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Africa's Debt Crisis: Perspectives on Nigeria's Escape from External Debt Trap

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Abstract

In sharp contrast with the image of an "oil-rich" country, Nigeria is paradoxically a heavily indebted poor country. While the country's oil production reached 2.5 million barrels per day in 2004, its total external debt stock at the end of 2004 was estimated at $35.9 billion. The debt crisis has been aggravated by the burden of debt servicing, which has absorbed the nation's budgetary and foreign exchange resources with deleterious impact on the critical sectors of the economy. The paper critically examines Nigeria's external debt profile and efforts toward its alleviation. It argues that the debt burden constitutes a major constraint to the revitalization of the nation's economy, and that its alleviation is imperative for sustainable growth and development.

Nigeria's debt crisis has attracted considerable attention since the end of the protracted military authoritarianism and the advent of a new democratic dispensation in the country in May 1999. This is because the debt burden constitutes a major constraint to the revitalization of the nation's battered economy. There is indeed the fear that the crisis may worsen the debilitating poverty and economic decline in which the country is trapped. Although Nigeria is not alone among the countries experiencing acute levels of external indebtedness, when compared to other countries in sub-Saharan Africa, its external debt stock is precariously huge. The external debt profile of the country at the advent of Obasanjo's second term as president in 2003 raised many doubts about the fiscal sustainability of the regime's new economic policy. The administration thus made the issue of debt cancellation a major plank of its reform agenda. This culminated in a series of debt negotiations with its major bilateral creditors—the Paris Club.

Within this period, many articulate Nigerians, including the nation's legislators, advocated for outright and unilateral debt repudiation. Such a radical option is, however, considered inappropriate, particularly for a country like Nigeria, which is marginalized in the power structure of the global economic system, because it may attract consequences such as threat, blackmail, and possible ostracism by the creditor nations (Babawale, 2004). For Nigeria to choose this option, the nation must be ready to withstand any perceived act of blackmail or external opposition.

It has also been suggested that Nigeria could have endeavored to organize a debtor's cartel in order to fight for debt cancellation. However, such a step is easier to contemplate than to implement considering the manner in which Nigeria and other Third World countries have deepened their integration into the global economic system—a system that precariously walks against their interests (Okafor, 2005).

A more effective and accommodating option is that of debt forgiveness. As Ogbe submits,

> Debt forgiveness or cancellation is, no doubt, the most complete and effective strategy of debt relief. The principal debt is not only extinguished but also the steady accumulation of debt that comes from repeated debt rescheduling and the resulting capitalization of interest and arrears are eradicated. Moreover, the sizeable administrative and financial burdens associated with periodic debt rescheduling are also eliminated. (Ogbe, 1992, p. 29)

Since the commencement of Obasanjo's second term as Nigeria's president in 2003, the federal government has been making frantic efforts to secure debt forgiveness/cancellation from its external creditors. A powerful economic team chaired by the country's finance minister, Okonjo-Iweala, was constituted to pursue an aggressive drive toward debt cancellation and sustained economic reform. In July 2005, Nigeria got a reprieve for its astronomical external debt overhang as the Paris Club, to which the country owed over 80% of its foreign debt, granted it an $18 billion debt relief.

The paper presents an overview of Nigeria's debt profile, including the rising trend in debt burden and the sustained efforts to alleviate it, leading to the current escape from the debt trap. It begins by sketching out the magnitude and severity of Africa's debt burden. It then discusses the evolution of Nigeria's debt crisis as well as the ballooning of the debt particularly in the 1980s and up to the beginning of the 21st century. The paper also devotes considerable attention to the breakthrough attained by the Obasanjo administration following an intense negotiation for debt relief/cancellation. Since corruption constitutes a major avenue by which the nation's debt is grossly misused, the paper explores the linkage between corruption and debt burden. It concludes by underscoring the imperativeness of debt sustainability, the establishment of a relatively corruption-free society, and the ability to keep Nigeria's economy in proper perspective.

Africa in Global Debt Crisis

Africa has long been engrossed in the morass of a debilitating external debt crisis. The buildup of the debt constitutes part of the African economic crisis, which, at the commencement of the 1980s, triggered serious attacks on the social policies of the postcolonial state (Olukoshi, 2004). The critical aspect of the continent's debt burden began in 1973 when OPEC members quadrupled the price of oil and invested their excess money in Western commercial banks. The banks, seeking investment for their new funds, appropriated substantial loans to Africa and other developing nations, often without appropriately evaluating the loan requests or monitoring how the borrowed monies were utilized (Caritas International and CIDSE, 2006).

The scenario of Africa's multiplying debt burden has been well articulated by Gavin Capps, who, quoting a U.S.-based nongovernmental organization, Africa Action, states:

> The ratios of foreign debt to the continent's gross national product (GNP) rose from 51% in 1982 to 100% in 1992, and its debt grew to four times its export income in the 1990s. In 1998, sub-Saharan Africa's debt stock was estimated at $236 billion, and that of the whole continent was over $300 billion. Africa's debt burden is twice that of any other region in the world—it carries 11% of the developing countries' debt with only 5% of its income. GNP in sub-Saharan Africa is $308 per capita, while its external debt stands at $355 per capita. (Capps, 2005)

Capps explains how the debt burden has been compounded by the massive overflows of resources to foreign creditors. He laments, in particular, the annual debt service payments, which increased substantially from an average of $1.7 billion in 1970–79 to $14.6 billion in 1997–99, and the huge outflows of resources that have been unmatched with inflows of new loans. For instance, from 1970 to 2002, the continent received $540 billion as loans while paying back $550 billion and retaining $295 billion as total debt. Similarly, the 1990s witnessed a period of worsening resource transfers, and this continued into the new millennium. Although sub-Saharan Africa borrowed $11.4 billion in 2001, it paid back $14.5 billion, which shows a net balance of $3.1 billion (Capps, 2005).

Africa Action has indeed painted a gloomy picture of Africa's debt. Most of the debt is considered illegitimate because unrepresentative governments during the period of Cold War patronage unjustly incurred it, as loans were generously given to corrupt African leaders who misappropriated the money for their personal enrichment with full knowledge and support of the lenders (Africa Action, 2005). For instance, the former Zaire (now Democratic Republic of Congo) dictator Mobutu Sese Seko was, during much of the Cold War period, granted more U.S. aid than the rest of sub-Saharan Africa combined, in spite of the fact that the money was being frittered away into his Swiss bank account. This perhaps informed the classification of debts accumulated during the period as "odious" debt. Famakinwa throws more light on this:

> African countries became indebted to international lenders as they accepted loans for political and economic stabilization in the post-independence era. In the context of the cold war, and with massive revenue surpluses of oil money in western banks in the 1970s, loans were made with little thought to their purpose or to their recipients' capacity to repay the debt. Many were made to retain the loyalty of corrupt regimes, and much of the money went into the hands of unrepresentative and repressive governments. (Famakinwa, 2005)

Today, well after the Cold War era, most African states are still embedded in huge external debt, and they seem not to be getting out of it in any fundamental sense, due essentially to the compounding of interests payable on the loans.

The debt trap in which Africa is currently engrossed is indeed quite pathetic. As the *New York Times* editorialized: "Right now, African countries spend four times as much on paying back debt as they do on healthcare. They are trapped into making ever-escalating interest payments that never touch the principal (*New York Times*, 2005).

Against the background of the ceaseless campaign for cancellation of Africa's over $300 billion debt, which has contributed enormous burden and the greatest obstacle to the continent's development, the G-8 nations, at their meeting in Gleneagles, Scotland, in 2005, decided to cancel the debt of 14 African (and 4 Latin American) countries. Nigeria is one of the countries that were not included in the list, thus prompting the country to engage in bilateral talks with its bilateral creditors. This subsequently led to the cancellation of

60% of its external debt to the Paris Club. The next section traces the background to the country's external debt burden.

Evolution of Nigeria's Debt Burden

Nigeria's jumbo loan of \$1 billion contracted from the international capital market in 1978 constitutes the origin of the country's external debt burden (Central Bank of Nigeria, 2002). Although the country incurred some debt in the 1960s, the debt burden did not weigh too heavily on the nation's economy despite the fratricidal civil war that devastated the country between 1967 and 1970 (Olukoshi, 1990, p. 21). The general opinion that Nigeria was "under-borrowed" led to the government's decision to increase its total external debt outstanding; and while the debt stock rose throughout the 1970s, it was not until the 1980s that it grew significantly (Center For Global Development, 2004). The country's total external debt stock rose phenomenally to \$9 billion in 1980. Between 1980 and 1983, both the federal and state governments engaged in a massive and reckless borrowing spree, particularly from the international capital market, leading to the draining of the country's reserves and debilitating debt crisis (Olukoshi, 1990, p. 26). By 1985, the foreign debt had increased astronomically to nearly \$19 billion (Nigeria First, 2005).

The Central Bank of Nigeria has advanced four major factors responsible for the increased size of the country's external debt, namely, the practice of: (a) the rapid growth of public expenditure, particularly on capital project; (b) borrowing from the international community at nonconcessional interest rates; (c) the decline in oil earnings from the late 1970s; and (d) the dependence on imports, which contributed to the emergence of trade arrears (Central Bank of Nigeria, 2002). Other factors responsible for the rapid growth of the country's external debt, particularly in the 1980s are (e) accumulation of debt service arrears, (f) escalation of the market interest rate, especially in mid-1989 when the London Inter-Bank Offered Rate peaked at 13% from 3 to 4%, and (g) shortening maturities on loans (Nigeria First, 2005). Thus, by 1990, Nigeria's external debt had risen to \$33.1 billion. It declined to \$27.5 billion in 1991, but rose again steadily to \$32.6 billion in 1995. The debt outstanding at the end of 1999 stood at \$28 billion. It increased to \$29 billion in 2000 (Central Bank of Nigeria, 2002).

As clearly underscored at an international conference on sustainable debt strategy, Nigeria's debt burden had been increasing at an unsustainable rate since the beginning of the last decade, and the total debt stock at the end of March 2001 stood at \$28 billion, constituting about 65% of the country's GDP, while the average annual debt service amounted to \$1.5 billion, an amount that is about 20 to 30% of total exports and 3 times the nation's education budget, or 9 times the public health budget (Debt Management Office, 2001). It has been further revealed that from the Paris Club of creditors alone, Nigeria borrowed a total sum of $13 billion, but had paid the sum of $17 billion in service payments, and yet, still owed a staggering amount of $22 billion due essentially to compounding of interests, accumulation of arrears, and penalties invoked on late payments (Debt Management Office, 2001).

Addressing Nigerians on debt relief for the country, which he described as a dividend of democracy, Obasanjo queried, "How did we get to the point where our debt burden became a challenge to peace, stability, growth, and development?" (Obasanjo, 2005). He also identified the fundamental reasons for the debt burden. According to him,

> Without belaboring the point, we can identify political rascality, bad governance, abuse of office and power, criminal corruption, mismanagement and waste, misplaced priorities, fiscal indiscipline, weak control, monitoring and evaluation mechanisms, and a community that was openly tolerant of corruption and other underhand and extra legal methods of primitive accumulation. (Obasanjo, 2005)

Following the astronomical increase in the country's debt stock, the government began to take drastic measures to arrest the disappointing situation. The Central Bank of Nigeria draws attention to the following measures taken by the Obasanjo administration in order to reduce the burden of its external debt:

- Placing an embargo on new loans to check the escalation of total debt stock and minimize the problem of additional debt burden.
- Limiting debt service payments by setting aside a proportion of export earnings to meet debt service obligations to allow for internal development.
- Restructuring debt by reducing the burden of an existing debt through refinancing, rescheduling, buy-back, issuance of collateralized bonds and the provision of new money (Central Bank of Nigeria, 2002).

In addition to these measures, the federal government established a Debt Management Office under the presidency for the sole purpose of managing and advising on the government's overall debt obligation. In spite of all these measures, the nation's external debt continued skyrocketing.

The Ballooning of Debt

Despite significant attempts by government to effectively manage the existing debt, it has continued to grow persistently, rising to $29.8 billion in 2002 (United Nations Development Programme, 2005). In the recent past, empirical data from the Debt Management Office as documented by the Central Bank of Nigeria reveals that the country's external debt stock as of December 2004 stood at $35.9 billion, representing an increase of 9.2% over the $32.9 billon recorded in 2003. The rise was informed by the capitalization of unpaid interest charges on the Paris Club debt and the U.S. dollar's depreciation (Central Bank of Nigeria, 2004).

The total stock of Nigeria's external debt in 2003 was $32.9 billion. The amount owed to the bilateral creditors (mainly the Paris Club) was $27.5 billion or 84% of the total stock, while that owed the multilateral creditors was $3.0 billion or 9% of the entire stock. Within the same period, private creditors were owed $2.4 billion or 7% of the total stock.

The scenario was a bit gloomy in the following year. As shown in Wiertsema (2005), the composition of the country's external debt outstanding for the period 1985 to 2004 reveals that the total foreign debt increased substantially from $18.9 billion in 1985 to $35.9 billion in 2004. The Paris Club's share rose astronomically from $7.8 billion in 1985 to $30.8 billion in 2004. The multilateral creditors' share similarly increased from $1.3 billion in 1985 to $2.8 billion in 2004. The shares of commercial creditors and other bilateral creditors, however, decreased from $7.8 billion and $1.9 billion respectively in 1985 to $2.2 billion and $0.0 billion respectively in 2004.

Moss (2005) shows that the bulk of the country's $32 billion external debt is owed to a handful of bilateral creditors. Specifically, only four of the Paris Club members (United Kingdom, France, Germany, and Japan) account for 65% of the total debt, while the remaining 19% is accounted for by the other members (including Italy, the Netherlands, and the United States). The general picture depicted is that the bulk of Nigeria's external debt is owed to the Paris Club. Nigeria's finance minister, Okonjo-Iweala, corroborated this when she asserted, "Nigeria's debt problem is really Paris Club debt problem." In an article entitled "Understanding Nigeria's Debt Situation," she explained that Nigeria's external debt at the beginning of 2005 stood at $34 billion, and that

> About $28 billion or 85% of the debt is owed to the Paris Club of 15 creditor nations. Only 8% of the debt is owed to multilateral institutions such as the African Development Bank and the World Bank whilst the balance of 7% is owed to the London Club of commercial creditors and holders of promissory notes. (Okonjo-Iweala, 2005)

On debt servicing, *Global Development Finance* (a publication of the World Bank) reveals that Nigeria's debt servicing figures vis-à-vis the country's GDP is 162%. In spite of this, the debt burden has not shown any remarkable decrease.

The overall picture painted by this scenario indicates that Nigeria's external debt seems to be rising ceaselessly and perpetually. As poignantly observed in an official government document,

> Nigeria is neck-deep in the debt trap. Debt has become a millstone (an albatross) on Nigeria's neck, jeopardizing her economic growth and compromising her social development. We spend a lion's share of our national income servicing our debts leaving little money for social services and infrastructure development and even still much less for investment. In the process, we have paid more than we originally borrowed, yet our debt—like a malignant virus—continues to multiply. (Nigeria First, 2005)

Nigeria and many other debtor developing nations have thus remained not only poor, but also severely burdened by debt overhang. Hence, there has been persistent clamor for outright and unconditional cancellation of a substantial part of their debt. Consequently, the Nigerian government embarked on a series of negotiations in order to obtain a substantial reprieve from the external creditors.

Negotiating Debt Rescheduling/Relief/Cancellation

Considerable efforts have been made to reschedule Nigeria's mounting bilateral debt. As Wiertsema insists, the Paris Club reached some agreement with the country in 1986, 1989, and 1991. The deals approximate economic reforms in line with International Monetary Fund (IMF) prescriptions. The implementation of the reform programs, however, did not provide the necessary capacity to meet the country's total debt servicing requirements. Hence, in spite of the new IMF and World Bank supported economic programs, the country's GDP appeared to be increasing far less than the increase in debt service obligations under the rescheduling programs. Nigeria could therefore satisfy only part of its obligations, requiring regular returns to the negotiating table (Wiertsema, 2005).

Nigeria similarly tried to reschedule its commercial debt with the London Club between 1987 and 1989. For instance, the Brady Plan for commercial debt that was adopted in 1989 allowed for the concession of such debt in tradable bonds at a substantial discount. Similarly, the country was able to conclude with the London Club in early 1992 an exchange deal for a discount of about 60%. Although a new debt relief arrangement, including debt reduction, with the Paris

Club was due later in the same year, failure to return the country to democratic rule led to the refusal of the Paris Club to continue negotiation with the military dictators; and no lending or servicing occurred henceforth (Wiertsema, 2005).

Nigeria transited from military authoritarianism to civil democratic dispensation in May 1999 when Obasanjo became the second executive president and renewed negotiation for debt relief/cancellation with the Paris Club of creditors. Following intense negotiation, particularly between 2003 and 2005, the Paris Club announced on June 29, 2005, a debt reduction framework for Nigeria under which it canceled 60% of the country's debt owed it. This has been considered the biggest ever debt stock write-off of any African country. In a momentous address to the nation on this remarkable feat, President Obasanjo averred, "What we have achieved now is worth celebrating because what we will expect at the end of the exercise will be close to a relief of $20 billion which is well beyond the total revenue of Nigeria for one year" (Obasanjo, 2005).

Commending the president on the landmark achievement, a former head of state, Ernest Shonekan, remarked,

> All Nigerians must appreciate the momentous feat, bearing in mind the basis of our indebtedness, fruitless efforts over the years by previous governments to gain these concessions, and the necessary economic reforms and the dogged attention you have paid to discipline and fighting corruption. (Shonekan, quoted in Okonjo-Iweala, 2005)

Under the historic and unprecedented ad hoc agreement signed formally on October 20, 2005, Nigeria was granted an estimated $18 billion debt cancellation, representing 60% of its external debt to the Paris group of creditors. The sum of $12.4 billion balance, representing a regularization of arrears of $6.3 billion, plus a balance of $6.1 billion to complete the exit strategy, was, according to Minister of Finance Okonjo-Iweala, to be sourced from the nation's foreign reserves, which had hit $26 billion including the excess crude oil proceeds of about $10 billion as of the end of September 2005 (Aluko, 2005).

In a press release, the government provided the other highlights of the agreement:

- The deal is the second largest in the history of the Paris Club, second only to Iraq which, however, was staggered and phased over 3 years.
- The deal is anchored on Nigeria's new Policy Support Instrument (PSI), endorsed by the IMF board. Nigeria is the first beneficiary of

this arrangement, which is a further endorsement of the strength of its homegrown NEEDS program.
- The buy-back option, which provides a complete exit for Nigeria, is unprecedented and the first in the history of the Paris Club.
- It will allow the debt service of $1 billion to be put to poverty and Millenium Development Goal related expenditure.
- Nigeria will be completely free of Paris Club debts, leaving only $5 billion of total external debt owed to international multilateral organizations and the private sector (Aluko, 2005).

A number of factors contributed to the historic breakthrough. These, as underscored by Wiertsema (2005), include

- G-8 Agenda: At the behest of Prime Minister Tony Blair as the chairman of the G-8 in 2005, the group's final declaration at its summit in Edinburgh made explicit reference to the need for a debt cancellation offer to Nigeria in the Paris Club.
- Nigeria's role in Africa: Since President Obasanjo assumed power in 1999, he has been playing a central role in African politics. Together with South Africa, Nigeria became a leading force behind the New Partnership for Africa's Development (NEPAD). Also, Nigeria supplied troops for peacekeeping missions across the continent. The sense that the international community owed Nigeria for such services certainly increased.
- Oil prices: The substantial increase of oil prices allowed Nigeria to earn much more money from its oil exports than originally foreseen. Of these windfall profits, the Obasanjo administration set aside substantial amounts.
- Strict budgeting policies of the creditor nations: Due to their strict budgeting policies, several members of the Paris Club faced rather tight government budgets. Partial payment by Nigeria of its substantial debt arrears in exchange for debt cancellation would be helpful for the efforts of creditor governments to solve their budget problems.
- Precedent of Iraq debt cancellation: In November 2004, the Paris Club agreed to a substantial cancellation of 80% of the bilateral debt of Iraq. It was therefore felt that a similar gesture should be extended to Nigeria.

Nigeria reacted spontaneously to the fulfillment of its part of the agreement by paying $6.4 billion within 10 days, that is, by the end of October 2005; and by April 2006, the balance had been paid (NGEX News, 2006). The country has thus been removed from an international credit blacklist and now has credit ratings similar to other emerging market economies such as Turkey and Ukraine. In essence, the Nigerian government now has the capacity to borrow money on international capital markets on favorable terms if it desires to do so (Ogunjobi, 2006).

Corruption and Nigeria's External Debt Burden

Gross mismanagement of resources, coupled with unregulated and widespread cases of official corruption by the country's leadership, has further compounded Nigeria's debt crisis, which partly originated from the poor management of loans. Nigerian rulers have, for instance, allegedly stolen a huge sum of $412 billion over the years (Ayittey, 2006). Similarly, Nigerians have reportedly siphoned billions of dollars during the import licensing days. Indeed, as the *Daily Times* editorialized, "Pervasive cases of official corruption have become a deregulated concept now firmly rooted as our political leadership and their instrument of anti-graft, in fact, tacitly encourage the malaise" (*Daily Times*, 2003).

The *Guardian* newspaper underscored the same scenario in an editorial commentary, which states thus: "History reveals that a high proportion of Nigeria's external loans as well as export earnings vanished into private foreign accounts while the projects for which loans were procured were either untraceable and uncompleted or non-performing where they were executed" (*Guardian*, February 15, 2005, p. 28).

For the overwhelming portion of the country's debt, it has been estimated that a large chunk was fraudulently salted away, by Nigerian leaders, in foreign banks. For instance, during the Gulf crisis of the early 1990s, about $12 billion of Nigeria's oil windfall was reported to have gone missing; while in the period 1993 through 1998, Abacha was confirmed to have stashed away as much as $5 billion in Swiss, United Kingdom, German, and American banks (Africa Action, 2005).

There have also been instances in which external-sourced loans were diverted to private hands, while privately initiated foreign loans have, in other cases, been contracted by past leaders in the country's name. Similarly, corrupt politicians and military dictators have, over the years, used a variety of conduits to systematically hijack the proceeds of the national wealth, with invoicing fraud a common method. Over-invoicing, in particular, has been used as an avenue for frittering resources away from the country. Import licenses, because they provided access to foreign currencies, were frivolously used as patronage to reward political service. The practice had a serious impact on the nation's foreign reserves and external debt. For instance, it has been estimated that by 1983, the nation's foreign exchange siphoned out of the country amounted to about $7.5 billion or about 40% of the nation's foreign debt (Adams, 1991, pp. 135–136).

The intensity of the kleptocratic tendency in the country continued to rise in vitality such that at a certain time: "The size of the money kept by individual Nigerians in foreign bank accounts (as once) estimated (was) at parity with the national debt and some billions above 33 billion dollars owed by the country to international finance institutions" (Ofeimun, quoted in Akindele, 2000, p. 27).

An important dimension to the debt crises particularly in the 1980s was the inability to ascertain accurately the actual value of the country's external indebtedness. A considerable amount of debt had been incurred through extensive borrowing by state governments and private importers, who often entered into trade agreement with overseas firms without the knowledge or authority of the federal government. As Dike observes, most of these deals entailed colossal amounts: "The amount of fraud involved was enormous: Overseas suppliers had padded their invoices (over-invoicing) with the collusion of Nigerian importers and state bureaucrats, who used that device to divert large amounts of foreign exchange into foreign bank accounts" (Dike, 1990, p. 107).

In spite of this startling revelation, successive governments in Nigeria have blatantly failed to confront the fundamental issue of corruption decisively. This perhaps informed Obasanjo's dogged determination to tackle the menace of corruption head on. In order to address the issue quite meaningfully, the administration established two anticorruption commissions to play a number of interrelated roles, including "surveillance, investigation of allegations or suspicions of corruption, apprehension of suspects through the police and prosecution in law courts" (Ninalowo, 2005, p. 37). The commissions are the Independent Corrupt Practices Commission (ICPC) and the Economic and Financial Crime Commission (EFCC). Although the ICPC has not made much progress toward achieving its goals, the EFCC has made tremendous efforts to stamp out corruption and financial crimes in the polity. For instance, in late 2005, the commission commenced investigating some serving state governors who had allegedly siphoned away from the country a large chunk of money; and as of December 2005, the commission had secured 25 convictions (Olurode, 2005, p. 11).

Conclusion: Prospects and Challenges

One of the most critical macroeconomic problems of the Nigerian state is the depth of its external debt. Indeed, Nigeria's astronomical foreign debt burden has constituted a major impediment to the revitalization of its shattered economy and alleviation of the nation's debilitating poverty (Arikawe, 2001). The Nigerian economy has continued to experience stresses and strains arising from excruciating debt burden and excessive debt overhang in spite of the frantic efforts by the Debt Management Office to confront the debt difficulty (Omoruyi, 1995, p. 357).

Much of the debt owed by the country was contracted under military regimes that were not accountable to Nigerians. The processes and modalities through which the debts were attained were shrouded in mystery and controversies because they lacked transparency and accountability. Since Nigeria's transition from military authoritarianism and the recognition of the crucial linkage between debt, poverty, development, and the survival of the country's nascent democratic system, much priority attention has been attached to the critical issue of debt reduction as a major component of the current government's development strategy.

Different strategies have been evolved in order to fundamentally confront the issue. The major planks of the strategies include regularizing relations with the global finance community to pave the way for constructive engagement, negotiating favorable terms for debt restructuring and rescheduling under "traditional" debt relief mechanisms in the short run, and building on that in the medium term in order to secure deeper and more substantial debt reduction (Arikawe, 2001). This culminated in the series of negotiations that led to the 60% debt reduction granted Nigeria by the Paris Club, the balance of which was liquidated in May 2006.

Having triumphed over the external debt crisis, Nigeria must reconstruct its national priorities and put its economy in proper perspective. The current economic reforms policy should be vigorously pursued by the present administration and tenaciously sustained by future governments in the country. Adoption of a proper and efficient debt management strategy is a fundamental national imperative if the country is to avoid future debt crisis. This will entail adherence to legal and accountability frameworks and commitment to building national capacity for debt management. In addition, policy makers should go beyond the level of efficient debt management and devote considerable attention to the use of borrowed funds to ensure that capacity for repayment has been adequately created while simultaneously ensuring that the required value is received.

In view of the continuous rise in oil prices, accentuated by the series of uprisings in the Middle East, and the unprecedented excess crude oil money accruable to Nigeria, a special Petroleum Trust Fund (PTF) account should be opened with the Central Bank of Nigeria with all the excess crude oil funds diverted to it. The annual interest returns, which could run into millions of dollars, should be channeled annually to critical sectors of the economy such as education, health, and poverty reduction. Furthermore, all the multinational oil companies operating in the country should be compelled to pay a small percentage (e.g., 2%) of their annual profits directly into the special PTF consolidated fund as part of their contributions toward the developmental needs of the country. To assure the multinationals that the money will not be misappropriated or frittered away (as is usually the case with such monies), a proper account of the proceeds should be made public annually.

Finally, deliberate commitment toward sustaining the current drive against corruption must be vigorously explored by the government. A number of concrete measures should be put in place to combat the menace of corruption in the Nigerian polity. Such measures should be constructed along a renewed effort at institutional reforms designed to enhance transparency and accountability in the operations of the state and important economic institutions. To achieve meaningful results, the two anticorruption commissions in the country—the Independent Corrupt Practices Commission and the Economic and Financial Crime Commission—should be totally independent and devoid of executive interference or manipulation and should be given the necessary investigative powers to ensure their optimum performance as the nation passes through the current major historical milestone.

End Notes

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