DEBT, DEVELOPMENT AND THE THIRD WORLD: THE ISSUES AND THE CHOICES

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By

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THE PROLOGUE

The subject matter of this Inaugural Lecture, i.e., the External Debt Problem of Developing Countries, has been the target of continuous investigation by the present Lecturer for almost two decades now, beginning at a time when it was least expected that it would turn out to be one of the most intractable economic problems of our time. The vigour with which we pursue the challenge to find a lasting solution to the problem will, for all intents and purposes, determine the course of our economic development — for better or for worse — for the rest of this century and for many years beyond.
DEBT, DEVELOPMENT AND THE THIRD WORLD: 
THE ISSUES AND THE CHOICES

Introduction: 
An Overview of the Debt Problem in Developing Countries

ONE of the most traumatic events of economic development experience is the problem of the external indebtedness of developing countries. This phenomenon, which is now of some great economic significance, has been a feature of the international economic scene for about two decades or so now. While it was first recognised as not too serious a problem until the early 70’s the external indebtedness of developing countries reached an alarming scale by the close of the 70’s through to the early 80’s; and since the latter date the problem has assumed a crisis proportion!

From the latest figures available, the external debt of the developing countries is now well over one trillion U.S. dollars. More precisely, as at the end of 1989, developing countries owed Western banks and governments $1,290.0 billion – an amount equal to about one-quarter of total world merchandise trade. Putting it more vividly, it has been estimated that this relatively huge amount approximates what is spent on armaments annually world-wide.

By all indicators, the growth of the external indebtedness of developing countries has, in the last 15 years or so, been very dramatic. For example, between 1973 and 1982, one estimate holds that developing-countries’ debt more than quintupled, rising from $130.1 billion to $612.4 billion. This represents an average annual growth rate of 41.2 percent. Expressing this growth in real terms, developing-countries’ debt rose from 22.0 per cent to 35.0 per cent of their combined aggregate Gross Domestic Product (GDP).
115.4 per cent to 143.3 per cent, while the ratio of debt service to exports rose from 15.9 per cent to 23.9 per cent. But between 1982 and 1989, although the debt more than doubled from $612.4 billion to $1.290.0 billion, while in real terms it increased from 35.0 to 44.0 per cent of developing countries’ combined aggregate GDP; the average annual growth rate decelerated quite sharply, falling to 15.8 per cent as against the 41.2 per cent of the previous decade.

The most worrying aspect of developing-countries’ debt emanates from the fact that a substantial part of it is owed to private institutions, mainly in the form of commercial bank loans, which are usually at very short term. This phenomenon of commercial bank-lending to developing countries, as will be seen later, has become a very important feature of the debt crisis in these countries. This took on an added significance from the mid-70’s, when the surplus funds of the Organisation of Petroleum Exporting Countries (OPEC) from the quadrupling of oil prices in 1973–74, provided the source of funds for commercial bank deposits that subsequently became available for borrowing by developing countries, especially the oil-importing ones. As will also be shown later, this development actually marked the beginning of the serious debt situation in these countries.

While the debt problem for all developing countries as a group has become quite serious — like any other economic phenomenon in these countries — the seriousness of the debt problem varies not only from region to region of the developing world, but also from country to country within a particular region. Thus, about half of all developing countries’ debt is owed by Latin America alone, while about a quarter and one-fifth are owed by Asia and Africa respectively. And viewing the situation on a country-to-country basis within each region, there are also considerable variations. For instance in Latin America, Brazil, Mexico, Argentina and Venezuela, in that order account for the bulk of external debt owed by that region. Similarly in Africa, the big debtors are Egypt, Algeria, Nigeria, Morocco and Ivory Coast, all accounting for most of that region’s share of total developing-countries’ debt. In Asia on the other hand, the most indebted nations responsible for the bulk of that region’s external debt are Indonesia, India, Philippines, Pakistan, Thailand and Bangladesh in that order.
The severity of developing-countries' debt problem in general can be better appreciated when it is realised that many developing countries have, in recent years, suffered serious liquidity crises and have been unable to meet their debt obligations. This has necessitated the need not only to renegotiate with creditors for debt rescheduling, but also to seek for short-term loans for relief from such international organisations as the International Monetary Fund (IMF). For example, the number of countries that have suffered liquidity crises in the form of accumulated current account balance of payments arrears increased from three in 1974 to 26 at the end of 1981, with the amount in arrears rising rather rapidly from $500.0 million to $5.5 billion. On the other hand, whereas some 35 debt renegotiations were undertaken on behalf of eleven developing countries with some $7.0 billion of debt at stake, in the 18 years between 1956 and 1984, the corresponding figures for the period of only six years between 1975 and 1981 was 25 debt renegotiations for 14 countries involving $10.0 billion. And the figure has continued to rise rapidly since the latter date. In other words, both the number of debtor countries in need of rescheduling for relief as well as the amount of debt involved, have increased tremendously.

Another indicator of the seriousness of developing-countries' debt problem is the number of standby agreements for credit accommodation entered into by the IMF to assist heavily-indebted developing countries. Between 1980 and 1984, for example, these standby agreements increased rapidly with credit made available under them rising from $2.2 billion to $10.2 billion.

Official debt-rescheduling, i.e., the renegotiation of borrowing terms by both debtor and creditor countries (developing and developed countries), which are usually undertaken under the auspices of the Paris and London Clubs and private rescheduling, i.e., those undertaken by developing countries directly with commercial bank creditors as well as IMF standby agreements, have not been without serious economic, social and, sometimes, political consequences for the developing countries concerned. The reason for this is that debt-rescheduling or IMF standby agreements are often accompanied by conditions (its so-
called IMF conditionalities) that require the imposition of severe and austere domestic economic policy measures, aimed at economic structural adjustment.\textsuperscript{16} Usually, official and private debt-rescheduling and IMF standby agreements are accompanied by such harsh measures designed to reduce aggregate demand for goods and services, boost exports, reduce imports through direct quantitative controls as well as by making them more expensive through devaluation, cut-back on government expenditure, freezing wages and removing subsidies especially to urban consumers and rural farmers.

The foregoing austere economic policy measures always bring in their wake economic hardships and social misery. More often than not, they have resulted in reduced output and shortages of essential goods with the attendant inflationary pressures. For example, in some countries, the removal of subsidies on agricultural inputs for farmers led to a shortage of pesticides and fertilizers, leading to a fall in agricultural production.\textsuperscript{17} Wage freeze in the presence of escalating prices and the cut-back on government social welfare expenditures have all resulted in a sudden drop in the standard of living. Furthermore, domestic entrepreneurs producing for the home market have been driven underground through the introduction of discriminatory incentives in favour of export production. Additionally, liberalised trade through the dismantling of protective tariffs and the difficulty in securing foreign exchange for machinery, equipment, spare parts and essential raw materials, has led to either the closure of several enterprises or to the under-utilisation of capacity in many manufacturing industries, giving rise to retrenchment and increased unemployment.

The above unpleasant effects of the conditions for debt-relief in developing countries have not only negated the objectives of economic development, but have also brought into sharp focus the need to rethink a new strategy for its financing. An economic development financing strategy that has left most developing countries overburdened with external debt, while crippling their economies in the attempt to get relief from the heavy burden of debt, is most unacceptable and should be replaced by a more desirable alternative.
II. A General Survey of the Background to the External Debt Problem of Developing Countries

During the two decades between 1953 and 1973, the world economy enjoyed a period of relative economic boom. A number of factors — the more important being the availability of low-cost energy, free trade and the resulting expansion of markets, as well as the free flow of capital — had combined to bring this about. Given this environment, the record of the self-financing of economic development on the part of developing countries was quite impressive, with the leverage given by the fairly rapid growth of their merchandise exports, following the commodity boom that was stimulated by the economic expansion in the industrialised countries. The consequence of this development was the limited reliance on external debt accumulation as a means of financing economic development.

The bulk of the amount of external financial assistance that did come to developing countries during this period, came on very concessional terms from official sources, both bilateral and multilateral. It has been estimated that between 1953 and 1973, developing countries as a group got some $75.0 billion in grants and another $81.1 billion (in loans of long-term at relatively low rates of interest) from the industrialised countries.\(^8\) Over this same period, the external debt of developing countries rose from a low of $2.1 billion to $121.0 billion.\(^9\) Although this increase is quite substantial, it was generally felt for some reasons that the debt-burden problem created was not serious. For one thing, with rising incomes and exports, the real burden of debt fell considerably in developing countries in the early 70's making it
possible for them to increase their standard of living, invest a lot more and repay past loans with relative ease. Moreover, during this period, the international financial system had developed suitable mechanisms of debt renegotiation between countries facing repayment difficulties and their creditors.

From the above, it will appear that up till 1973, the external debt situation of developing countries created no problem at all. But with the quadrupling of oil prices in 1973-74, the debt position of developing countries, especially the non-oil or the so-called oil-importing ones, was beginning to give cause for concern. For the latter as a group, the balance of payments deficit due to increased oil import bills rose from $11.0 billion in 1973 to $37.0 billion in 1974. This relatively enlarged deficit, created for developing oil-importing countries an equally enlarged source of demand for foreign exchange needed for financing the deficits.

On the other hand, the current account surplus of the oil-exporting developing countries, all of which constitute the Organisation of Petroleum Exporting Countries (OPEC) rose from $6.0 billion to $67.0 billion between 1973 and 1974. Essentially, it was this relatively huge OPEC surplus that was recycled through international commercial banks and made available to oil-importing developing countries to borrow for the financing of their balance of payments deficits. This was in fact the beginning of the escalation of developing-countries' debt accumulation that later reached a crisis point. Thus, by the mid-70's the inflow of borrowed capital eased considerably what appeared to be the great burden of adjustment to the hike in oil prices on the part of oil-importing developing countries. This development, which is generally referred to in the literature as the first oil shock, brought into sharp focus the role of the oil money recycling process as a mechanism of external debt financing. By making available their surplus funds in the international capital and money market, (the Eurocurrency market), the OPEC countries made it possible for the oil-importing developing countries to borrow from this market in order to finance their deficits. Thus, "... OPEC surplus provided the means for its own financing".
The immediate effect of the above development, was reflected in an increase in Eurocurrency lending and credits to developing countries and, thus, in the level of the latter’s external debt. For instance, in 1970, the total external debt of developing countries which stood at about $20.0 billion rose to some $80.0 billion in 1973, with Eurocurrency lending and credits rising from $3.30 billion to $25.54 billion. This represents a more rapid increase, which resulted in a doubling of the share of Eurocurrency lending and credits in total developing-countries’ debt from about one-sixth in 1970 to a third in 1978.27

In 1979, another dramatic rise in oil prices further enlarged the non-oil developing countries’ balance of payments deficits, necessitating the need for further commercial bank borrowing to finance these deficits. In fact by 1980, oil prices had doubled, generating a balance of payments deficit of non-oil developing countries of about $88.0 billion, which rose further to $109.0 billion in 1981. This second hike in oil prices within six to seven years popularly referred to as the “second oil shock”, generated relatively large balance of payments surpluses for oil exporting (OPEC) countries, which reached a peak of $111.0 billion in 1980. These surpluses provided once more (through “recycling”) the major source of financing the balance of payments deficits of oil-importing developing countries — an event that further increased the latter’s external debt.

An important outcome of the second oil hike which had grave consequences for the outstanding debt of developing countries was the economic forces unleashed by the defensive mechanism adopted in the major industrialised (OECD) countries to absorb the “second oil shock”. This followed some developments in these countries arising from the oil price increase; namely, inflation and balance of payments deficits.28 In order to combat this twin-problem, these countries adopted tight monetary and fiscal policies executed mainly through, among other instruments, a rise in the real rate of interest. This measure did not only lead to a recession in these countries, but also aggravated the debt problem of developing countries by increasing the cost of servicing their outstanding debt as well as current borrowing; the bulk of which was at floating interest rate.29
Thus, increased real interest rate did not only impose a greater cash cost and thus, a heavier burden of developing-countries' debt, but also caused a deep recession in industrialised (OECD) countries, which in turn slowed down the growth of world trade due to a drastic fall in demand occasioned by the fall in incomes and increased unemployment.

One of the other major negative economic forces emanating from the above, was the fall in the demand for oil imports in the industrialised countries.\(^\text{30}\) This undoubtedly followed the latter's determination to see their balance of payments deficits eliminated. As a result of this, the price of oil tumbled and in consequence the balance of payments of the industrialised countries were not only eliminated, but swung into surplus. Since the oil importers' surplus is, in fact the oil exporters' deficit and vice versa, the balance of payments of oil exporting countries (OPEC) as a group, following the foregoing development began to register deficits and by 1983, these deficits stood at $17.5 billion.\(^\text{31}\) Thus, by 1983, OPEC balance of payments deficits were beginning to create external financial problems for member countries of the organisation. Some, including Nigeria, had accumulated debt and got into serious external debt service problems due to the drastic cut-back in their oil earnings.

In the meantime, as already observed, the recession in the industrialised countries by weakening demand and reducing the growth of world trade in general, had a depressing effect not only on oil export prices but also on the prices of non-oil exports from developing countries. This added a new dimension to the external financial problems, especially of those developing countries that depend heavily on non-oil exports (sugar, rubber, copper, sisal, vegetable oil, etc.), thereby creating additional need to borrow and increase their external debt.

One other source of the current developing-countries' debt problem stems from what appears to be unwise domestic policies in many developing countries. The most important of these policies is the unduly ambitious and huge public expenditure commitments which were believed to be politically popular and economically beneficial. These
commitments which were entered into in times of strong commodity prices, became unsustainable when commodity prices came crashing down. And given the fact that it was not politically acceptable to cut back on these public expenditure commitments readily, resort was had to more external borrowing and further debt-accumulation.

The immediate impact of all the above developments emanating from the "second oil shock" was once more reflected in a rise in developing countries' borrowing from the Eurocurrency market which increased from $220.0 billion at the end of 1979 to $343.0 billion at the end of 1983.\textsuperscript{32} Since the latter date, borrowing by developing countries from the Eurocurrency market has escalated.

III. The External Debt Problem in the African Setting: The Case of Sub-Saharan Africa

In comparison with the other developing regions of the world, Sub-Saharan Africa's external debt in absolute terms is small, representing much less than a fifth of the total. But the burden of servicing the debt is by no means small and it is in fact relatively much heavier and has been growing very rapidly in recent years. On the basis of the three important measures of debt burden — debt as a ratio of the GDP, debt as a ratio of the export of goods and services, and debt service payments as ratio of export of goods and services — the Sub-Saharan Africa region stands on the high side.

The reason for Sub-Saharan Africa's somewhat heavier external debt burden position in relation to that of other regions is the result of its different and peculiar economic conditions. First, the average level of income in Sub-Saharan Africa is relatively lower than for other developing regions of Latin America and Asia. Most countries in the region are among the poorest in the world. Of the 30 countries listed by the United Nations Conference on Trade and Development (UNCTAD) as the poorest in the world, 20 are in Sub-Saharan Africa and from the World Bank's list of 36 countries classified as "low income", with per capita income of $380 and less, about two-thirds are in Africa.\textsuperscript{33} What is more, the growth rate in the region is the lowest found anywhere. For example, for the two decades between 1960
and 1980, average growth rate of income per capita increased by less than one per cent, and in the last 10 years, 15 countries in the region registered negative growth rates, while in estwhile relatively fast per capita growing countries, growth rates decelerated generally.34

Agriculture, which is the backbone of most of the economies in the region, did not only stagnate initially, but deteriorated fast in the last decade or so resulting in falling production of both food and export crops. While the former led to rising food imports, thereby eating into scarce foreign exchange that would have been used in financing development imports, the latter reduced drastically foreign exchange earnings. Both of these developments led to widespread balance of payments crises in the region in the 1970's. This problem was further compounded by a deterioration in the terms of trade occasioned by the collapse in the prices of some of the region's key export commodities such as copper and iron on the one hand, and the boom in some other commodities such as tea, cocoa and coffee on the other, as well as increases in oil prices.35 Although the latter development as noted in the previous section, was common to all developing countries, it was particularly much more severe for those in Sub-Saharan Africa. For example, Africa's oil-importing countries' balance of payments deficits averaged about nine per cent of their GDP, which is "... twice the figure for all oil-importing developing countries and conspicuously higher than any other region of the developing world."36 The balance of payments deficits were not limited to oil-importing countries alone, but surprisingly also to oil-exporting countries as well, including Nigeria. As a group, the latter's balance of payments deficits increased from 4.4 per cent to 7.5 per cent of their GDP between 1970 and 1978.37

The above enlarged balance of payments deficits of the region, created the problem of credit availability in the 70's for its financing. Although increased flow of official development assistance provided some relief, it was not enough to offset all the deficits that emerged from 1973–74 onwards and by the close of the 1970's through to the early 1980's, the gap between resource needs to finance the deficits and resource availability widened considerably,
thereby necessitating not only the rapid depletion of foreign exchange reserves but also the accumulation of short-term commercial borrowing from abroad. The latter complicated the external debt situation of the region so much so that it became difficult to separate desirable borrowing for developmental needs on the one hand and borrowing for balance of payments support on the other.  

As a result of the foregoing developments, by the end of the 70's through to the early 80's considerable external debt had accumulated in the region with the attendant heavy burden of debt-service obligations which put the region in a rather severe debt situation. For example, over the period 1980 to 1988, total external debt of the region rose by 146.7 per cent from $53.3 billion to $136.4 billion, representing an average yearly growth rate of 18.3 per cent (Table 1). In terms of maturity breakdown, some differences in average yearly growth rates are observable. Whereas, the medium to long-term external debt of the region rose much faster by 166.5 per cent in the period from $47.7 billion to $127.1 billion, representing an average annual growth rate of 20.8 per cent the short-term debt registered a much lower increase, rising by 22.4 per cent from $7.6 billion to $9.3 billion. This represents an average annual growth rate of 2.8 per cent (Table 1).

In terms of maturity composition, the medium to long-term external debt represents a much larger proportion of the total, accounting on the average for well over four-fifths during the period. From 86.2 per cent in 1986, it rose to a peak of 93.5 per cent in 1987 after which it fell slightly to 93.2 per cent in 1988. The short-term component on the other hand, is relatively much smaller, although its unfavourable impact on debt service commitment has been quite severe. In relative terms, the short-term debt declined rather rapidly from 13.8 per cent in 1980 to 6.8 per cent in 1988 (Table 1).

The rather relative large accumulation of external debt in Sub-Saharan Africa during the eight-year period under review, is responsible for the resulting increased external debt burden being currently experienced in the region. The evidence in support of this is clearly revealed by the relevant indicators of debt burden for the region (see Table 2).
# TABLE I

**SUB-SAHARAN AFRICA:* TOTAL EXTERNAL DEBT BY MATURITY, 1978 – 88**

($ Billion)

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<td><strong>Total External Debt</strong></td>
<td>55.3</td>
<td>64.2</td>
<td>72.3</td>
<td>80.5</td>
<td>83.2</td>
<td>96.3</td>
<td>113.6</td>
<td>133.4</td>
<td>136.4</td>
<td>146.7</td>
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<td><strong>Percentage Share</strong></td>
<td>(100.0)</td>
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<tr>
<td><strong>Medium–Long-Term Debt</strong></td>
<td>47.7</td>
<td>56.0</td>
<td>64.3</td>
<td>73.3</td>
<td>76.3</td>
<td>87.3</td>
<td>104.9</td>
<td>124.7</td>
<td>127.1</td>
<td>166.5</td>
<td>20.8</td>
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<td><strong>Percentage Share</strong></td>
<td>(86.2)</td>
<td>(87.2)</td>
<td>(90.1)</td>
<td>(90.7)</td>
<td>(91.7)</td>
<td>(90.7)</td>
<td>(92.3)</td>
<td>(93.5)</td>
<td>(93.2)</td>
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<tr>
<td><strong>Short-Term Debt</strong></td>
<td>7.6</td>
<td>8.2</td>
<td>7.0</td>
<td>6.8</td>
<td>6.9</td>
<td>9.0</td>
<td>8.6</td>
<td>8.7</td>
<td>9.3</td>
<td>22.4</td>
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<tr>
<td><strong>Percentage Share</strong></td>
<td>(13.8)</td>
<td>(12.8)</td>
<td>(9.9)</td>
<td>(9.3)</td>
<td>(8.3)</td>
<td>(9.3)</td>
<td>(7.7)</td>
<td>(6.5)</td>
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Note: *Excludes Algeria, Angola, Morocco, Nambia South Africa and Tunisia

### TABLE 2

**SUB-SAHARIAN AFRICA* AND DEBT-DISTRESSED COUNTRIES: DEBT BURDEN INDICATORS, 1980–88**

(Percentage)

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<tr>
<td><strong>Ratio of External Debt to exports of goods and services:</strong></td>
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<tr>
<td>Sub-Saharan Africa Countries with recent debt-servicing Problems</td>
<td>96.2</td>
<td>138.0</td>
<td>186.1</td>
<td>225.6</td>
<td>213.8</td>
<td>250.1</td>
<td>336.3</td>
<td>363.3</td>
<td>366.7</td>
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<tr>
<td>Fifteen heavily-indebited countries***</td>
<td>137.0</td>
<td>177.6</td>
<td>226.9</td>
<td>251.7</td>
<td>245.5</td>
<td>269.1</td>
<td>319.8</td>
<td>315.0</td>
<td>278.2</td>
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<tr>
<td><strong>Ratio of external debt to GDP:</strong></td>
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<tr>
<td>Sub-Saharan Africa Countries with recent debt-servicing Problems</td>
<td>28.7</td>
<td>32.3</td>
<td>35.4</td>
<td>42.7</td>
<td>48.9</td>
<td>53.0</td>
<td>68.2</td>
<td>85.1</td>
<td>78.1</td>
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<tr>
<td>Fifteen heavily-indebited countries</td>
<td>33.3</td>
<td>38.7</td>
<td>41.7</td>
<td>46.2</td>
<td>47.9</td>
<td>48.8</td>
<td>49.4</td>
<td>48.2</td>
<td>45.0</td>
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<td><strong>Ratio of debt service payments to export of goods and services:</strong></td>
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<tr>
<td>Sub-Saharan Africa Countries with recent debt-servicing Problems</td>
<td>13.7</td>
<td>19.0</td>
<td>24.6</td>
<td>26.3</td>
<td>31.2</td>
<td>33.9</td>
<td>32.9</td>
<td>29.1</td>
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<tr>
<td>Fifteen heavily indebted countries</td>
<td>25.1</td>
<td>31.7</td>
<td>38.0</td>
<td>33.2</td>
<td>34.9</td>
<td>34.1</td>
<td>39.6</td>
<td>32.7</td>
<td>35.8</td>
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Notes:  
*Excludes Algeria, Angola, Morocco, Namibia, South Africa and Tunisia  
**Average for capital-importing countries that incurred external payments arrears or rescheduled debt during 1986–88.  
***Average for Argentina, Bolivia, Brazil, Chile, Colombia, Ivory Coast, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.  
Source: As for Table 1 above.
A clearer perspective of the external debt burden in Sub-Saharan Africa can be gained by comparing the indicators of external debt burden in the region with those for some 72 countries that have had serious debt servicing difficulties in the last three to four years as well as those for the 15 countries (including Nigeria) now acknowledged as the most heavily-indebted countries in the world. The first indicator of external debt burden is the ratio of external debt to export of goods and services. This ratio, for Sub-Saharan Africa, rose from 96.2 per cent in 1980 to 366.7 per cent in 1988. This is against the ratio for countries with recent debt difficulties which rose from 137.0 per cent of 278.2 per cent and the ratio for the most heavily-indebted countries which rose from 169.4 per cent to 305.5 per cent over the same period.

The second indicator of external debt burden is the ratio of external debt to GDP. This ratio for Sub-Saharan Africa over the relevant period increased from 28.7 per cent to 78.1 per cent as compared with a rise from 33.3 per cent to 45.0 and 35.8 per cent to 41.3 per cent for countries with recent serious debt-servicing difficulties and the 15 most heavily-indebted countries respectively.

The third indicator of external debt burden, which is regarded as a key indicator in the sense that it best measures the external debt-bearing capacity of any country, is the ratio of external debt-service payments to the exports of goods and services. For the Sub-Saharan African region, this ratio rose from 13.7 per cent to 30.7 per cent between 1980 and 1988. On the other hand, for countries with recent serious debt difficulties as well as the 15 most heavily-indebted countries, the ratio rose from 25.1 per cent to 35.8 per cent and from 31.2 per cent to 46.4 per cent respectively over the same period.

From the above, it is quite clear that for Sub-Saharan Africa all the conceivable ratios of external debt burden are not only higher on the average, but also grew at a faster rate than for the other developing regions generally and the debt-distressed countries in particular. Thus, the region occupies the unenviable position of the most debt-distressed in the world.
Coming nearer to the situation at home, Nigeria, being one of the countries of Sub-Saharan Africa, its debt-level and debt-burden indicators certainly look as distressing if not more distressing than the average for the region (see Tables 1, 2, 3 and 4). This is of course, quite understandable from the fact that the country is in the group of the 15 most heavily-indebted countries in the world. The country’s external debt is currently estimated as $31.2 billion. In 1988, the latest year for which full comparable figures are available, the figure stood at close to $30.0 billion, representing some 22.0 per cent or more than one-fifth of the total external debt for the region. This represents the highest level reached in a decade after experiencing what can be described as an explosion from a relatively low level of $3.2 billion in 1978 (Table 3). The corresponding heavy burden of this level of debt is also clear from all the relevant indicators. For instance, the country’s total external debt as a ratio of the exports of goods and services rose from 20.4 per cent in 1978 to a peak of 378.6 per cent in 1988, while total external debt as a ratio of the Gross Domestic Product (GDP) rose from 4.4 per cent in 1978 to 188.5 per cent in 1988 and debt service payments as a ratio of exports increased from only 0.9 per cent to 31.3 per cent during the same period (Table 4). These high ratios would have been much higher but for the many recent rescheduling agreements undertaken and the arrears of debt payments outstanding.

With the relatively high debt-burden indicators for Sub-Saharan Africa in general and Nigeria in particular as described above, most countries in the region have been confronted with serious debt difficulties in the form of accumulated arrears of debt-service payments. An indicator of this service payments difficulty is reflected in the several efforts on the part of most countries in the region to get relief through the rescheduling of their debts. Thus, of the 31 reschedulings that took place at the Paris Club in 1983, 13, including Nigeria, were from the region alone, while 11 countries also including Nigeria, had to restructure their commercial debts. And in 1985, a total of 10 countries from the region rescheduled their debts at the Paris Club, while many who could have rescheduled their debts were unable to do so because of their inability to reach agreements.
with their creditors on structural adjustment programmes and also because they were in arrears with IMF — a situation which prevents them from undertaking any rescheduling negotiations. In the last three to four years, debt rescheduling on the part of Sub-Saharan African countries has been much more frequent and, for Nigeria, it has averaged about two a year in the last two years or so.

### TABLE 3

**NIGERIA: EXTERNAL PUBLIC DEBT, 1978—1988**

($ Billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Medium/Long term</th>
<th>Short-term</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>3.2</td>
<td>..</td>
<td>3.2</td>
</tr>
<tr>
<td>1980</td>
<td>8.8</td>
<td>..</td>
<td>8.8</td>
</tr>
<tr>
<td>1981</td>
<td>14.3</td>
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</tr>
<tr>
<td>1988</td>
<td>29.6</td>
<td>..</td>
<td>29.6</td>
</tr>
</tbody>
</table>

**Notes:** .. = Not available

**Sources:**

**TABLE 4**

**NIGERIA: DEBT RATIOS, 1978 — 1988**  
(Percentages)

<table>
<thead>
<tr>
<th>Year</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
</tr>
</thead>
<tbody>
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<tr>
<td>1988</td>
<td>378.6</td>
<td>188.5</td>
<td>31.3</td>
</tr>
</tbody>
</table>

**Notes:**

1. Total External Debt as percentage of export of goods and services.
2. Total External Debt as percentage of GDP.
3. Total External Debt Service Payments as percentage of export of goods and services.

**Source:** As for Table 3
The heavy external debt-servicing obligations of developing countries in general and that of Sub-Saharan Africa in particular, has had a detrimental effect on the economic development and recovery processes in these countries. Coming as it were at a time when their foreign exchange earnings took a downward turn due to the collapse of world primary commodity prices including oil, the increasing commitment to meet debt-service payments has robbed them of the necessary foreign exchange to pursue urgently-needed developmental and economic recovery programmes.

The above has also been happening at a time when the inflow of capital from the industrialised countries, especially from private sources has slowed down considerably, resulting in a situation whereby the developing countries are now net exporters of capital to the industrialised countries. For example, it has been estimated that whereas during the five-year period prior to 1982 — the starting date of the debt crisis — the total outflow of resources from the industrialised to the developing countries in the form of long-term lending was $140.0 billion or an average of $28.0 billion annually. But in the five years after 1982, the figure was a reverse flow of about $85.0 billion or some $17.0 billion per year. In the last couple of years, the share of Sub-Saharan Africa in the reverse flow of capital has been quite substantial. For the region as a whole, the reverse flow to the multilateral financial institutions (the World Bank and the IMF) alone increased from $0.5 billion to $1.0 billion between 1986 and 1988 while in 1989 alone the estimate was $1.5 billion. Furthermore, a recent United Nations study has estimated that higher interest payments and lower resources flows, among other factors, have caused the region’s international financial position to deteriorate by an amount to the tune of about $6.5 billion between 1979 — 81 and 1985 — 87 and that this figure would have been much higher by as much as $5.6 billion yearly, but for the large-scale rescheduling that had taken place in the region during the same period.

The foregoing unfavourable trend in international resource flows to Sub-Saharan Africa has serious implications not only for the urgently-needed economic recovery but also for the future of economic development in the region.
The need to take prompt and necessary measures to avert the serious unpleasant economic and, possibly, social consequences is therefore compelling. In this regard, the immediate task confronting the region is to seek ways to eliminate or at least reduce drastically the high levels of external debt and the attendant heavy burden, so that the huge resources being currently devoted to debt-servicing can be freed for the financing of economic recovery and development. Additionally, given the reality of the region's economic conditions with respect to the low levels of domestic savings and investment it appears that some reliance will continue to be placed on external sources of development finance for quite some time to come. It follows therefore that alternative sources of such finance, other than the type of external borrowing that resulted in the present impasse, will have to be resorted to. It is to this and other related issues to which attention is focused in the remainder of this lecture.

iv. Alternative Initiatives, and Strategies for Debt Relief

As a result of the growing concern of national governments in the industrialised creditor-countries and developing debtor-countries alike, as well as the international multilateral institutions (IMF and World Bank), the last few years have witnessed a plethora of initiatives and strategies aimed at finding a lasting solution to the problem of the heavy external indebtedness of developing countries. The initiatives and strategies suggested so far can be grouped broadly under two approaches. The first, which seems to me to be an extremely unrealistic one has been vehemently advocated by some observers in developing countries.\textsuperscript{48} This approach, which has never really been applied in practice, advocates the joint effort and collaboration of all debtor countries in the formation of a debtors club similar to the creditors' Paris and London clubs. The aim of such a club is to negotiate rescheduling agreements with the latter on terms and conditions which are in the interest of members and which, if not accepted by the creditors, would lead to the option of the joint unilateral repudiation of their debts.

The rationale behind the above approach is the belief in the unity of all debtor countries acting together as
opposed to the present case-by-case approach of individual debtor countries negotiating with both official and private creditors as a group through the London and Paris Clubs. In short, the approach of a debtors' club appears to be based on the maxim, "unity is strength". But there is really no strength in being a debtor! Any apparent strength that seems to be present is negative strength, the exercise of which is likely to be resisted by the creditors. The resulting joint unilateral repudiation of debts that would follow will not be without damage to and negative repercussions on international trade and finance — a development that may not be in the long-term interest of the debtor countries themselves. For this reason the approach should be dismissed outright.

And in any case, the underlying assumption that debtor countries will always come together is erroneous, judging by the unco-operative attitude of the debtor countries themselves. For example, the Latin American debtor countries which owe the greater part of the total developing countries' debt and the bulk of which is commercial bank debt do not see themselves as being in the same economic position as the very poor countries of Africa with a much lower level of debt and the bulk of which is official debt, though not necessarily a smaller debt burden. Neither do they see themselves as being in the same economic relationship with creditor countries. The Asian debtor countries on the other hand, have, on the average, much lower levels of debt burden and the strength of their economies depends much more on export trade. They are therefore not likely to support any arrangement that may invariably cause the disruption of the international trade and payments system. Given all these realities of the differing economic circumstances of debtor countries, the possibility of their collaborating to form a debtors' club is quite remote.

The second approach consists of a series of alternative initiatives and strategies which are either debt-increasing or debt-reducing. Debt-increasing initiatives and strategies view the problem of developing countries' debt as that of the inadequacy of financial resources for economic development, re-structuring and growth. Accordingly, they advocated rescheduling of existing debts and increased lending to the debtor countries. Debt rescheduling and additional
resource flows to any debtor country were, of course conditional upon the adoption by the latter of IMF-designed growth-oriented austerity programmes. These proposals which were initiated early in the debt crisis did not work out as planned but it only succeeded in increasing the external indebtedness of countries that received additional flows of resources. They were therefore soon replaced by debt reduction initiatives and strategies.

Debt reduction initiatives and strategies were proposed with the underlying assumption that the solution to the debt problem hinges on the solvency of the debtor countries. In order to achieve this, therefore, strategies should aim at reducing the levels of debt and the corresponding burden. Thus, from 1983 many proposals aimed at reducing developing countries debt were put forward consisting of various schemes ranging from the creation of an international agency to buy over all the existing commercial bank debts at a discount and undertake the necessary adjustment with the debtor countries, to essentially other market-based proposals made up of such schemes as debt-equity swaps, buy backs, exist bonds and securitisation. The most popular of the latter is the famous Baker Plan, which has been commonly described as the menu approach to external debt management because it opens up a series of options from which commercial bank creditors can operate debt reduction and new lending schemes for debtor countries.

Baker emphasised that debtor countries to benefit from these schemes must be those that have undertaken or are ready to undertake IMF-approved economic growth-oriented reforms.

With the limited impact of the foregoing proposals, quite a few number of debt-reduction strategies have been put forward in more recent years. Most of these are essentially slight modifications of those already discussed above. The most widely publicised of these recent initiatives is the Brady Plan which was proposed in March, 1989 by Nicholas F. Brady, the current U. S. Treasury Secretary. His is essentially based on the Baker Plan, but its main thrust is to strengthen the latter and emphasise the need for commercial banks to provide diversified forms of financial support and become more relaxed in their approach to new lending to
debtor countries. He also indicated the need for the removal or waiver of all clauses from existing loan agreements that tend to constitute impediments to effective debt reduction.\textsuperscript{54} Finally, Brady in his plan assigns a much greater responsibility to the multilateral financial institutions (IMF and the World Bank) in their role of promoting economic growth-oriented reforms in developing countries and the offer of financial assistance for funding their policy-based lending programmes as well as for debt and debt-service reduction.\textsuperscript{55} Thus, the Brady Plan made economic growth mandatory for debtor countries to benefit while insisting on the existing case-by-case approach to debt reduction through rescheduling by the Paris and London Clubs as well as making the latter voluntary for creditors.

Most of the foregoing initiatives and strategies, especially the Baker and Brady Plans were proposed particularly with the Latin American debtor countries in mind, because the elements of their operation are largely tailored to the needs of private commercial bank creditors to whom most of the region's debt is owed. In Sub-Saharan Africa, however, although a few countries such as Nigeria whose commercial bank debt is quite substantial can be made to benefit, their debt-reduction needs are quite different because the bulk of their debts is official, i.e., owed to governments rather than to private creditors.\textsuperscript{56}

From the above, the Baker and Brady initiatives appear to be discriminatory to most of the low-income heavily indebted countries of Sub-Saharan Africa.\textsuperscript{57} But in more recent years, some initiatives have been proposed which are specifically tailored to the needs of the debt-distressed countries of the region. These include the \textit{French and British Plans}\textsuperscript{58} which advocate that the debt burden of the heavily-indebted countries of Sub-Saharan Africa should be relieved through the conversion of official debts to grants. This, in effect, means a total write-off of such debts. These plans also propose the subsidising of the interest rates of some other debts and rescheduling them for much longer periods than the traditional seven to ten-year period. There is also the \textit{Nordic Plan} to create a Trust Fund for debt relief in poor countries as well as the \textit{World Bank's Special Programme} for the distressed low-income Sub-Saharan African countries.\textsuperscript{59}
Finally, there are the proposals by the *Group of Seven* which were first put forward at the Venice Economic Summit in June 1987 and further consolidated at the Toronto Economic Summit of June 1988. Among other debt relief strategies, the Group of Seven agreed to ease the debt-service burdens of the poorest countries with internationally approved growth-oriented and structural adjustment programmes. More specifically, consensus was reached on rescheduling the official debts of these countries through the Paris Club of creditors on the basis of compatibility which allows the latter to choose "... among concessional interest rates usually on shorter maturities, longer re-payment periods at commercial rates, partial write-off of debt-service obligations or a combination of these options". This approach translates to a *menu* that allows official creditors to choose options with which they can contend in terms of their legal or budgetary constraints. The menu is in three parts as follows:

1. **Partial cancellation (option A):** under this option, one-third of the consolidated debt-service obligations is cancelled and the remaining two-thirds rescheduled at a market rate of interest and a 14-year maturity including an 8-year grace period;

2. **Extended maturities (option B):** under this option, consolidated debt-service obligations are rescheduled at a market rate of interest and a 25-year maturity including a 14-year grace period; and

3. **Concessional Interest Rates (option C):** under this option, consolidated debt-service obligations are rescheduled at a concessional interest rate and a 14-year maturity including an 8-year grace period; the market rate of interest would be reduced by the lesser of 3.5 percentage points or 50.0 per cent.
In Sub-Saharan Africa itself, concern among the governments over the African debt crisis led to a summit of the Organisation of African Unity (OAU) heads-of-state. This took place towards the end of 1987 during which a call was made for a co-operative approach to the African debt problem on the part of the African countries themselves, the industrialised countries and the multilateral institutions, taking account of the particular characteristics of Africa's debt situation. While noting that reforms and measures undertaken by African countries have yielded some positive results in the form of a reduction of current account deficits, the continuous hostile economic environment has limited the countries' efforts, thereby causing a worsening of the debt-service burden in the region. Accordingly, the OAU heads-of-state proposed several measures to reverse the unfavourable trend. These measures, which are essentially extensions and additions to the Venice Summit proposals, include the following:

i. more cancellations of debt and allowing repayment of debts in local currencies, while softening terms for officially guaranteed debts.

ii. the lowering of interest rates by commercial bank creditors, lengthening of amortisation periods while converting arrears in short-term debt into long-term loans, and

iii. provision of more concessionary loans by multilateral institutions and the adaptation of their conditionality requirements to growth and development needs of African countries.

The belief of the OAU heads-of-state in a cooperative approach to the solution to the African debt crisis led to their call for an international conference to discuss the issue. This, is however, yet to be followed up.

It will appear, going by the latest available figures of debt indicators, that the fore-going alternative initiatives and strategies for debt-relief have not had the desired impact because they have not gone far enough. One notable feature
of the application of all the strategies and initiatives already
discussed, is the insistence on sound domestic macroeco-
nomic policy reforms for developing debtor-countries to
benefit without corresponding reciprocal reforms in the
industrialised creditor-countries. This non-symmetrical nature
of the conditions for debt relief has, more than any other
factor, limited the effectiveness of the debt relief packages
so far employed.

There are quite a few important policy reforms that
industrialised creditor-countries should undertake to ease
the debt-servicing problems of the developing debtor-
countries. For example, the policy of protectionism in the
industrialised creditor-countries against exports of deve-
loping debtor-countries has been intensified rather than
eased in recent times when the latter are hard-pressed to
increase their foreign exchange earnings out of which they
service their debts. Thus, the growth-oriented reforms under-
taken in developing debtor-countries, especially in the export
sector have not resulted in stimulating export earnings due
to the policy of protectionism.

Furthermore, the policy of budget deficits in indus-
trialised creditor-countries and the accompanying macro-
economic policies such as high interest rates needed to
moderate the inflationary consequences has not been helpful
to debt-relief efforts, while the recent decelerating trend
in the rate of capital flows (especially private capital) into
developing countries has had a similar effect. In connection
with the latter, reforms are very much needed in the
industrialised creditor-countries with respect to banking,
accounting and tax regulations that constitute impediments
to the free flow of resources, debt-relief and debt-service
reduction. As a follow-up from this, the Group of 24\textsuperscript{57}
recently made a call for the non-implementation of appro-
priate banking policies and practices on the basis of the
finding of the Basle Committee on Banking Regulations
and Supervisory Practices, commonly known as the \textit{Cook
Committee}, to the effect that most developing countries
are regarded as high-risk countries. The Group has invited
the banking and supervision authorities in the industrialised
 creditor-countries to review the relevant conditions in
question “... with a view to making them more flexible so
as to preserve and increase bank financing in favour of the developing countries."

Finally, there are more crucial areas of needed reforms which have undermined debt-relief efforts so far: The most important is related to the persistent depression of primary commodity prices on the world market which has led to the almost perpetual deterioration in the terms of trade of developing countries. For instance, according to a recent estimate, worsening terms of trade in Africa created an increasing gap in the 1980's between actual debt service payments made and payments due, reaching some $5–6 billion in 1986.\(^6^9\) In this regard, industrialised creditor-countries have so far shown little or no concrete interest in the efforts made to stabilise primary commodity prices. Neither have they adopted growth-oriented policies to stimulate the demand for and, thus, the expansion of the output of these commodities. A change of policy in these directions cannot be overemphasised.

V. Summary Conclusion and Policy Recommendations

Mr. Vice-Chancellor Sir, I will now summarise and conclude this lecture, ending up by charting a course and identifying directions along which policy should go in the years ahead.

From our discussion so far, it is quite clear that the problem of the heavy burden of external debt in developing countries is still far from being solved. Indeed, from the latest available indicators of external debt-burden in these countries, the problem appears to be intractable. This is in spite of all the debt-reduction and relief packages that have been put in place following the great international concern shown in both the debtor and creditor-countries alike since the emergence of the debt crisis. What comes out clearly from all these is that a lot more needs to be done to bring about meaningful debt-reduction and relief in developing countries generally and in sub-Saharan, Africa in particular, so as to enable economic development, growth and recovery take place on a sustainable basis for the rest of this century and the years beyond.
Let me say right away that collective unilateral repudiation of external debts by debtor countries as a group is not a solution that is in the best long-run economic interest of either the debtor countries, the creditor countries or the international economy for that matter. It should be emphasised that the developing countries stand to lose much more. It should therefore be rejected as a choice of solution to the external debt problem. As we have already shown, this position is inescapable given the realities of developing economies and the increasing interdependence of the world economy.

But there are other choices of solutions that are quite feasible and which can result in meaningful debt reduction and relief even with the existing resource constraints in developing countries. These feasible choices of solutions will be examined in the context of the Nigerian external debt situation discussed earlier on in this lecture. The choices of solutions can be looked at in terms of short and long-run considerations.

In the short-run, the external debt-management strategies already put in place should continue to be used but with some major modifications. In the first place, it is being recommended that the frequency of debt reschedulings which have been the centre piece of the country’s external debt-management so far should be reduced considerably. Frequent time and resource-wasting rescheduling that give only momentary relief should be replaced by more prolonged ones. Our negotiators should from now on press for multi-year as opposed to the present year-by-year reschedulings and indeed a complete moratorium up till the end of this century is called for, especially in the case of commercial bank debts while holding the rates of interest on them fixed at a lower level. Our creditors should be made to understand that the country’s economic situation that has warranted a structural adjustment programme is one of serious crisis and that time is needed for the measures already instituted to exert the desired effects on the economy.

Secondly, the debt-equity swap strategy should also continue to be used. Only recently, it was reported that the strategy had by the end of the first quarter this year reduced the country's debt stock by some $1.28 billion. This amount
in relation to the country’s commercial bank debt is quite substantial representing about one-fifth. But in the continued use of this technique, caution must be exercised by ensuring that its adverse effects such as inflation, rising interest rates and distortions in the economy are avoided or at least minimised. In this regard, the present policy of periodic spacing of debt-equity swap operations is likely to help in preventing or moderating any possible adverse effects.

Thirdly, debt-service payments should, from now on, be more closely related to export earnings in a fixed proportion and should be no more than 20.0 per cent of the latter. In other words, the present 30.0 per cent is considered too high. This move will limit the debt-service share of foreign exchange utilisation so that more will be made available for economic development, growth and recovery efforts than is being currently allocated.

Fourthly, at the continental level, Nigeria should act true to type not only as the “giant of Africa”, but also as a big-time debtor country, by spearheading a follow-up action on the initiative which the OAU heads-of-state put forward at their 1987 Summit in Adis Ababa, proposing to convene an international conference to bring the “African Common Position” on the African debt-crisis to the international community. The elements of that common position, among others, include the following:

i. improving the international economic environment that will be conducive to economic recovery and accelerated development, through improved export prices for African primary products and the removal of protectionist measures;

ii. increasing resource flows to Africa through increased grants in bilateral assistance, increased grant element in the financing of international and regional financial institutions as well as reduction in interest rates and extension of the repayment and grace periods for all types of loans, while granting a 50-year repayment and a 10-year grace period for the repayment of all new loans;
iii. adoption of the principle that debt-service payments should not exceed a reasonable and bearable proportion of export earnings;

iv. converting all past bilateral loans into grants;

v. suspending external debt-service payments for a period of 10 years:

vi. adopting the principle of paying part of bilateral debt in local currency and reducing real interest rates on existing loans and lengthening maturity and grace periods for private loans; and

vii. agreeing to multi-year rescheduling of a minimum of five years as a norm with maturities of at least 50-years, 10 years' grace and zero rate of interest.\textsuperscript{70}

Finally, our negotiators should intensify the pressure on the industrialised creditor-countries to undertake the necessary reforms needed for freer flow of external resources as well as unrestricted market access to the country's primary commodity exports. They must be made to realise that there can never be a solution to the debt problem for as long as they insist on continuous debt-service payments while refusing to provide free market access to the debtor-countries' exports and to pay the remunerative prices for these exports.

In the long-run, a decisive policy shift from the indiscriminate external borrowing adopted so far to one of greater selectivity based on the terms of borrowing is recommended. Perhaps, it is worth articulating in this connection, that external debt \textit{per se} or any debt for that matter is not bad, but it is the wrong choice of the modality for its accumulation and the use to which the latter is put and the way it is managed that can create problems for the borrower. In this regard, the recent suggestion by some contemporary observers of the Nigerian debt situation to the effect that an embargo be placed on external borrowing of all sorts is somewhat misplaced. As noted earlier on in this lecture, with the limitation of domestic resources in
developing countries, the inflow of external financial resources as a source of financing growth and development will continue to be relied upon for quite some time to come. But this reliance should be reduced progressively as economic growth and the accompanying financial and banking reforms over the long-term make possible increased domestic resources and foreign exchange through the expansion of exports, especially of manufactures and other non-oil products — an objective that constitutes a major plank in the platform of the current Structural Adjustment Programme (SAP).

With the present serious constraints on the availability of foreign exchange resources and given the high cost of external borrowing, it is high time the government devised a much more efficient external debt management system capable of rationalising and streamlining guidelines on external borrowing. Until fairly recently, external debt reporting was, to say the least, very defective in the absence of accurate statistics on the extent of the country's external debt and to verify its authenticity. In the absence of firm and effective guidelines, neither has there been any proper co-ordination of external borrowing nor an effective system of accurate monitoring of the existing external debts of both the Federal and state governments. It is also true that external borrowing decisions have not been based on any rational estimate of the country’s external resource-gap or a thorough study of the costs and benefits of external loans. All these are issues requiring the urgent attention of the government. Although, a recent policy statement in the press credited to the Honourable Minister of Finance and Economic Development, outlined certain guidelines to take care of some of the foregoing weaknesses in our external debt-management, one is worried about the prospects of their effective implementation, going by the government’s record of failures in the implementation of laudable policy measures in the past.

In order to take care of the shortcomings of the country’s existing external debt-management enumerated above, there is the urgent need for the setting up of a Public Debt Office to be located in the Ministry of Finance and Economic Development. Such an office should be staffed
with economists, accountants and other financial experts to give advice and add professional touch to all government decisions on external borrowing. The team of professionals manning the Public Debt Office would ensure that the guidelines on and the continuous monitoring of external borrowing are strictly adhered to. It is worth stressing that while this recommendation is not new, it deserves to be given renewed emphasis for the government's treatment as a matter requiring top priority at a time when efficiency in external debt-management is of paramount importance.
Mr. Vice-Chancellor Sir, I wish to end this lecture finally by expressing my gratitude to certain institutions and individuals who have contributed in one way or the other to the achievements of my academic career so far.

First, I am grateful to my mother of blessed memory who took sole responsibility for my early education single-handedly following the death of my father some 40 years ago. Secondly, I am also grateful to the authorities of the University of Lagos, who, over the last 18 years, have provided me with the opportunity and facilities to advance my academic career. Thirdly, I wish to thank Chief Augustus Adebayo, one-time Head of Service and Secretary to the Government of the then Western State of Nigeria and now Pro-Chancellor and Chairman of Council, Ondo State University, Ado Ekiti, Ondo State, who stimulated my interest in university education. Fourthly, I also wish to express my sincere thanks to Professor Z. A. Konczaski of the Department of Economics, Dalhousie University, Halifax, Nova Scotia, Canada, who provided the impetus for me to embark upon academics as a career. And last but not the least, I wish to express my gratitude to my family, particularly my wife Modupe for her understanding and co-operation in the last 27 years, for managing the home front effectively at all times, especially during periods of my prolonged absence on academic assignments.

I also wish to acknowledge the contribution of the children through their being of good behaviour and thus, making possible the necessary tranquility and stability in the family without which any serious academic pursuit would have been impossible.

Thank you very much for your patience and attention.
NOTES

2. Ibid.
6. Ibid., 15. This last indicator is very important, for being the one commonly used to measure a country’s capability to service its external debt-management when a country’s debt-service charges represent 10.0 per cent of its exports. As this critical ratio is exceeded, a country will tend to experience debt-service difficulties.
7. World Bank, World Debt Tables, op. cit.
9. Ibid., pp. 204–205.
10. Ibid., pp. 204–205.
15. First convened in Paris in 1956 at the request of Argentina, in order to have the latter’s debt rescheduled, the Paris Club has since developed into a multilateral institution for debt relief through renegotiating of terms of borrowing (rescheduling) for official debt. It consists of representatives from the major OECD creditor nations. At its meetings, the French Minister of Finance, by tradition usually preside. The Club convenes each time at the request of the debtor. In most cases, the granting of such a request is subject to the debtor having already reached a conditional loan’ agreement with the IMF. Since its inception, the Paris Club has undertaken debt rescheduling for more than 20 countries with some, more than once or twice. Over the years the amounts involved in debt rescheduling by the Paris Club has grown enormously and in more recent years, such amounts have reached several billion dollars at a single rescheduling. The London Club which is of a more recent creation performs a similar role as the Paris Club, but for commercial bank debt. Chris C. Carvounis, The Debt Dilemma of Developing Nations (West Point, Connecticut: Quorom Books, 1984).
16. Private rescheduling, i.e., commercial bank rescheduling, represents direct renegotiation of terms of borrowing by developing debtor countries with bank creditors in industrialised countries. In most cases, a commercial bank rescheduling usually follows debtor country's completion of an accord with the Paris Club, a pre-requisite for such rescheduling is the adoption, on the part of the debtor, of an IMF-sponsored economic structural adjustment programme.

17. A case in point is the IMF-inspired cut-back in rural credits to farmers, which led to a drastic fall in maize production in Zambia in 1978. Cf. John Cavanagh, et al., op. cit., p. 9.


19. Ibid., p. 12.

20. Ibid., p. 12.

21. One such mechanism is the Paris Club. For some details about the functioning of the Paris Club, see note 15.

22. David F. Lomax, op. cit., p. 16.

23. Lawrence G. Franko & Marilyn J. Seiber (Eds.) op. cit., p. 11.

24. The “recycling” of oil money is the process whereby OPEC countries place their surplus funds on the international capital and money markets in the form of U.S. Government securities, other official and private securities and commercial bank deposits in industrialised countries, thereby providing a source of funds for willing borrowers.

25. The Eurocurrency market is an international banking market that deals in currencies outside their countries of issue. Thus, U.S. dollars, Swiss Francs, Japanese Yen and even Hong Kong dollars, received and loaned by banks in the U.K. would be part of the Eurocurrency market system. The appellation ‘Euro’ attached to this currency market originated from the fact that most of the banks dealing in foreign currencies, especially the U.S. dollar were located in Europe, but these banks now operate in the major financial centres of the world from New York to London, Zurich, Hong Kong and Tokyo. Lodgements of funds into the Eurocurrency market come mainly from Central Banks which hold foreign currencies as reserves, multinational corporations and oil exporters. The Eurocurrency market is sometimes referred to as the Eurodollar market because of the dominant role played in the market by the U.S. dollar. For example, it is estimated that up to three-quarters of the transactions in the market are denominated in U.S. dollars.


28. Following the second oil price hike, the balance of payments deficits of the major industrialised (OECD) countries reached the $40 billion mark in 1980. Cf. Ibid., p. 41.

29. It has been estimated that a one per cent increase in the real rate of interest pushes up debt costs of developing countries by about $3 billion annually. Cf. Ibid., p. 44.
30. Between 1980 and 1982, oil imports into the major industrialised (OECD) countries fell from 1,173 million to 830 million tons. This development weakened OPEC’s position considerably—a situation that was worsened by the appearance of other suppliers (Mexico and North Sea oil producers—Britain and Norway)—on the world oil market. Thus, by 1983, OPEC’s share of the world oil supply slumped from well over half in 1973 to a little less than one-third in 1983. In order to maintain its cartelized position, OPEC was forced to reduce production from 31.3 million barrels per day in 1973 to 18.3 barrels per day in 1983. Cf. Ibid., pp. 48-49.

31. Ibid., p. 48.

32. Ibid., p. 52.


36. Ibid., p. 17.

37. By 1980, however, due to the second oil price increase, the balance of payments deficits of these countries had been transformed into surpluses, only to swing back into deficits again thereafter. Ibid; p. 17.


40. These countries include Argentina, Bolivia, Brazil, Chile, Colombia, Cote D’Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.

41. The higher this ratio, the lower the debt-bearing capacity of any country.


45. Ibid., p. 31.


48. Dr. Nyerere, the former President of Tanzania was the first to advocate this approach. Others have since re-echoed it. See in particular Keith Griffin, “Toward a Co-operative Settlement of the Debt Problem”, *Finance and Development*, Vol. 25, No. 2 (June 1988), pp. 12-14 and Pius Okigbo, *The African Debt Trap* (Lagos: University of Lagos Press, 1989).

49. For instance, any joint unilateral repudiation of debts on the part of debtor countries is likely, not only to destroy international capital flows but would also be disruptive of trade flows arising from retaliatory trade and financial restrictions by creditor countries. For the strong and rational arguments, see Chien Nan Wang, “The Costs of Default”, *op. cit.*, pp. 31-33.

50. An example of this strategy is the one put forward in 1983 by Lord Lever, the former British Minister, who argued for substantial increased official loan guarantees through export credit agencies. More recently, Professor Martin Feldstein of Harvard University and one-time President of the Council of Economic Advisers in the Reagan Administration did argue vehemently for this strategy, Cf. *The Economist* (June 27, 1987).

51. Peter Kenen, a Professor of Economics at Princeton University and Felix Rohatyn former Chairman of New York’s Municipal Assistance Corporation are the best known advocates of this proposal.

52. The Baker Plan was initiated in October, 1985 by the then U.S. Treasury Secretary, James Baker III.

53. These include the Bradley proposal of June 1986 put forward by the U.S. Senator, Bill Bradley which advocated interest and principal relief, requiring creditors to reduce interest rates over a three-year period by 3.0 per cent and a write-down of principal by the same 3.0 percentage points. Others are the Herrhausen proposal which was put forward by Alfred Herrhausen of the Deutsche Bank and LaFalce initiative proposed by the U.S. Congressman John LaFalce in March 1987. Essentially these latter two proposals advocated the creation of international institutions to buy up all existing debts at a discount and make the necessary adjustments with debtor countries.


56. The latest estimate puts Nigeria’s commercial bank debt at some $5.6 billion or about 20.0 per cent of the total.

57. Only a few days ago, it was reported in the media that Nigeria and four other countries (Mexico, Costa Rica, Venezuela and Philippines) are, with the support of the World Bank, to benefit under the Brady Plan by qualifying for cancellation of some 10.0 per cent of their outstanding debts. Cf. *The Guardian* (Wednesday, May 2, 1990).
58. The British Plan is alternatively referred to as the "Lawson Plan" because it represents the views of a one-time-British Chancellor of the Exchequer Nigel Lawson, who argued that interest rate subsidy is a basic element in the debt burden relief of the poor countries. According to him, extending the payment schedule for debt repayment does not reduce the debt burden as such.

59. Quite apart from the World Bank's $1.0 billion Sub-Saharan Africa facility created in 1985, there is its Special Programme of Assistance of $6.4 billion co-financing with bilateral donors to be utilised in financing World Bank projects in the heavily indebted low-income countries, most of which are in Sub-Saharan Africa. Cf. Joshua Greene, IMF Survey, op. cit., p. 323.

60. These are the major industrialised countries whose heads-of-state meet annually at economic summits. They are Canada, France, Federal Republic of Germany, Italy, Japan, the United Kingdom and the United States.


62. Ibid., p. 222.

63. This "menu" which was first used in the rescheduling agreement with Mali in October 1988, has since been applied repeatedly in the case of four rescheduling agreements with the Central African Republic; Madagascar, Niger and Tanzania signed during 1988 and two (Senegal and Uganda) signed in 1989. Cf. IMF Survey, Vol. 18, No. 7 (April 13, 1989), pp. 103–104.

64. The OAU Heads-of-State Summit was held on November 30 and December 1, 1987.


66. Ibid., p. 11.

67. The Group of 24 was formed in 1972 in Lima, Peru. The Group which is officially known as the Inter-Governmental Group of 24, represents the interests of the developing countries in negotiations on international monetary matters. There are 24-member countries in the Group with 8 members from each of Africa, Asia (which for the purpose of the group includes Yugoslavia) and Latin America. The Group's member countries are: Algeria, Argentina, Brazil, Columbia, Cote d'Ivoire, Egypt, Ethiopia, Gabon, Ghana, Guatemala, India, Iran, Lebanon, Mexico, Nigeria, Pakistan, Peru, Philippines, Srilanka, Syria, Trinidad and Tobago, Venezuela, Yugoslavia and Zaire.


71. The verification exercise which was undertaken by Standard Chatered Bank PLC on behalf of the Federal Government, led to the latter's rejection of some $40.0 billion worth of external debt considered to be doubtful.
that external loans for economic sectors should be self-financing and must at least have a positive rate of return equivalent to the cost of borrowed funds in the domestic capital market;

ii. that new loans for social services and infrastructure would be determined by their cost-benefit ratios;

iii. that feasibility reports of projects by sponsors seeking external finance must receive government approval before the go-ahead order for such loans can be given; and

iv. that the financial needs of commercial projects by either the public or private sector could be met from the international capital market, while projects for social services and infrastructure must rely on concessionary loans from IDA.
