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NIGERIAN DEBT BURDEN AND THE BOGEY OF DEBT SERVING

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ABSTRACT
It has been generally agreed upon that the rationale for raising both external and internal loan by governments of developing countries has always been to bridge the domestic resources gap in order to accelerate economic development. This has led many African countries including Nigeria to resort to borrowing since early 1970s. Unfortunately, the loans borrowed by Nigeria government over the years have not been put into any productive use to assist the nation and the teaming populace. More and more, the few political class members are getting richer daily at the expense of the teaming populace of the country. The paper therefore discussed the issue of debt burden and the debt servicing problems and the impact of debt burden on the Nigerian economy. Despite the fact that the country has been relieved of a very high proportion of the burden since 2006, the economy has not improved positively due to many human problems confronting the country which range from high profile corruption in the country's political class, exorbitant allowances for political posts holders, dependency on only one product (oil), excessive importation of foreign items, insecurity which has affected foreign investment in the country negatively. It was therefore recommended among others that Nigerian government should adopt clear, and strict criteria for contracting new debt, diversify the economy and block all loop holes through which the Nations revenue is been drained.

INTRODUCTION
The rationale for raising loan (both external and domestic) by developing countries has always been to bridge the domestic resource gap in order to accelerate economic development (Sanusi, 1987). To that extent, no one will quarrel with any developing country like Nigeria for resorting to external borrowing provided that the proceeds are utilized in a productive way that will facilitate the eventual servicing, liquidation of the debt and economic development of the debtor-country. It is therefore generally expected that developing countries, facing scarcity of capital, will acquire external debt to supplement domestic savings (Pattillo, et al, 2002).The rate at which they borrow abroad, the sustainable level of foreign borrowing, depends on the links among foreign and domestic savings, investment, and economic growth. Therefore, a country should borrow abroad as long as the capital acquired produces a rate of return that is higher than the cost of the foreign borrowing. If this happens, the borrowing country is increasing capacity and expanding output with the aid of foreign savings. However, despite the debt forgiveness received in year 2006 from the Parish club, Nigeria debt has galloped to a whooping sum of $41 billion (out of which foreign debt accounts for $5.63 billion and domestic debt amounts to $35.5 billion) as at September 2011 as revealed by the Director General of the Debt Management Office (Mr Ibrahim Nwankwo) in the Finance and Investment watch of November 27 to December 4, 2011. With all these it is regrettable they the entire spectrum of the economy has not been sufficiently active, especially when compared with the economy of similar or lesser aged developing countries. And more

unfortunate situation is the bidding for new foreign debt worth $7.9billion by the Nigerian government for the 2012 fiscal year. The main focus of this paper is to examine the rationale and problems of Nigeria public debt, what is wrong with its management and explore ways of getting out of the hooks of this economic cancer.

LITERATURE REVIEW

Generally, the beginning of debt burden on less developed countries can be traced to the early 1980's after the oil price increase of the 1970's. It was the product of reactions by the international community to "oil price stocks". One of the legacies of African Countries from the crises has been an increasing debt burden, which constituted a major constraint to growth and development of the countries. 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 gross domestic product (GDP), 81% of government revenue and about 96% of export earnings at the beginning of the 1980's. Credit facilities gradually dried up as the full ramification of the debt problem became clear. Absence of medium to long term financing meant that the completion of number of projects was stalled, while absence of short-term cover further drained the foreign exchange reserve by denying the country of the traditional mode of import financing. It also resulted in an accelerated deterioration of terms of trade, as suppliers raised prices to build in a risk premium against delays in payments, thus compounding the payments obligations and difficulties. According to Aluko (1991), foreign borrowing is not concentrated on financial aspect of borrowing alone, but that there are other side to borrowing than just to secure funds. To him, foreign borrowing covers two types of gaps in the development process; the foreign exchange gap and the investment saving gap. He posited that due to rapid change in pattern of customer demand for new and quality goods and ancillary raw materials, domestic resources are often supplemented by the need to borrow for a faster rise in investment and output. There is therefore the technical, managerial and technological support aspect of borrowing .Though he agreed that this would ultimately lead to debt servicing problem. This latter problem to him depends on the recipient's management of its economic investments and export promotion policy, and it depends also on a set of external conditions such as the imports demand of the industrial countries and the terms of trade.

However, the rigid obligation of debt led to the country's balance of payment disequilibrium and because of the over-dependence of the economy on oil made it became extremely sensitive to debt service obligation (Ajayi 1987). Eaton (1993) has also suggested that in the short run, foreign debts can allow countries to utilize uneven endowment to exploit uneven investment opportunities, and concomitant unevenness in consumption while in the long run; it can undertake long term investment projects without the sacrifice of current consumption for future consumption that would otherwise be necessary. Underwood (1990) also compared external debt and foreign direct investment (FDI), the two major forms of external resources movement and assets that though external debt poses the higher risk to the borrowing country, it however promises the higher return. In his own view, Omoruyi (1996) asserted that the need for external finance has become imperative given the persistently weak domestic resources generation as reflected in insufficient and inefficient tax mobilization, narrow productive base, and meagre foreign exchange earnings in the weak terms of trade and turning of savings-investment gap. The above was corroborated by Friedman (1984) when he pointed out that external finance has an important role to play in the expansion of the possibilities for more jobs, and more investment and higher living standard. But he states further that in less developed countries particularly those of Africa, external finance has led to a large external debt burden.

THE BOGEY OF DEBT SERVICING

The strain of debt service payment is usually the best enemy to country's BOP bearing in mind that debt service payments are generally required in convertible currencies and these become a fixed charge on exports earnings. The growth in the debt obligations among other things have been negatively affecting the GDP and BOP over the years. However, Familoni (1997) opined that Debt is procured on the assumption that it could boost economic growth and development. The contracting or increment of debt is not a bad policy per se as it could bridge the gap between domestic savings and investment, thereby accelerating the pace of economic growth. Familoni (1997) further asserted that debt problem arises because the developing countries cannot manage their debt due to the fact that they are not in full control of their economies. He said that a country cannot manage what it cannot control, in case of Nigeria, the prices of all Nigeria's exports are determined exogenously. Unfortunately, the external debt burden that has reduced in the early 1997 has resuscitated with full force in form of domestic debt. This is due to the fact that a high proportion of domestic borrowing has been going into the servicing of external debt obligation, interest and capital repayment.

Structure of Nigeria's and debt service problem

Tables1-5 provide information on the structure and magnitude of Nigeria's debt and debt-servicing problem

Table 1: Nigeria External Public Debt Outstanding

HOLDER	US $' MILLION					₦'BILLION				
YEAR	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
1.Multilateral	2,608.3	3,080.9	3,172.9	3,504.5	4,217.8	334.6	363.5	420.6	524.2	635.4
2. Paris club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.London club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(a)Par Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(b)Promissory note	509.0	0.0	0.0	0.0	0.0	65.3	0.0	0.0	0.0	0.0
4.Others	427.2	573.3	547.5	442.8	361.0	54.8	67.6	72.6	66.2	54.4
Total Debt outstanding	3,544.5	3,654.2	3,720.4	3,947.3	4,578.8	454.7	431.1	493.2	590.4	689.8

External Debt Service Payment

HOLDER	US $'MILLION					₦'BILLION				
YEAR	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Multilateral	424.6	392.8	380.6	260.5	212.6	50.5	47.9	31.0	38.8	32.0
(i)I.B.R.D	273.5	203.7	204.4	141.4	73.3	26.2	25.7	16.8	21.1	11.0
(ii).E.I.B	11.0	3.9	1.9	0.0	0.0	0.5	0.2	0.0	0.0	0.0
(iii)A.D.B& others	140.1	185.2	174.4	119.0	139.3	23.8	21.9	14.2	17.7	20.9
Paris club	4,5199	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
London club	1,584.7	102.6	41.7	0.0	0.0	13.2	5.2	0.0	0.0	0.0
Promissory notes	170.9	476.6	0.0	0.0	0.0	61.3	0.0	0.0	0.0	0.0
Others	27.8	50.1	42.3	167.5	141.8	6.4	5.3	19.9	24.9	21.3
TOTAL	6,727.8	1,022.0	464.6	428.0	354.4	131.5	58.5	50.9	63.7	53.3

SOURCES: Debt Management Office, Abuja; Central Bank of Nigeria

Table 2 Domestic Public Debts (End-Period)

Item	2006	2007	2008	2009	2010
Composition of debt					
Instruments					
i. Treasury Bills	695.0	574.9	471.9	797.5	1,277.1
ii. Treasury Bonds	413.6	407.9	402.3	392.1	372.9
iii. Development Stocks	0.7	0.6	0.5	0.5	0.2
iv. FGN Bonds	477.2	1,007.7	1,445.6	1,974.9	2,901.6
v. Special FGN Bonds	166.8	178.4	0.0	0.0	0.0
vi. Promissory Notes	0.0	0.0	0.0	63.0	0.0
Holders					
i. Banking System	1,218.4	1,703.6	1,771.5	1,882.5	3,092.5
a. Central Bank	335.5	293.6	289.4	323.2	343.1
b. Deposit Money Banks(DMBs)	882.9	1,410.0	1,482.2	1,274.6	2,605.0
C. Sinking Fund	0.0	0.0	0.0	284.7	144.4
ii. Non-Bank Public	534.9	466.0	548.8	1,345.6	1,459.3
Tenor					
2years and below	897.1	709.8	952.0	1,421.4	2,850.7
2-5 years	431.2	820.9	472.7	947.3	501.7
5-10 years	194.0	252.9	406.1	294.7	481.1
Over 10 years	231.0	386.0	489.5	564.6	718.3
Total Debt Outstanding	1,753.3	2,169.6	2,320.3	3,228.0	4,551.8

SOURCE: Debt Management Office and Central Bank of Nigeria

Table 3: Consolidated debt of the federal government (Naira Billion)

Type	2006	2007	2008	2009	2010
External Debt	454.7	431.1	493.2	509.4	689.8
Domestic Debt	1,753.3	2,169.6	2,320.3	3,228.5	4,551.8
Total	**2,207.9**	**2,600.7**	**2,813.5**	**3,818.5**	**5,241.7**

SOURCE: Debt Management Office and Central Bank of Nigeria

Table 4: National Income at Constant Market Prices (₦'Billions)

Component	2006	2007	2008	2009	2010
1.Gross Domestic Product(at constant market price)	606.1	633.0	647.8	594.2	601.6
Less Net factors income from Abroad	-15.4	-64.5	-51.7	-34.3	-34.6
Other current Transfers	39.2	66.7	67.9	73.0	44.0
2. Gross National Income	582.4	630.8	631.6	555.4	592.0
Less Consumption of Fixed Capital(Depreciation)	18.3	11.3	7.9	6.4	5.2
3. Net National Income (market prices)	564.1	619.5	623.7	549.0	586.7

SOURCE: National Bureau of Statistics (NBS).

Table 5: Debt service payment (naira billion) and debt sustainability indicators (per cent)

Indicators	International Thresholds	2006	2007	2008	2009	2010
External Debt Services(interest payments)	-	831.04	117.21	9.03	17.38	15.3
Amortization-External Debt	-	34.50	11.39	4616	46.46	38.0
Domestic Debt Services(Interest Payments)	-	166.84	185.37	231.98	271.34	19.47
Amortization-Domestic Debt	-	55.73	67.26	238.29	207.36	334.7
Total Debt Service	-	1.088.11	381.23	526.46	542.54	407.4
Total Debt/GDP	30	11.8	12.5	11.6	15.4	17.8
Total External Debt/GDP	30	2.4	2.1	2.0	2.4	2.4
Total Domestic Debt/GDP	40-60	9.4	10.4	9.6	13.1	15.4
Total External Debt/Export (%)	100	6.2	5.3	4.4	8.5	6.2
Total Debt Service/Revenue (%)	20-25(Max,=25)	23.3	13.9	10.5	20.5	13.2
Total Debt/Revenue (%)	150	113.8	111.3	88.0	144.3	169.7

SOURCE: Debt Management Office

From the data provided in Tables 1-5, the following observations could be made.

(i) Nigeria's additional debt increased from ₦2,207.9billion in year 2006 to ₦5,241.7billion in year 2010.

(ii) The total external debt was ₦454.7billion in year 2006 which increased to ₦689.8billion in 2010 while the Domestic Debt rose from ₦1,753.3billion in the year 2006 to ₦4551.8billion on the year 2010.

(iii) Total External Debt service payment moved down the time from ₦131.5billion in year 2006 to ₦53.3 billion in year 2006. This is as a result of debt forgiveness received from the Paris club since 2006.

(iv) The ratio of Total Debt to Nigeria's GDP was 11.8% in year 2006. This rose to 17.8% in year 2010. This is still below the international threshold of 30 percent.

(v) The ratio of Total Domestic Debt to Nigeria's GDP rose from 9.4% to 15.4% in the years 2006 and 2010 respectively. The range is still below the 40 percent international threshold.

DISCUSSION

Generally, the debt indebtedness of a country becomes a problem when the burden of servicing the debt imposes intolerable constraints on the economy and on the development efforts of the authorities. In such circumstances, the bulk of the foreign exchange earnings are earmarked for servicing of the debt and, at times and more still, drawing on new loans may be needed to service existing debt. In such a situation, only a small proportion of total foreign exchange earnings is available for financing of economic and social project. Luckily, from above data, Nigeria's debt has currently been sustainable because it is below the international threshold of 40 percent of the country's GDP, which must not be surpassed. This is partly, due to the forgiveness received in the 2006 from the Paris club and the London club. Unfortunately, the relief has not been put into positive use to assist the economy. In fact, the $41billion debt as at 2011 was higher than the nation's budget of ₦4.9 trillion (about $32 billion) as at the same year. Worse still, the minister of Finance, Mrs Okonjo Iweala is currently bidding for another $7.9 billion from the World Bank. This would enslave the economy more. The Nigerian economy has not fared well to date due to the following among others.

(1) Corruption on the part of Nigerian Leaders.
(2) Too many political appointees with exorbitant allowances.
(3) Low savings propensity.
(4) Unrealistic exchange rate.
(5) Poor External Debt Management Policies.
(6) Reliance on monoproduct (crude oil).
(7) Financing long term projects with short/medium term loans.
(8) Diversion of the proceeds of Loan into other uses.

CONCLUSION

This paper briefly discussed the issue of debt burden and the debt servicing problems and the impact of debt burden on the Nigerian economy. The findings support that the higher the size of the debt service payment, the higher the burden on the economy. But despite the low debt service payment, the country and the populace have not improved in terms of their standard of living. Based on above, the following recommendations are made.

(1) Proper debt management should be put in place by the government.
(2) The Federal Government should adopt clear and strict criteria for contracting new debt.
(3) The economy should be diversified to avoid the reliance on only oil. This would boost exportation.
(4) Effective import control to boost foreign exchange reserve.
(5) Allowances of the political office holders should be prune down to reflect the true economic situation of the country.
(6) Treasury looters should be made to face the wrath of the law.

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