Article

Nigeria's External Debt Crisis and Challenges of Governance: Towards an Expository Re-assessment

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Abstract
Nigeria's external debt, which pre-independence stood at a tolerable level, assumed a serious dimension from 1978 until 2005 when a major reprieve came through debt forgiveness by the Paris Club of creditors. Literature and empirical studies emphasise debt forgiveness as antidote to the debt crisis. This study contends that more critical is the challenge of institutional governance in debt management, in the absence of which loans gravitate to 'dead weight' status. Consequently, the paper attempts an expository re-examination of the governance question in public external debt management, with particular focus on institutions and their critical roles in the external debt crisis which plagued Nigeria during the referenced period. Underpinned by Structural-Functionalism, the study adopts content analytical design and finds that in line with theory and literature, the major cause of the inefficient management of Nigeria's external debt lies in weak and dysfunctional institutions. Accordingly, the study recommends that the existing institutional framework for external debt management in Nigeria should be overhauled, to improve governance.

Keywords
External debt, debt management, debt crisis, governance, institutions

Introduction

During the early years of independence, Nigeria was "debt free" and was therefore appropriately classified as one of the world's rich countries. Indeed Nigeria had little or no reason to borrow offshore, not even to prosecute the civil war which destabilized her unity from 1967 to 1970 (Fasipe, 1990). Over time, Nigeria drifted from a rich and low-indebted country to a high-indebted nation. Until 1978, before which time OPEC's oil windfall of 1973 left Nigeria awash with huge petro-dollars, Nigeria pegged external borrowing at ₦1.0

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billion. This status of a low-debt nation commenced a downward trajectory when General Olusegun Obasanjo, then military Head of State, decided to raise the cap on external debt from ₦1.0 billion to ₦5.9 billion in 1978 (Babawale, 2007). Shortly, Nigeria was caught in the web of external debt crisis, a development that negatively impacted her economic progress and the welfare of the citizenry. Thus, from 28 percent in 1980, Nigeria's poverty index climbed to 66 percent in 1996 and further to 70 percent in 2000 (Bryan, 2003). In its report, The African Forum and Network on Debt and Development (AFRODAD) (2007) estimated that on a daily average, about three million people drifted into the labour market.

In explaining the emergent and unfortunate debt situation, Anyawu (1999) identifies two reasons: first was the growing dependence on external borrowing for funding; and second was the persistent difficulty in servicing external debt obligations. Besides the above reasons, the political economy of Nigeria pre-independence, which was characterized by dependence, was central. Thus, Ahmed (1984) posited that Nigeria's debt problem emanated from her economy and economic policies pursued by government. With the over dependence on a single export commodity, nothing short of the situation was expected. Worse still, Aluko and Arowolo (2010) have shown that misapplication of loan proceeds poses a serious draw back in economic development. Thus, the causes of Nigeria's external debt problem as variously identified in literature include inefficient trade and exchange policies, adverse exchange and interest rate movements, improper borrowing, inefficient loan utilisation, poor debt management practices, leading to accumulation of arrears, default penalties and inappropriate monetary policies, among others (Falegan, 1992; Yesufu, 1996). Overtime, these and among other problems gravitated Nigeria into serious external debt crisis that seriously stunted her economic development, particularly from the 1980's to the mid-2000s. A synopsis of the plethora of literature on Nigeria's external debt crisis is accordingly presented in subsequent section.

The role of public external debt in the economic development of Nigeria has been very tritely recognized and discussed in literature. This study contends that available literature and empirical studies undermine the centrality of governance and the challenges relating to the proper management of external debt attributable to poor governance. Therefore, "elevating" the status of governance as the antidote to efficient debt management in Nigeria is the focus of this study.

Given the gap created by the disproportionate attention to governance in external debt management in Nigeria, this paper seeks to conduct an expository re-assessment of governance issues which militated against efficient management of public external debt during the period 1980-2005. The choice of this period is premised on the relative magnitude of external debt and the intensity of debt crisis during the period. The study relies on available records and accounts relating to the management of external debt during the period, and adopts content analysis design as methodology. The remaining part of this paper is structured as follows: section two is devoted to literature review and theoretical considerations; while section three examines Nigeria's external debt crisis and institutional challenges; section four presents the conclusion and options.

Literature Review and Theoretical Foundation

Governance refers to the legal and managerial structure which shapes and directs the operations of government debt managers. It covers the broad legal framework and tools that define goals, authorities and accountability. Furthermore, it is concerned with functions relating to formulating and implementing strategies, procedures, quality control and reporting (Fasipe, 1990). Owing to political setting and public administration, governance practices differ among countries. Irrespective of the differences however, some key elements of sound governance in debt management are commonly applicable among countries. Notable among the elements are: legal framework; accountability and transparency; and institutional setting.

A key legal element in governance framework directed at producing sound financial policies and accountability is debt management legislation, together with laws which cover the operation of fiscal and monetary policies and audit. Many governments have put in place legislations which define public borrowing powers, and powers to enter into contingent financial delegations such as indemnities, guarantees, bonds and derivatives. The purpose of legislation is to minimise potential abuses of power, reduce the tendency for multiple issuance of government debt and establish proper accountability for managing government debt portfolios. Many countries empower the finance minister to conduct debt management on behalf of their governments. The laws set the borrowing limits and procedure for the management of the entire portfolio to ensure orderly debt retirement. In all or most cases, approval of the legislature is required before borrowing. The powers vested in the finance minister are intended to remove the frequent need to seek parliamentary authorization for individual transactions.

Authority to borrow and manage public debt is often contained within public finance legislation outlining the responsibilities of the executive (minister and government agencies) and legislature. In Nigeria, the finance minister and the Central Bank performed debt management function of negotiating, securing and managing external debt on behalf of the Federal Government prior to the establishment of a separate and autonomous debt management organisation, namely Debt Management Office (DMO). Extant laws including Fiscal Responsibility Act 2007, the various Loan Ordinances and Federal Republic of Nigeria, External Borrowing Policy (1988) provide the regulatory framework within which external borrowing is undertaken.

In South Africa, the Finance Management Act, 1999, as amended, empowers the finance minister to borrow on behalf of the government. The public finance legislation also outlines the accountabilities of the minister, debt management institutions, or both. Besides, it outlines and specifies the various roles of the institutions associated with managing public debt. Such institutions may include the parliament, the finance minister and central bank, among others (Okonjo-Iweala, 2003).

Accountability and Transparency

Irrespective of the institutional arrangement, it is important that government is able to enforce accountability in the management of public debt. In this regard, several measures can be of valuable assistance. The measures include the full disclosure of the objectives and responsibilities of debt managers, in order to engender public confidence and credibility. The types of legislations establishing and regulating the entire debt management process determine the required disclosure. In the United Kingdom (UK), Portugal and Ireland, several documents which are available to the public outline the responsibilities of the Chancellor of Exchequer, ministers, permanent secretaries and Debt Management Office (DMO) executives (Pattilo *et al*., 2004).

Accountability also requires the tacit establishment of a risk management framework and portfolio policies, to guide decision makers. Developing specific recruitment and retention strategies to acquire and retain the necessary risk management framework and human capital are essential in a bid to partner with or oversee the DMO. Delegation of authority, auditing, appointment and retention of expert advisory bodies, appropriate reporting on the risk and the entire performance of the total debt portfolio are also of equal importance in interdepartmental coordination.

In Belgium, Columbia, Hungary, South Africa and Denmark, for example, various committees to discuss government debt and issues relating to assets have been put in place by the respective governments (World Bank, 2000). Members of the committees are drawn from DMO, finance ministry, central bank, department of the Prime Minister and other cognate bodies (Okonjo-Iweala, 2003).

Established debt management policies should be clear and transparent in their objectives. Besides, they must be put at the public domain quite timely and deliberately. The size of the borrowing needs and any major change thereto during the year should also be disclosed; just as the loan source, domestic or foreign. If any securities are to be issued, the applicable tax treatment should be disclosed.

Institutional Environment

Once the organizational objectives and roles are clear, and once there is coordination and perfect sharing of information, it is feasible to have an assortment of institutional arrangements. In the absence of compelling reasons of effectiveness, it is often preferable that different agencies should not be responsible for the same functions. Generally, due consideration is given to different criteria within the setting of debt management. Debt management operates more efficiently when decision making and implementation responsibilities are concentrated. When responsibility is widely dispersed, coordination and response time become major issues in efficiency. To avert this risk, responsibility is centralized either within the finance ministry or in a debt management office outside the ministry.

Thus, the location of the DMO is also important in the institutional framework of debt management. The current practice of governments is to centralize their DMOs, in order to upgrade the quality of debt management. Two arrangements are common: one is an office located outside of the ministry of finance with a reporting line to the minister, as the case of Austrian Federal Financing Agency, Hungary's Debt Management Agency, Ireland's National Treasury Management Agency, Portugal's Instituto de Gestao do Credito Publico, Swedish National Debt Agency and the United Kingdom's Debt Management Office (Okonjo-Iweala, 2003); the second arrangement is an office located within the ministry of finance or department of treasury, as in the Treasury of Belgium Kingdom, Colombia's General Directorate of Public Credit, Canada's Department of Finance, Finance's Agency Tresor and New Zealand's Debt Management Office (Okonjo-Iweala, 2003). Opinions are now divided as to the appropriate location of the DMO. In emerging economies, the argument for locating the DMO outside the ministry of finance is premised on the desire to avoid the tendency to downplay the important role of debt and cash management, when the office is subsumed in the octopus ministry of finance. Besides, locating the DMO outside the ministry of finance will capacitate the agency's higher budgetary allocation as an independent entity. Such semi-autonomy will enable the Office to acquire resources, systems, manpower, skills and training, which would be otherwise difficult to acquire, as a mere unit or office in the ministry of finance. Interestingly, Nigeria adopts the structure which favours locating the DMO as semi-autonomous, outside the ministry of finance.

Nevertheless, proponents of in-ministry location of a DMO believe that the option will foster integration and interaction between the ministry's economic planning and design of government borrowing programmes (World Bank, 2007).

Theoretical Foundation

This study is premised on Structural-Functionalism. As a theory, functionalism has undergone evolution with several theorists: Auguste Comte, Herert Spencer, Talcott Parsons (1961), Kingsley Davis (1959), Wilbert Moore (1965) and Robert King Merton (1968), contributing significantly to the discourse. However, Parsons' typology of the range of structural-functionalist strands is adopted. Parsons (1961) developed the idea that roles in repeated social interactions weave into collectivities of roles that complement each other in fulfilling functions for society. He further argues that some roles are tied up in institutions and structures (economic, legal, etc). The roles are functional because they assist society in operating and fulfilling its fundamental needs for smooth operation. The failure by any organ or structure therefore contributes to inefficiency, or failure of the entire system.

Flowing from the foregoing, the cardinal thesis of structural-functionalism is the existence of the organisation, public or private, a complex system comprising of component organs or structures, designed to perform the functions of the system.

Implicitly, efficient external debt management entails establishing a sound institutional (legal, administrative and political) framework in an integrated system in which synergies are coordinated by a designated debt management agency.

As a system, the political economy of public external debt management in Nigeria plays the crucial role of procuring, managing and repaying loans contracted by the Federal and State Governments from the international financial system, be they official or commercial. In the onerous responsibility, several institutions (structures) are involved: the coordinating DMO, supervisory Federal Ministry of Finance, Federal Ministry of Justice and Securities and Exchange Commission. Each structure plays a distinct role in the debt management system. Thus, the collective efficiency of the institutions determines the efficiency of external debt management in Nigeria. The utility or relevance of structural-functionalism to this study is its ability to provide an insight into the inter-relationship between the role of external debt management and the structures which perform them.

Nigeria's External Debt Crisis

The phenomenon of external debt in Nigeria dates back to the colonial period, precisely 1958, when the sum of US$28 million was contracted for railway construction to Bornu (Adepoju, 2007). Between 1958 and 1977, debt contracted were concessional, from bilateral and multilateral sources, with debt of longer repayment periods and lower interest rates constituting about 78.5 percent of the total debt stock (Adepoju, 2007). AFRODAD (2007) noted that

Nigeria's external debts have increased over time because of the shortages of foreign exchange to meet her developmental needs, and the fall in oil prices in the late 1970s which had a devastating effect on government expenditure. It therefore became necessary for government to borrow in 1978 for balance of payments support and for project financing. As a result, government promulgated Decree No.30 of 1978 which raised the external loans the Federal Government could raise to N5 billion from ₦1billion.

In the same year, Government made the first "jumbo loan" of US$1 billion from the International Capital Market (ICM). With this development, Nigeria's external debt escalated from the million-dollar category to the billion-dollar. Nigeria's external debt stock further increased to US$13.1 billion in 1982 (CBN, 2003; Ayadi, 2004).

Two factors led to this sharp increase: one, the entrance of state governments into the external loan market; and two, the substantial decline in the share of the loans from bilateral and multilateral creditors, and the consequent increase in borrowing from private sources at stiffer rates (Fasipe, 1990).

Nigeria's inability to settle her import bills resulted in the accumulation of trade arrears amounting to US$9.8 billion between 1983 and 1988. Of this, the insured component was US$2.4 billion, while the uninsured component was US$7.4 billion (Adepoju, 2007). The insured component was rescheduled at the Paris Club, while the uninsured component was reconciled with the London Club. This reconciliation which took place between 1984 and 1988 reduced the amount to US$3.8 billion (CBN, 2003). After a brief decline, the debt stock grew steadily to US$32.6 billion at the end of 1995. As at 1999, Nigeria's external debt stock was S$28.0 billion. Of this, 73.2 percent was owed to the Paris Club; while the rest was owed to the London Club, the multilateral creditors, promissory note holders and others (CBN, 2003).

Servicing and rescheduling of debt became problematic for Nigeria from around 1985 when its external debt rose to US$29 billion (Audu, 2004; Fosu, 2008). Before then, Nigeria had experienced a boom in oil revenue, which was followed immediately by an unexpected decline, due to the fall in commodity prices (petroleum cocoa, and others) in the international market (Sanusi, 1987). While much haste was made by government in procuring external loans for various reasons, no attention was paid to the institutional arrangement for the proper management of the loans so procured. To be sure, the hallmark of governance structure in public debt management is the existence of a sound institutional framework. A study conducted by the World Bank (1999) on sovereign debt management reported that prudent and effective sovereign debt management is important for several reasons: first, it can contribute to the assurance of a country's financial stability and thereby help make it less susceptible to financial risk; and second, through its linkages to fiscal, monetary and exchange rate policy, it can help assure good macroeconomic management.

An effective debt management can also improve the credit rating of a borrowing country and lower her borrowing cost, by reducing the risk premium in the loan terms. Furthermore, it can support the development of a country's financial markets and attract foreign investment. It follows therefore that a professionally managed portfolio of public debt will largely influence the perception of market participants including investors, rating agencies, under writers and analysts.

In spite of the absolute importance of sound debt management, experience suggests that Nigerian governments failed to establish the required structures to perform the function of sound and prudent debt management. Prior to the mid-1980s and 1990s, nothing suggested that government accorded priority to the establishment of the requisite institutional arrangement for managing the soaring debt portfolio. The reasons are not far-fetched. First, until the 1980s, external borrowing assumed insignificant dimension in public finance; second, the background experience and the foresight about the danger of poorly managed debt were lacking; and third, as a corollary, the awareness or fear of debt crisis arising from poor debt management was unimaginable to the political and bureaucratic leaders. For example, even after the end of a capital-intensive civil war, Nigeria's total external debt was less than $1billion by 1970 (Adebayo, 1990; Fasipe, 1990). But by 1980, the stock had grown to $9billion; and further to $19billion by 1985, with average annual debt service at $4billion (Okonjo-Iweala *et al*., 2002). Ten years later, by 1995, the external debt figure peaked at $34 billion, about 100 percent of Nigeria's gross national product (GNP) (Okonjo-Iweala *et al*., 2003).

Confused and overwhelmed, successful governments in Nigeria abandoned the complex debt issue. However, the administration of General Abdulsalam Abubakar re-awakened the issue in 1999 with a payment of a paltry $1.5 billion, to demonstrate commitment and good faith.

The effective struggle for debt relief was sustained by the administration of Chief Olusegun Obasanjo upon assumption of office as President in 1999. To achieve any meaningful results, key macroeconomic reforms and new arrangements became inevitable. As a corollary to the reforms, instituting a sound governance regime in debt management assumed the front burner. Arrangements which included sound information gathering (data and records), reconciliation with creditors and review or ascertainment of loan terms and conditions for actual liability (principal and interest) were required and pursued, preparatory to negotiation with creditors. Given the improved institutional setting, Nigeria approached the various creditors for relief, beginning with a reconciliation exercise, at the end of which the total debt stock was reduced to an estimated $28.9billion, down from about $35billion in 2005 (Okonjo-Iweala *et al*., 2003).

Institutional Challenges

Without doubt, the credit for confronting the problems relating to external debt management, particularly the struggle for debt relief, goes to Obasanjo's administration. The problem of data recording and records maintenance was very serious, as many agencies maintained poor and varying records. Indeed, a number of challenges countered the operation of efficient debt management. A very critical problem was diffusion or dispersal of responsibilities: about seven agencies or departments of government were variously involved in external debt management, some overlapping, and some working at cross purposes. Tasks which included data recording, documentation, payment initiation and verification, for example, were haphazardly undertaken by uncoordinated departments across Federal Ministry of Finance (FMF) and the CBN. Within FMF alone, four departments: external finance, multilateral institutions, African and bilateral economic relations and treasury, were involved in external debt management. The CBN had its own debt management department. While the department in FMF related with Paris Club on all debts, a similar department in CBN related with the London Club on same function, in addition to trading (Okonjo-Iweala, 2003). The CBN also had the Debt Conversion Committee Secretariat, which though small, performed the very crucial function of debt conversion.

Consequently, information flow and synergy lacked, and this more often led to delays and process failure. Manual and incomplete recording and record keeping were adopted, although Nigeria then had one of the most efficient debt management software: the Commonwealth Debt Recording and Management System (CS-DRMS) in the external finance department of FMF (Okonjo-Iweala, 2003). As a result, reliable and credible database for ease of verification of claims of outstanding principal amounts, and for unpaid arrears and penalties on late payments, were unavailable. In the circumstance, reconciliation became difficult or impossible, as creditors and debt management agencies in Nigeria claimed and counterclaimed contradictory outstanding debt figures.

The challenges of weak organisational process and poor information management were exacerbated by the quality of staff due to inadequate training and experience in debt management. Thus, only an insignificant proportion of the entire debt management workforce had what it took to perform the very challenging function of efficiently managing a whopping debt portfolio of $28 billion, post reconciliation.

An equally fundamental institutional problem was the absence of a National Debt Management Strategy. When some of the contingent liabilities fell due therefore, no provisions had been made for their settlement. Furthermore, many state governments: Abia, Akwa Ibom, Anambra, Edo, Enugu, Imo, Kaduna, Kwara and Lagos, borrowed from the international capital markets to finance "development projects" in the early 1980s, at market rates (Okonjo-Iweala, 2003). The expectations that the projects would earn returns adequate to repay their costs were not realised, due to corruption and management issues. A clear national debt strategy linked to the macroeconomic policy framework and development strategy would have provided the requisite guide on public borrowing, so as to specify government's risk appetite and acceptance criteria, growth objectives and strategy, financing gaps and debt service capacity. Loan sources, terms and conditions and impact and sensitivity analyses should also have been conducted at the proposal stages, to ascertain the overall feasibility of the loan ventures. In the absence of such debt strategy and robust policies, the crisis situation experienced in the 1980s was inevitable.

Realising the imperative of an efficiently managed debt portfolio, President Obasanjo commissioned a total review of Nigeria's debt management framework in March 2000. The exercise was completed and the report submitted to Government in April 2000. Fundamental and very critical among the findings and recommendations were the diffusion of debt management functions and the need to consolidate all functions in one agency. In response, the Debt Management Office was established in 2000, as a semi-autonomous agency under the supervision of FMF. In the new arrangement, driven by a focused mission, the initial issues in debt management were drastically resolved. Thus, a new order and clearer institutional framework for managing Nigeria's external debt were established (Okonjo-Iweala, 2003).

Conclusion and Recommendations

Classical literature identifies weak legal, institutional and accountability arrangements as challenges confronting governance of public debt management. Salient among the institutional issues is the absence of a robust and effective coordinating agency charged with the responsibility of coordinated and focused management. In the absence of such single authority, the essence of responsibility and accountability was undermined. In the confused situation, lack of focus, duplication and overlap of functions, avoidance of responsibility and accountability and gross inefficiency characterised debt management processes. It was also difficult to assemble and develop the required manpower and systems necessary to perform the functions (Adebayo, 1990). As a corollary, in the absence of control and accountability, corruption and mismanagement crept into debt management. To be sure, the remedial action taken by Obasanjo's administration through the reforms which saw the emergence of the DMO, charted a new course for a vista of hope. Thus, one can safely argue that the future and prospects of governance in external debt management in Nigeria have become brighter.

Against the background of the foregoing, the following proposals are put forward, to achieve more effective external debt governance:

Government should exorcise Debt Management Office from Federal Ministry of Finance totally and grant it full autonomy, to strengthen its position and add impetus to its ability to effectively and efficiently manage public debt in Nigeria. To realise this objective, Debt Management Office should be granted the same constitutional status as Revenue Mobilization, Allocation and Fiscal Commission and Public Complaints Commission, to insulate it from the undue control of the political and bureaucratic leaders.

Furthermore, Government should establish a national debt strategy and policy committee to be located in Debt Management Office, similar to the Monetary Policy Committee of the Central Bank of Nigeria, to articulate, guide, direct and support the implementation of public external debt management strategy and policy, from initiation to orderly repayment of all obligations.

As a corollary, professionalism should be entrenched in external debt management, for more effective debt governance.

Also, government should sustain the fight against corruption, because efficient debt management is better conducted in a transparent and accountable setting, devoid of corruption.

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