it is now.

Egbin Thermal Power Station: This thermal power station is at the outskirts of Lagos State. It is one of the outfits of the National Electric Power Authority (NEPA) that supplies electricity to Lagos State and its environs. The construction was financed with two loans taken from Marubeni in 1981 totalling JYP 209.17 million while the civic works was financed with another loan of FRF 1,074 million from Societe Generale Bank of France, in 1982. The project was fully commissioned in 1986 as the two loans were fully drawn. However, records of payments on the loan are not available. This is a problem as records about the outstanding payments and those already cleared are now where to be found.

OSUN STATE

The Osun Paper Mill: This project is in a sorry state. All the gigantic equipments were not functioning and the mill was said be operating at a 5% capacity with no visible production. About \$ 300 million was said to be needed to revive the project.

New Ede/Oshogbo Water Scheme: This State water project was executed with a foreign loan of GBP 101.27m obtained from Morgan Grenfell, in 1982. GBP 77.1million was drawn and a repayment of GBP 7.7 million was made and GBP 69.3 million was rescheduled. The project was completed and commissioned in 1991 but lacks adequate maintenance.

New Ilesha/Ejigbo Water Scheme: A loan amount of \$ 58.99 million from Exim Bank of USA in 1981, was used in executing these water projects. Only \$ 11.2 million was drawn out of this amount, and \$5.92 million was repaid. Capital rescheduled was \$ 3.16 million. This project is a complete failure and the creditor has cancelled the undisbursed portion of the loan and so the project got abandoned.

YOBE STATE

The projects in Yobe State are mainly those inherited from the parent state of Borno. One of the projects – a factory which was supposed to have been financed with a loan of GBP 3.62 million by the former Borno State Government could not be located. The external loan of GBP 3.62 million was obtained in 1983 from Morgan Grenfell of the United Kingdom. It was a medium/long term unguaranteed credit.

The factory was supposed to have been built in Damaturu, the Yobe State Capital. There was no evidence of the factory in Damaturu or any other part of the State at inspection. In 1982, the Borno State government made a down payment of N726, 000 to M/S Integrated Technical Services Limited of U.K whose office premises could not be located in London when the Borno State officials visited Britain in efforts to recover the down payment made. From records available, the loan was not disbursed but repayments are made on this loan under the Paris Club agreements.

5.7 CONCLUSION

The results of this study reveal that external debt and corruption both have significant relationship with the economic development of Nigeria.

Foreign borrowing increased the resources in the hands of government of the country even though government's inability to pay back the loans resulted in accumulation of external debts on the one hand, on the other, corruption, from the result of our data analysis, depleted these resources that were meant for the provision of infrastructures, thus robbing the nation of the value she would have obtained from the external loans.

As a result of corruption in Nigeria, the arguments and counter arguments have had to ensue between Nigeria and her foreign creditors as to the actual amount of Nigeria's debt owed to them. While the Debt Management Office (DMO) set up by the Nigerian government to verify the loan accounts with creditor statements put the debt owed to external creditors at US \$28.5 billion representing 75% of GDP or 186% of export earnings at the end of December 2000, the IMF on its part puts the stock of Nigeria's debt at US \$31.9 billion for the same period, reflecting Paris club debt reported by creditors.

It is also, simply not possible to speak of any significant measure of development for Nigeria from the result of our analysis as long as Nigeria is obliged to allocate so much of her lean resources to debt servicing.

Lastly, the result of the descriptive analysis lends credence to the quantitative analysis thus, buttressing the fact that corruption has grossly undermined the economic development of Nigeria as evidenced in the use of external loans across the various states of the country. In a nutshell, foreign debts reduces the resources (foreign exchange earnings) available to the country with which to embark on development projects as the country is obliged to allocate much of its already lean resources to debt servicing. Corruption on

the other hand, diverts resources from industries, education, health, housing etc to private hands thus impacting negatively on the development of the Nigerian economy.

CHAPTER SIX

SUMMARY, CONCLUSION, RECOMMENDATION AND CONTRIBUTION TO KNOWLEDGE

This chapter summarizes the findings and conclusions of this research work and proffers recommendations aimed at addressing the problems corruption has had on external debts and by implication, on the development of the Nigerian economy.

6.1 SUMMARY

This study was motivated by the economic problems posed by Nigeria's debt stock and infrastructural development of the economy. It is pertinent to note that Nigeria's debt problem is rooted partly in the collapse of international oil price in 1981 and the persistent softening of the international oil market since then and partly in domestic policy lapses – control policies, most importantly corruption. The policies pursued in the 1970s and the early 1980s led to structural changes which made the economy vulnerable to external shocks. Rural – urban migration which intensified in the wake of the “oil boom” as well as inappropriate pricing and exchange rate policies had their toll on the agricultural sector with the result that the sector's contribution to GDP shrank from 53 percent in 1965 to about 40

percent in the mid-1970s and not more than 20 percent in 1980 (CBN 2001). Defective structure of incentives paved the way for an industrial sector that was heavily dependent on imported inputs with very low value – added. Consequently, the economy became progressively dependent on crude oil accounting for over 22% of GDP 81% of government revenue and about 96% of export earnings at the beginning of the 1980s (CBN 2001).

The economy, maladjusted as it were, and characterized by distortion in price – cost relations, import oriented national expenditure and production, and grossly over-valued exchange rate, could not cope with a prolonged period of depression in oil prices. The oil price collapse from 1981 can thus be said to have compounded the problems of an economy that had lost its flexibility and led to serious external payments problems.

The stock of external debt rose from \$1.27 billion in 1976 to \$4.6 billion in 1980, \$11 billion in 1983 and \$13 billion in 1985 while in 1990, 1996 and 2000 the debt stock stood at \$28billion, \$32billion, and \$31.7billion respectively (CBN 2001). The increases in debt took place at a time when developments in the oil market, instability in other commodity prices, adverse terms of trade and high real interest rates, combined in making all indicators of the country's debt carrying and debt servicing capacity unsustainable.

In trying to overcome her liquidity problem, Nigeria sought the classical solution of rescheduling her external debts. Since creditors usually perceive debt servicing problems as arising from poor economic management, the negotiations preceding the rescheduling agreement have involved a long drawn out battle on the necessity of adopting certain economic policy reforms. These policy reforms would assure the creditors that enough foreign exchange would either be generated or saved to facilitate the servicing of the debts under the new terms of the rescheduling agreement. As part of tackling the debt problems which also manifested in the country's balance of payments problems, Nigeria introduced the Structural Adjustment Programme (SAP). A major reform of SAP therefore, was a review of the budgetary operation of the various governments in Nigeria.

The study employed both the empirical and descriptive techniques in arriving at its conclusion drawn from the findings. The descriptive (qualitative) findings of the research work on corruption proved to be consistent with the quantitative (analytical) findings on corruption, the external debt and its effect on the level of development in the economy. Both approaches (i.e. the quantitative and qualitative) lend credence to the fact that, international borrowing and corruption have impeded Nigeria's development.

The result of the analysis, shows that there is a positive relationship between external debt and public infrastructure provision by government. This strong relationship may be attributed to unexplained variables - inconsistent/doubtful data government/and its agencies provide to give the impression that government is working. This becomes apparent when the effects of corruption as seen in earlier chapters of this study are brought to the fore.

On employment, the result of our analysis reveals that, inverse relationship exists between employment and external borrowing in the country. The CBN (2000) hinged this on the fact that only recorded unemployment is published by official statistics. So, the vast majority of the unemployed are excluded from official records. This leads to gross under-estimation of the unemployed in the economy which is inconsistent with reality on ground in the country.

The result on Public Sector Investment (PSI) and Nigeria external debts indicates that a significant relationship exists between these two variables. However, when using the ratios (debt – export, debt service – capital expenditure) there is a negative relationship with the PSI while the relationship with the debt – GDP ratio is not significant. This result according to Black (2002) is consistent with debt and economic theories as the higher the amount devoted to debt servicing, and the higher the debt stock over export, ceteris

paribus, the lower the amount of capital expenditure devoted to public sector investment.

On foreign debt – Expenditure on infrastructures by government, the higher the debt stock of the country the lower the resource allocation to infrastructural development all things being equal. Since a larger percentage of revenue earnings would be devoted to debt servicing i.e. trade off between revenue devoted to debt servicing and for development.

The relationship between External (foreign) debt and imports, agrees with the regression analysis as increase in the value of imports is attributable to increased funding of imports by government from autonomous sources. This serves to drain the country's foreign earnings which would have been otherwise, invested in capital (development) projects.

The findings on the spate of corruption in the various states that make up Nigeria, (see chapter 5) show that corruption has inflicted an unquantifiable damage to the development of the economy in rendering several of the projects for which the bulk of the external loans were procured useless. These loans accounted for nearly 70% of Nigeria's external debt stock of US \$ 32 billion in 1996 (Federal Ministry of Finance). The disappearance of Monies as well as equipments meant for development projects into individual

officers' hands (particularly government officials) in the country was the order of the day as Nigeria settled to begin to pay the principal and interest on the loans that were neither utilized nor saved for the country. This descriptive analysis on corruption therefore, lends credence to the results of the analytical findings on corruption and clearly brings out the effects of international borrowing (external debt) and the development of the Nigerian economy. Most of the external loans which were procured with unfavourable terms, were either diverted or utilized for projects that were unable to generate funds for servicing the underlying debts.

Prior to the enactment of the Corrupt Practices and Other Related Offences Act 2000, Nasir (2004: 139) asserts

that there were other laws that addressed offences in respect of corrupt practices. The criminal code, which is applicable in the Southern States, is one of such laws. Other laws include The Penal Code, which applies in the Northern States, The Failed Banks (Recovery of Debts and Financial Malpractices in Banks) Decree 1994 as amended in 1999. The code of conduct Bureau and Tribunal Act Cap. 56 Laws of the Federation of Nigeria 1990 and The Recovery of Public Property (Special Military Tribunal Act) Cap. 389, Laws of the Federation of Nigeria 1990 as amended in 1999 which are statutes of general application, are all aimed at eradicating or at the worst, reducing corruption in Nigeria to the lowest minimum.

Unfortunately however, little or no success has been recorded in this regard rather corruption has been on the increase in spite of the existence of these laws. This is a pointer to the fact, that all the various governments have had to do, is to more or less pay lip-service to the matter of dealing with the corruption 'bug' in Nigeria. Thus, corruption has had its toll on Nigeria's economic development in the disappearance of part of the external loans contracted, into individual's personal and private accounts and the carting away of some of the equipments procured with these external loans that would have been channeled towards the development of the Nigerian economy.

6.2 **CONCLUSION**

From this study, we have come to the conclusion that Nigeria's economic recession and external debt problem became pronounced in October 1981 with the drastic fall in the country's export revenue from petroleum. This was because, the structural change in Nigeria's foreign trade whereby crude petroleum dominated the country's total export earnings, placed the country in a vulnerable economic position thus, with the fall in oil price in the international market coupled with the glut, the repercussions adversely impacted on the country's balance of payments.

The country's current economic problems also have to do with the adoption of a defective strategy of economic development which included the neglect of domestic inter-industry development and the lack of encouragement of direct production of goods needed by the country through the imposition of counter-productive bureaucratic controls by government e.g. delays in processing import licence and ban on essential imported goods.

The policy responses to balance of payments trend had been in the nature of 'short-term management' or "stop-go" measures rather than long term or range solutions. For example, during balance of payments surpluses, the country adopted expansionary monetary and fiscal policies, and the relaxation of exchange control regulations, while periods of deficits were accompanied by tighter exchange control regulations and restrictive monetary and fiscal policies. It was the failure of the country to solve its external payments problems that led her to approach IMF for an adjustment loan.

The four independent variables considered – current account, export, import and capital account showed a negative relationship with the balance of payments implying that there is no significant contribution of these variables to the balance of payments from the multiple and simple regressions analysis thus the result is in

agreement with that of the corruption factor on Nigeria's external debt.

The economic reform programmes of Nigeria, have demonstrated a total willingness of government to submit the domestic economy to the forces of international finance. Many other African countries have also demonstrated the same willingness. What is clear, however, is that the Paris/London clubs, the Fund/Bank, and the Western World generally, see the debt-crisis as part of the cyclical fluctuation of the capitalist system; with the assumption that the crisis emanates from, and can be controlled within the peripheral capitalist societies of the Third World. Policies in the debtor countries, thus, tend to focus solely on the restoration in the medium term of a healthier part of national economic development, as a component of an integrated world economy.

The current debt crisis is a manifestation of more fundamental problems in the international financial system which devaluation and other market oriented economic reform measures in the Third World may aggravate, if the international financial system itself is not reformed.

Corruption being one of the major obstacles to social, political and economic development has certainly spelt disaster to the development of Nigeria. This vice arises from opportunism by public

officials become very rampant in Nigeria. The emphasis on the public sector probity appears to ignore the complementary role played by the private sector in issues of corruption. The two sectors however, exist in the same integral economy such that, the “attitudes and habits” in one sector have direct correlation to the attitude and habits of the other sector.

Corruption in Nigeria has devastated the gains that would have otherwise resulted from the huge external loans Nigeria has had to borrow for development purposes as public (government) officials have either siphoned the money or carted away the equipments procured for development projects. Honourable Ndiese Essien, Chairman of the House of Representatives Committee on Anti-Corruption, National Ethics and Values lends credence to this when he declared in his opening speech that;

“Corruption is the biggest and the fastest growing industry in Nigeria. While petroleum is the largest revenue earner (accounting for between 90 – 95% of National wealth, corruption is the largest consumer of the revenue. Unfortunately its consumption is into the accounts of a few individuals and corporate persons while the nation wallops in abject poverty, hunger, disease and debt ... corruption should be attacked with the same velocity with which HIV/AIDS has been tackled” (Ndiese, 2003: 4).

6.3 RECOMMENDATIONS

This research study has shown that foreign debt, corruption and the infrastructural development in the Nigerian economy are

strongly related. Since Nigeria's debt stock poses a great constraint to the development of the economy, and corruption has also played a negative role in this respect, the study therefore puts forward the following recommendations:

- (i) **A Rescheduling Exercise**— This method has to do with negotiating co-operatively for fixed interest payments but variable amortization schemes. Nigeria should therefore seek annual rather than multi-year rescheduling. Moreover, African debtor nations should form a union and bargain collectively with their creditors' associations for rescheduling rather than face such associations as the London and Paris clubs individually. Nigeria should therefore take the initiative in this direction. This will go a long way in strengthening the bargaining position of Africans when they are asked to implement short-sighted and counter productive policies.

In the interim, Nigeria's external debt problems should not be compounded by indiscriminately incurring new debts. Acting otherwise, is a contradiction to the Federal Government's avowed objective of keeping a "lid" on the external debt of the country under SAP. External finance should be used only as a last resort and for projects of the highest priorities when similar results cannot be achieved by

any other domestic means despite reasonable sacrifice. If Nigeria must uphold the debt-equity conversion scheme, she should do so with caution and ensure that it is implemented on her own terms and in the overall national interest.

The implementation should stipulate a long enough period, of nothing less than five years, before dividends can be repatriated, to give investments time to mature while foreign participation should exclude strategic sectors of the economy as well as those which utilize large quantities of imported raw materials and spare parts.

An attempt to achieve a long term solution to the debt problem would include vigorous promotion of the nation's export trade and drastic reduction in her merchandise imports. Since import financing has accentuated the size of short-term indebtedness which leads to debt problems, the reduction of luxury and non-essential imports is a necessary measure.

International borrowing (External loan) should be related to the foreign exchange earning power and economic growth prospects of the nation. This is in order to achieve a reasonable level of domestic savings and prevent the net transfer of capital out of the country through a high level of debt servicing.

Nigeria should as a matter of importance, design an efficient system of monitoring, registering and approving external loans (debts). An external debt bureau consisting of men and women who are of unquestionable integrity and irreproachable character should be established to liaise with Federal and State governments and act as a clearing house for all information relating to external finance. This bureau, which is to complement the Debt Management Office (DMO), should also be vested with the responsibility of collecting, collating and analyzing the information/data on debt on a continuous basis, and come out with comprehensive and up-to-date statistics on external debts as an indispensable input into debt management strategies (policies). This is necessary for accurate and comprehensive knowledge of the external debt in terms of its size, composition, maturity, historic evolution, debt – servicing and future action.

It is also important to point out here that the classical rule of expending external debt on productive and self liquidating investments must be strictly adhered to in Nigeria. Projects to be financed with external loans must be properly appraised and their technical feasibility, financial viability and economic desirability asserted beyond every reasonable doubt before the

funds are committed. Thus, budgetary controls and financial accountability must be rescheduled in the public sector by way of making it mandatory for government departments, ministries and parastatals to publish their audited annual accounts without falsifying the figures and within three months of the end of their prospective fiscal years. This would help to restore financial discipline within the public sector and minimize the misapplication and waste of funds. This would also provide up-to-date data necessary for meaningful policy discussions and efficient external debt management.

- (ii) **Debt Repudiation** – if indebted countries, Nigeria included are unable to get favourable concessions from creditor nations, then debt repudiation should be considered preferably in a collective manner.

It is a country's willingness to pay, not its ability to pay that is the consideration when sovereign risks (loans) are involved. The willingness to pay is particularly important in the context of international loans to sovereign governments because there is no supranational legal system governing international loans. There may be situations in which a debtor country can improve the welfare of its citizens by electing not to

service its debts according to the terms specified in the contracts because of the repudiation risk an individual debtor country will be exposed to if she decides to repudiate her debts. It is therefore recommended that repudiation be pursued collectively and as a weapon of last resort.

(iii) **Social Mobilization by NGOs and Civil Society Groups –**

There is a need for social mobilization by NGOs and Civil Society Groups to hold government accountable even at the local government level as is being done in India. This will make government sit up to her responsibility and become transparent in her operation.

(iv) **Fight Corruption –** if corruption must be stamped out or drastically reduced in Nigeria, then government must have to move from merely paying lip-service to the matter of combating this deadly monster that has thrived in Nigeria for several years unchallenged. Government should match her words and commitment with action by prosecution of offenders, seizure of assets / ill gotten gains as in the case of the immediate past Inspector General of Police, strengthening the EFCC and ICPC

to fight corruption. This is the only way to show her sincerity in dealing with the problem of corruption in Nigeria.

- (v) **Value Re-Orientation**– the socio-economic factors responsible for corruption can be traced to the fact that, the normative value of our society (country) has been distorted. The “get-rich quick syndrome”, “smartness in amassing public fund for self and family” by public office holders, “the end justifies the means syndrome” must all be effectively checkmated in the country. Change in attitude of Nigerians: the overwhelming national ethic is dominated by an irrational craze to make money and to become wealthy overnight. Osagie (1990: 53) therefore asserts that

this is probably the most important recommendation Nigeria needs. What this requires is a change of heart, a task which our religious leaders have a leading role to play as they preach in churches and mosques to their adherents (members)

amongst whom are our political and other public office holders.

Anti-corruption campaigns should also be mounted at all levels e.g. through National Orientation Agency (NOA's) efforts in schools, offices, etc. to bring to fore the evil of corruption and its effect in the economy.

- (vi) **Welfare Programmes of Government** – Poverty and corruption are intimately related. Government provision of basic standard of living e.g. unemployment benefits, free education, etc. will help to combat petty corruption such as bribery.
- (vii) **The Whistle Blower Phenomenon** – to aid government in checking corruption, the whistle blower phenomenon as practiced in some parts of Europe, America and Asia (for e.g. United Kingdom, Australia, United State and Singapore) should be introduced, where a citizen ‘blows the whistle’ on a corrupt official by way of informing government or the relevant government agency on the activities of such an official. The whistle blower is rewarded by government, while his identity is kept in confidence and where need be, security is also provided for the whistle blower. This will create a general awareness among the populace with a realization that the whistle may get blown any moment by an unidentifiable or unsuspecting person. Given the risks faced by the whistle blower and his/her family, government have the responsibility of concealing the whistle blower’s identity.

- (viii) **International Collaboration with other Countries** - international collaboration with other countries to trace looted money, repatriate them and generally fight corruption as in the case of the impeached governor of Bayelsa State, will help reduce the case of corruption in the country.

6.4 **CONTRIBUTION TO KNOWLEDGE**

This research study on the relationship between external debt, corruption and infrastructural development in the Nigerian economy makes the following contribution to existing body of knowledge.

- (i) As far as this research is aware, although theoretical analysis on Nigeria's external debt exists, what this work has done is to use the Nigerian example to contribute to the existing literature on this field of study. This study has incorporated a quantitative approach using econometric tools in analyzing the debt problem. The result lends credence to the theoretical analysis on Nigeria's debt problems thus, strengthening the theoretical framework of earlier authors.
- (ii) The study also introduced corruption as a strong variable to be reckoned with in the study of Nigeria's foreign debts problem. This is a grey area which studies on Nigeria's external debts have some how left out over the years. This is one of the few

studies on corruption as corruption is a new area attracting attention in Nigeria, in the field of economics.

- (iii) The researchers further employed the econometric apparatus to substantiate the fact that corruption has had a debilitating effect on the country's debts as it serves as a 'groove' through which the external loans Nigeria contracted have been siphoned away into individual's pockets. This has helped in painting a clear picture of Nigeria's debt problem (see chapter 5, p.151). This reveals that there is a strong relationship between corruption and infrastructural development in the Nigerian economy.

6.5 AREAS FOR FURTHER RESEARCH

The under-listed are viable areas of research study for interested scholars who may wish to extend the frontiers of knowledge.

- i) Foreign Debt is a problem resulting from government monopolizing virtually everything that has do with foreign debt including Foreign Direct Investment (FDI). Since government is not serious about pursuing her policies to logical conclusions, the profits resulting from FDI get repatriated. Interested scholars may therefore wish to research into how the private

sector can be brought in to break the monopoly of government over foreign debt and FDI on the one hand, and how to effectively police the avenues through which the investment get filtered out the economy.

- ii) Since government does not personally feel responsible but rather secure loans only to pass on the burden to future generation, the need for further study that would research into policies that are workable in ensuring that debt burdens are not passed on to future generation need to be evolved beyond the current fear of the Economic and Financial Crimes Commission (EFCC) and the Budget Monitoring and Price Intelligence Unit otherwise known as the “DUE PROCESS”.

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