THE INTERNATIONAL EFFORT ON DEBT CRISIS: AN APPRAISAL

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External debt permits developing countries to maintain domestic investment at higher levels than that which would be possible if they relied on domestic savings alone. Thus borrowing capital to channel it into productive investment is a natural and healthy feature of the development process[1]. Under normal circumstances, the investments undertaken are expected to generate an income stream more than sufficient to meet the repayments of the debt incurred. However, their happy outcome is not always realised when imprudent investments are made; pricing distortions in developing countries and price fluctuations in World markets affect expected returns; borrowed resources are at times used for consumption rather than investment and many productive investments such as for infrastructural and social services do not yield drives returns.

The dimension of today's debt crisis calls for nothing short of international effort to combat it. From Argentina to Algeria, from Brazil to Bolivia, from Chile to Columbia, from Egypt to El-Salvador, from Greece to Guyana, from Hungary to Honduras, from Indonesia to Isreal, from Mexico to Malaysia, from Nigeria to Nicaragwa, from Portugal to Pakistan, from Romania to Republic of Benin, from Sudan to Sri Lanka, from Turkey to Tunisia, from United Arab Emirate to Urguay, from Venezuela to Vietnam, from Yugoslavia to Yemen Arab Republic, from Zaire to Zimbabwe, nationals are subjected to severe debt burden of various degress and to ease the burden national governments have either rescheduled their external debts or are in the process of rescheduling (both multilateral and bilateral). In all the cases cited above, and many more, the process has not been easy. The journey from debt country to a Credit Worthy Country" via the International Monetary Fund (IMF) formular has not been a rosy one. It is studded with unspeakable economic hardships; g owing level of unemployment, skyrocketing infalation, capacity underutilization, external trade imbalances etc. These have excruciating and devastating impacts on the economies of the debtors countries and calls for greater concern and apprehension.

The World therefore is facing two debt crises arising from similar root causes, but differing in the sources and type of debt, and the nature of the response required from or already exibited by the international financial institutions also differs.

This paper accordingly is divided into three parts. Part I shall concentrate on the genesis of the External Debt problem with special exphasis on Nigeria. Part II evaluates the response of international financial institutions to the debt problem of LDCs (Nigerian case). While in Part III Alternative Approach to the solution of Nigeria's External debt problem is considered.

1/ Obadan M.I., *Foreign Borrowing and Development: A Theoretical Perspective Presented at the Conference*

PART I

Origin/Causes of External Debt Problem

A number of fa tors have contributed to the worsening debt position of developing countries. Central among these is the economic recession in the industrialised countries which has depressed the volume of World Trade and the level of commodity prices. At the same time, the monetary policies pursued by some industrialized countries, most notably the U.S., had led to rising real rates of interest. Finally, the protectionist measures taken by many industrialised countries in response to the recession have further limited the export opportunities of developing countries and exacerbated their external financial position.

International finance theorists including th works by William Cline (1985) Massed Carlos (1985) and Ajit Singh (1986) point conclusively to the year 1973 as the origin of the World debt crisis. That year correspondent to OPEC's oil prices shocks which sent chilling ripples across the World economy as well as unprecedented economic upheavals. The quadrupling of OPEC's oil prices in 1973 - 1974 resulted in the accumulation of large liquid surpluses in the Europe dollar market with the following undescriable consequencies.

(i) There was the problem of recycling the hugh OPEC liquid surplus (petrodollar) which transformed the role of the banks from being financial intermediaries to that of primary lenders to the Euro dollar market.

(ii) The problem of recycling the petrodollar was solved as these banks increased their exposures to non-oil producing developing countries who were already hard hit by the oil price hikes.

(iii) The Western nations, notably the USA, adopted tight monetary policy to stem the inflationary impact with the result that interest rates rose to unprecedented heights.

(iv) The World recession following the oil price hikes depressed demand for third world products (including Nigeria's crude oil), forced down the price and caused deterioration in the terms of trade of the LDCS.

(v) Worsening balance of payments, created the need for borrowing, forcing up the rate of interest still further.[2/]

Other external factors to the Nigerian debt crisis are the monopoly over international liquidity by a handful of industrialized nations and the drastic decline in the official flow of resources to developing countries. A study by Fiallo (1985) has shown that industrial countries hold about 90% of the official gold reserves. Because of this, the Micro economic policies of these key currency countries during the 1970s and the recycling of petrol dollars through the private banks were tantamount to a transfer of real wealth away from developing countries towards the traditional financial powers (Fiallo 1985).

At the local level, the Nigerian debt crisis has been traced to the oil glut which set in 1977, with the consequent tumbling in the foreign exchange earnings. But it was not until in 1977 - 1978 when Nigeria contracted the first two major "Jumbo"

2/ Singh, A. *"Third World Economic Crisis, Stabilization and Structural Adjustment: An Overview" Labour and Society Vol. II No. 3 p. 17, Sept. 1985.*

Euro-market loans worth $2.2 billion that the Nigerian debt problem assumed an alarming proportion. For example, between 1977 and 1978, Nigeria's external debt outstanding went up from $0.9 billion to $2.5 billion while the debt export ratio rose from 6.7 per cent to 20.4 per cent. The Euro-market loans were obtained at interest rate of one per cent above LIBOR (10%) with a maturity period of 8 years and grace period of 3 years, whereas the loans were meant to finance project with longer gestation periods such as refineries in Kaduna and Warri, Pipelines Cement projects, paper and palp, sugar and iron and steel (Sunday Concord, July 12, 1980). The result was that the debt service obligation on the loan fell due;whereas most of the projects slated for the loan did not leave the drawing boards. This led to debt bunching. This was the genesis of the debt crisis in Nigeria.

However, the event that actually inaugurated the crisis were sharp fall in the prices and hence earnings from oil, leading to the DEPLETION OF EXTERNAL RESOURCES from $10.6 billion in 1980 to $1.9 billion in 1982 and the consequent accumulation of trade arrears amounting to $4.3 billion. This situation was aided by excessive prodigality and massive importation of all sort of things e.g. champaign with user's name, frozen food etc. into the country. The expansionary fiscal policy of the civilian government generated domestic inflationary pressure which in turn accelerated the demand for imports. The situation was so bad that between January and March, 1982, the external reserve of the country tumbled from over ₦6 billion to less than ₦1 billion. Whereas the nation's monthly import bills stood at ₦1.2 billion, oil earnings had fallen to ₦800 million on the average per month (The President No. 22, 1982). The external debt of the country rose from a paltry ₦2.33 billion in 1981 to a whopping ₦8.82 billion in 1982[3/]. To cap it all, the club of commercial creditors refused to negotiate for a rescheduling of the trade debts but advised the country instead go to the IMF.

The point has to be made that there was no justification for the refusal by the club of commercial Bank Creditors to negotiate with Nigeria on debt rescheduling since at debt export ratio of 178 per cent, Nigeria was still, by international standard, adjudged credit worthy. According to Crios (1985) a debt export ratio of up to 200 per cent is regarded as the threshold between credit worthiness and the lack of it. The possible explanation is that the refusal was to blackmail Nigeria into accepting the IMF loan with its repugnant conditionalities.

PART II

The main international financial institution to have responded to the challenges posed by the severe external debt problem of developing countries in these times of global recession are the world Bank and IMF monetary authorities which operate through them. Other relevant actors though less central to our concern, include other bilateral and multilateral donors and, of course, the commercial banks themselves.

I.M.F.

The response of the IMF, to quote from its 1983 *World Economic Outlook,* has been to take "on a more active and expanded role in two key areas of its responsibility; the exercise of surveillance over the exchange rate policies and related policies of member countries and the provision of financing to members in support of appropriate adjustment policies".

3/ Uduebo, M.A. "Debt Crisis in the West African Sub-Region - which way out? Paper presented on the occasion of the West African Banker's Association Day Celebration in Nigeria (Aug 10 '90).

The IMF debt reserve package as applicable to all debtor nations has three major components:

(i) Structural Adjustment Programme by the country in question (SAP)

(ii) Official support loans through IMF, World Bank, etc; on a 'case by case' basis, subject to the fulfilment of (i) above by the debtor country; and

Continued lending by banks (new monies rescheduling and refinancing).

According to World Bank staff working paper No. 349, "An adjustment is any policy or set of polices that make possible the acceptance of rather than resistance to market penetration by export of developing countries in developed countries. The main elements of SAP as operated in Nigeria are:

(a) Cut in public expenditure
(b) Currency devaluation
(c) Trade Liberalization
(d) Removal of subsidies
(e) Privatization
(f) Deregulation
(g) Debt equity swap

In Nigeria, the government has demonstrated a commitment to SAP as evident in the sketch below:

(i) Expenditure cut: Actions

Capital expenditure was pegged yearly at ₦4 billion between 1983 and 1984

Cancellation of some capital projects and massive retrenchment of workers (a collosal waste on the scarce resources)

Salary cuts and deductions through the Economic Emergency Recovery Fund (₦500 million was realised)

Results:
(a) GDP fell by 5.5 per cent in 1984 but rose marginally to 2.5% in 1985
(b) Inflation rate rose to 39.6% in 1984
(c) High unemployment rates and high crime rates
(d) Balance of payments improved by ₦0.6 million between 1984 and 1985.

(ii) Removal of subsidies: Action:

(a) removal of petroleum subsidy by 60%
(b) reduction in grants and subventions to parastatals and the abrogation of non-statutory transfers to states
(c) commercialization of parastatals

Results: Prices of consumer goods jolted upward in sympathy with the rise in transport fares

(iii) Currency devaluation:

At the centre of government foreign exchange action was the Second-tier Foreign Exchange Market (SFEM) established on 26th of September, 1986, the objectives of the SFEM were to determine a realistic exchange rate for the naira which was believed to be over valued, to eliminate the illegal foreign exchange market and to eliminate the abuses and malpractices attendant to import licence.

So far, SFEM has not justified its existence, apart from the fact that it has enhanced the revenue base of the government.

It has not eliminated the black market. Instead it is alleged that a large part of the SFEM money is finding its way into the black market (BUSINESS TIMES JUNE 15, 1987)

Apart from the skyrocketing inflation attendant to SFEM, due to over depreciation of the naira it has also threatened the survival of the small scale industrialists in the country. In Zambia, SFEM was reputed to have killed more than 70 small scale industries before it was scrapped.

Funds from the SFEM window are used to finance capital flight. A section of Indian and Lebanese communities used 25 - 30 per cent of SFEM money to repatriate profit and other earnings.
(BUSINESS TIMES JUNE 22, 1987). SFEM was not serving its purpose. It was finally merged with the First-tier foreign exchange market to form one Foreign Exchange Market (FEM).

Privatization: One knotty issue in the IMF package is the policy of privatization. The usual argument for privatization is that public enterprises are grossly in efficient. This is supported with data (Daily Times Nov. 1985).

Total Investment in Parastatal	1980 - 1985 ₦23.6 billion
Yields	1980 - 1985 ₦934 million
Subsidies	1980 - 1985 ₦11.5 billion
Rate of Returns	2 per cent
Interest	8 per cent

The above profit margin grossly understate the non-marketable, welfare services generated by public corporations.

- Employment criterion is not taken into account
- The cost of privatization in terms of exacerbating income disparity in favour of the rich which far out weigh the expected gains from privatization is not critically considered.

Trade Liberalization:
This is one of the highly constested and objectionable conditionalities of the IMF reserve package. Such liberalization on trade include lifting of bans on imported goods and abolition of restrictions measures on trade.

Ironically, these demand are made at the time when United States and other industrial nations are embarking on one of the most restrictive trade policy ever. For instance available data on trade shows that the value of Nigeria's export to the countries of the European Economic Community (EEC) fell from $10 billion in 1985 to $4.6 billion in 1986 respresenting a drop of 60%. Besides, the concept of trade liberation runs counter to the spirit of SFEM which is promotion of export.

Structural Lending:

The second major component of the IMF debt rescue package is structural lending enjoyed by a debtor nation upon satisfactory evidence of adoption of the structural adjustment programme (SAP).

Structural lending has the following components:

(a) Debt Rescheduling
(b) Refinancing
(c) Syndicated loan (new monies)

Debt rescheduling is simply a re-arrangement to restructuring of payments falling due in a given year so that repayment on the principal and interest payments can be made on a longer period (Adedeji A. 1984).Refinancing involves a straight roll over of maturity debt obligation (Swamy, 1985). Syndicated multilateral loan are usually given in support of the adjustment programme.

Nigeria has successfuly negotiated two reschedulings since inception of the debt crisis in 1983. In 1983 about $1.5 billion of trade debt and confirmed letter of credit was rescheduled. In March 1987 a second major multilateral rescheduling involving $1.2 billion dollars on medium and long term loans was signed between Nigerian government on the one hand, the steering committee of Nigerian Commercial Bank of Creditors and the Paris Club on the other hand. The details rescheduling arrangement is given below:

RESCHEDULINGS OF EXTERNAL DEBT 1987

	CREDITORS	TYPE OF DEBT	ARREARS	NEW MATURITY
1.	The steering Committee of Nigeria Comm. Bank Creditors	(a) Principal on medium term debt	April 1986	-
		(b) Letter of Credit	Dec. 1987	-
2.	Pams Club of Official Export Credit Agency	(a) Medium and long term loan	Oct 1985	10 years Maturity 5 years grace
		(b) Trade Arrears	Dec 1983	8 years Maturity 3 years of grace

Source: Budget 1987

Also, in March 1989, another refinancing and rescheduling Agreements was amended to provide for payable debt to be subject to a 5% down payment while the balance would be paid in equal monthly instalments from the day of which the agreement was signed to December 1991, and the principal amount to be paid in 144 equal monthly instalments between January 1991 and December, 2003, Under this scheme U.S. $438.5 million was paid to the London Club out of which US$5.8 million were payable debt and decapitalisation respectively (CBN, Annual Report and Statement of Accounts December 31. 1989). It is very clear from the above that the end of Nigeria's debt crisis is not in sight, and the resources (foreign exchange) needed to pay them back are getting slimer daily. Where do we go from here?

Critique of the Structural Lending

The first question to ask is at what cost and term are these loans made? Professor Swammy has noted that interest spread above LIBOR on rescheduled debt

between 1.75 - 2.25 per cent while rescheduling fees average between 1 and 1.5 per cent. Given the recent LIBOR rate of 9% and using the average of the above rates, it could easily be found that within one year the total debt service arising from $1.220.67 million rescheduling exercise will amount to $149.5 million. Although the above analysis ignores the grace period, it is quite clear that rescheduling compound rather than solve debt problem.

Another serious criticism of rescheduling is that it does take into consideration the long term structural nature of Nigeria's and indeed third world's debt problem. To the creditor, the debt problem is solved once the credit-worthiness of the debtors are restored and service payments met promptly regardless of whether the debtor nation has been committed to perpetual servitude in the process.

Thirdly, it is strongly suggested that the IMF rescheduling works in the uncompromised interest of the creditors; first, by shifting the whole burden of adjustment on the debtors and, second it enables organised creditors to deal separately with individual debtor nations and by providing a temporary relief it diminishes the probability of the debtor nations forming a debtors' cartel. The need for such a cartel can not be over emphasized if the third world debt problem must be dealt with at its root.

Finally, reschedulings exercise tends to give rise to a chain of reschedulings as the experience in many third world countries e.g. Argentina, Sudan, Brazil and Zaire have shown. This repeated rescheduling point to the fact that the desired results have not been achieved. It only postponds the evil day.

World Bank

The nature of the World Bank's response to the current debt crisis is the Special Assistance Programme which it initiated in February, 1983. The programme which is implemented over two years period, gives emphasis to operations:

(i) Which support policy adjustment;

(ii) Which improve or maintain existing infrastructure or lead to full utilization of existing capacity particularly if it is export oriented;

(iii) Which encourage the appropriate ordering of project priorities;

(iv) Which encourage co-financing and similar lending policies of other institutions on the whole a central feature of the World Bank's Special Assistance Programme is exponded Structural Adjustment Lending.

These loans, which are designed in close consultation with IMF, are intended to facilitate the implementation of programme policy reform.

The SPA have so far mainly focused on countries that meet three criteria: They are poor - defined as eligible for low-interest aid from the World Bank's International Development Association (IDA), but not for higher interest loans from the International Bank for Reconstruction and Development (IBRD). All have debt service ratios projected, before debt relief, at more than 30% of exports. All are carrying out structural adjustment programmes endorsed and in general supported by the World Bank and International Monetary Fund.

By March, 1990 a total of 23 countries in Africa who met these criteria were declared eligible. Essentially, the Special Programme of Assistance (SPA) is aimed

at increasing the net amount of money available to these countries for developmen by a mix of debt service relief, grants for balance of payments support and low-interest loans.

A total amount of $1.8 billion was earmarked for the first phase (1988 - 1990) of the programme, out of which $15 billion was expected to come from the SPA countries, while the remaining $3 billion was expected to come from previously planned adjustment aid. The second phase of SPA billed for 1991 - 1993 is estimated at $22.5 billion.

The countries that benefit from the SPA programme's average annual growth of gross domestic product (GDP) during 1988/89 according to available statistics was 3.7 per cent. GDP grew faster than population in 14 of the 22 SPA countries, compared with only 5 in 1981-84. The above marginal progress not withstanding, the development of these countries remain still very fragile. In 1990 alone, debt service of these countries stood at 50 per cent of their exports before rescheduling and 35 per cent after. Analysts have projected a debt service of 24 per cent of exports of these countries by 1983, on the assumption that the Special Programme of Assistance, phase two (SPA 2) will be successful. This level is still not the best for the poor countries with which the SPA applies.

Cancelling Concessional Debt

At the end of 1987, the Western countries had cancelled $2 billion in concessional debt owed to them by SPA countries. In the period 1988/90 the major donors - Belgium, France, United States, Canada, and Germany were expected under SPA to write-off another $5 billion.

Despite the above-mentioned measure, a total amount of whopping $7 billion is still owed by low-income African countries to non-OECD creditor countries which are not part of the SPA while outstanding debt of another $2 billion in concessional debt is still owed to the OECD countries.

The short-term cash flow effects of cancelling concessional debt is relatively small. The terms were lenient to begin with and much of the debt service is rescheduled or simply not paid. But writing-off more of this debt would demonstrate support for the poor countries and would reduce the long-term pile-up of the stock of outstanding debt which stands as a colossus on the road to their development.

Toronto and the Paris Club

At an economic Summit in Toronto in June 1988, the Heads of the seven lending industrial countries adopted a formula that would allow some of this non-concessional debt to be rescheduled on concessional terms. Thev spelt out three options for doing so -

(a) forgive one third of debt servie due;

(b) reschedule with long grace periods and maturities (14 and 25 years, respectively); and

(c) reschedule at lower interest rates.

A combination of these options had so far been applied by the Paris Club, [a]vailable statistics showed that by February, 1990, a total of $3 billion in debt ser[vi]ce owed to Western governments by 14 low-income African countries were

rescheduled.

While Toronto formula is an improvement in the relieve package for debtors countries than the former practice of rescheduling the same terms it was originally contracted, it is not without shortcomings;

1. The Toronto reschedulings are hardly concessional. Thier grant element (the portion of debt actually written-off) is 20 per cent. Only one Paris Club member, France, has written-off - one third of debt service under option C. One-third of Toronto rescheduling has been at market interest rates, though over longer period of time. This will have the effect of reducing debt service in the next few years, only to rise sharply in the late 1990s. More use of option A and C together with writing-off a higher percentage of debt service or lowering interest rates to a greater extent would reduce such effects.

2. Rescheduling involves postponing the payment of debt service. But this relief does not come to debtor countries free of charge. They must pay interest on the amount postponed. Basically, the so-called "Moratorium interest" is itself not reschedulable. Consequently, as more debt are rescheduled each year, the amount of moratorium interest grows. At the current projection, SPA countries will pay as much as $1.2 billion during the three period 1991 - 1993. The burden could be reduced by making this interest eligible for rescheduling more concessional, so that less interest accumulates.

Countries Outside SPA

A sizeable number of low-income debtor countries are presently not part of the SPA, and many of these have severe debt problems. Nigeria is in this category, following its oil boom it was classified as a middle-income country but the subsequent oil doom has made it to be reclassified as a low-income country. Though currently a low-income country, Nigeria has not benefitted from neither the SPA nor has it received the Toronto term from the Paris Club, because it continues to borrow from IBRD. There is so far no concrete plan for Nigeria, nor for Africa's middle-income countries many of which face problems identical to those of the low-income countries. Where do we go from here?

PART III

Alternative Approach to the Solution of Nigeria's External Debt Problem

The above scenario points conclusively to the fact that the IMF "DEBT RESCUR PACKAGE" cannot work for Nigeria. It can only exacerbate our debt peonage, the author posits the following alternatives solution to our debt problem.

A The formation of "Debtor's Cartel". At the moment, external borrowing operate in the seller's market. It is the international leaders that fix both the rate of interest and the term of repayments. The borrowers in desperate need of funds to not consider the full economic implications of the loans so contracted with the tragic result that in most cases it amounts to selling out the sovereign state to foreign capitalists. The situation is that of desperate and large disorganised buyers having to deal with a well organised consortium of sellers. It is in this term that the need to organise a debtor nation cartel becomes very urgent and compelling. The debtor nations cannot pretend or be deceived into thinking that the solution to their debt problem lies with them. It is the writer's considered opinion that the debt crisis, if properly harnessed could turn out to be an important armoury with which the LDCS can press for international reforms that would guarantee them a fair share of the world resources. Thus, any organised threat to default through the formation of

APPENDIX I

STRUCTURE OF NIGERIA'S EXTERNAL DEBT ($)

	1975	1978	1981	1983	1984	1985
Total Debt Outstanding (long term)	1,528.8	3,326.2	13,674.8	17,981.9	15,777.4	16,421.4
Official Creditors	1,143.3	1,509.4	1,649.3	3,847.9	3,869.2	3,971.3
Private Creditors	385.6	1,816.9	11,061.2	14,134.0	11,908.2	12,450
Financial market	28.6	1,780.2	9,805.8	13,052.5	10,799.2	9,881.6
% Share of Official	74.8	45.4	12.1	24.5	24.5	24.2
% Share of Private	25.2	54.6	87.9	78.8	75.5	75.8

Source: World Bank Debt tables 1983 - 1986

NIGERIA'S EXTERNAL DEBT/COMPONENTS SELECTED YEARS (US $ MILLION)

	1975	1978	1980	1983	1984	1985
Outstanding Debt(L.T.)	1,143.5	2,347.7	5,334.7	12,936.2	12,536.2	13,431.3
Disbursement	104.3	1,420.8	1,157.9	4,670.2	1,348.1	1,560.0
Debt Service	243.3	104.1	503.5	1,905.0	3,154.9	4,004
Principal Repayment	203.6	54.6	101.8	1,066.4	2,020.2	2,248
Interest Payments	39.7	49.5	445.2	974.1	1,139.7	1,256
Net transfers	139.0	1,366.7	863.8	2,804.6	1,306.8	2,443

Source: World Debt tables 1983 - 1986

debtor's cartel would forced the club of creditors to concede favourable repayment and interest terms, thus helping to redress the power imbalances in the international debt market.

B. The government should reorganise the counter trade system and make it more effective.

C. Debt forgiveness: At a global level and as a possible step towards the resolution of third world'sd debt problems, the industrial creditor nations should as amatter of necessity write-off a sizeable proportion of African debts. Here the author feels that the IMF can play a positive role as a mediator and solicitor for African nations case instead of continuing in its "shylock-style" role as international debt collector for industrialised nations.

D. To improve on the present outlook, the debtor countries must as a matter of urgency address fundamental problems that go beyond debt, e.g. population growth, agricultural productivity, the investment climate and the competitiveness of their exports. Admittedly, solutions to this problems may take longer time, but that is the only way the debt problem on a long-term basis could be solved.

E. There should be stiff penalities for economic crimes, especially those involving embezzlement and misappropriation of public funds through kick-backs, fee loading, over-invoicing and bribery, etc. A concerted attempt must be made to control corruption through speedy and equal application of the law. It is only by uplifting the standard of morality and probity all round that we can contain the gross abuses characterised our past experience.

In general, debt when used prudently is a good thing and one which has fueled economic development for much of the last two centuries. Continued access to external sources of finance, both commercial and official, is essential for developing countries. The debt crisis which has capture the attention of the World Community should not be allowed to overshadow the need for developing countries, particularly the poorest among them, for such financing.

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