Impact Of Debt Management On Nigeria's Economy In The Face Of Dwindling Oil Revenue

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Abstract
Nigeria is endowed with huge oil and other mineral deposits still suffer under the crushing weight of debt overhang, which means that the country currently has a huge debt that constitutes a significant proportion of the gross domestic product (GDP), and this has posed a serious challenge. Nigeria over the years has managed to service the foreign debts and even got debt relieve in 2005. However, the plunged of oil price in the international market to a record low, has affected Nigeria's ability to pay off or service the remaining portion of the debt and rather has resulted in excessive borrowing by governments both at the federal and state levels. The paper examined the federal government effort in managing Nigeria's debt within the reality of dwindling oil price and failure to attract foreign investment to stimulate economic growth and development. Anchoring our analysis on the dependency paradigm, and data drawn from documentary sources, with a qualitative descriptive method of analysis, findings amongst others revealed that the crash of oil price in the international market plunged the Nigerian economy into recession and affected her ability to manage her debt burden due to corruption among public officials, and the fact that the country is highly dependent on oil revenue to service her debt and finance other projects. The paper recommends that there is need for Nigeria to seriously diversify her economy and institute and encourage the culture of honesty; accountability and transparency in governance to ensure that she pay-off her debt and improve her economy.

Keywords: Debt Management; Economy; Oil Revenue; Debt Management Office (DMO); Development

1. Introduction

All countries have some kind of national debt, as a consequence of normal activity. In trying to meet their development needs nations are required to go into borrowing to aid the execution and completion of their physical and social infrastructures, thereby leading to the accumulation of debts. Sometimes, countries accumulate unmanageable levels of debt due to particular economic crises. According to Pattillo, etal., (2002),as cited in Ijeoma (2013), economic theory suggests that reasonable levels of borrowing by a developing country are likely to enhance its economic growth. Soludo (2003), is of the view that countries borrow for two broad reasons, higher investment, higher consumption (education and health) or to

finance transitory balance of payments deficits to lower nominal interest rates abroad, lack of domestic long-term credit, or to circumvent hard budget constraints. This means that countries borrow to boost economic growth and reduce poverty. When economic growth is enhanced, (at least more than 5% growth rate) the economy's poverty situation is likely to be affected positively. The struggle for political independence was majorly for economic liberation from the colonial masters whose only concern was to exploit and plunder the human and material resources of the nation. At independence, there was high hope as Nigerians thought it would grant them control over their destiny and resources for all round sustainable development. In order to encourage growth, countries at early stages of development like Nigeria borrow to augment what they have because of dominance of small stocks of capital hence they are likely to have investment opportunities with rates of return higher than that of their counterparts in developed economies (Ijeoma, 2013).

Writing on the origin and dimension of Nigeria's debt, Nwoke (1990), opines that all the hopes and optimism of economic freedom and development became a mirage after independence. He claims, this was due to the neo-colonial political structures that were put in place by the departing British colonialists before they left. Nwoke also notes that Nigeria's economy was largely an agricultural-base. For its lack of technological know-how, the country could not add value to these products and it had to export them as primary products with little income in return. As a result of the above scenario, it became largely impossible for the government to meet the yearnings and aspirations of the people since its earnings were not enough to feed not to talk of providing the basic necessities like education, good roads, potable water, electricity and so on. The government had no choice like its counterpart in the African continent than to borrow money from the developed nations to carry out economic plans that would bring about positive change in the country. These loans as always come with conditions and economic strategies from the creditors (Nwoke, 1990).

In order to avoid economic problems like inflation, political and social crisis inherent in the period (1980-1985), the government of Shagari opened the gate way to borrowing. Loans were raised primarily to finance a number of projects. Being a loan from private sources, it attracted higher interest rates while the maturity period was shorter. At the end of 1990, the level of total debt outstanding increased more than two-fold from the preceding years level of N1, 265.7 million. Since then more loans have been raised in the private capital market as funds from the bilateral and multilateral institutions dwindled. This caused a remarkable shift in the structure of the debt outstanding and consequent increase in debt burden (Okechukwu & Anele, 2012). Actually, the borrowing was done with the hope that there would be a turnaround in the international oil market perhaps in no distance future. It was equally, hoped that the borrowed fund would be a turnaround in the purchasing of domestic goods. However, the expected turn around did not materialize. Rather it came to a point that the amount borrowed was greater than the national income (Abula & Mordecai, 2016).

As one of the world's major oil producing country, it seemed incongruous that Nigeria became so indebted to many countries and organisations. Nigeria owed the Paris Club about US 32 billion and had total external debt obligations of approximately US 36 billion (Moss, 2004). Not only did Nigeria face a huge accumulation of external debt, but ordinary Nigerians were extremely poor with over 70 percent of the population living below $1 per day (World Bank 2005). All these situation were so in-spite of the country's huge income from oil resources. As a result of mismanagement of the resources, instead of being a blessing it became a curse. While the government failed to manage the resources well to better the living standard of the people, it served as collateral to borrow more money which could not be managed to transform the economy. These loans accumulated overtime and

servicing of the debt led to untold hardship on the citizenry. Yet while other Highly Indebted Countries were considered for debt cancellation, the same oil denied Nigeria this benefit.

The study examine critically the impact of debt management on Nigeria's economy in the face of dwindling oil revenue, bearing in mind the fact that the petroleum sector is the major source of revenue that has been sustaining the Nigerian economy. The paper is divided into nine sections namely; introduction, conceptual overview, theoretical framework and literature review, Nigeria's external debt: a historical overview, Nigeria's debt management office, Nigeria's debt and the influence of oil, Nigeria's external debt management strategies, Nigerian oil-dependent economy and the management of external debt, and conclusion and recommendations.

2. Conceptual Overview

- **Debt:** Debt is created by the act of borrowing. It is resource or money in use in an organization which is not contributed by its owner and does not in any other way belong to them. It is a liability represented by a financial instrument or other formal equivalent.When a government borrows, the debt is a public debt. Public debts either internal or external are debts incurred by the government through borrowing in the domestic and international markets so as to finance domestic investment. Debts are classified into two i.e. reproductive debt and dead weight debt. When a loan is obtained to enable the state or nation to purchase some sort of assets, the debt is said to be reproductive e.g. Money borrowed for acquiring factories, electricity refineries etc. Debt undertaken to finance wars and expenses on current expenditures are dead weight debts. When a country obtains a loan from abroad, it means that the country can import from abroad goods and services to the value of the loan without at the same time having to export anything for exchange(Adepoju, Salau&Obayelu, 2007, p.2).
- **Debt Management:** Debt management which may be defined as policy which seeks to alter the stock, composition, structure and terms of debt with a view to maintaining at any given time, a sustainable level of debt service payment, has become an important issue in macroeconomic management. It involves the planned acquisition, deployment and retirement of external loans drawn either for developmental purposes or for balance of payments accommodation (Ojo 1997). According to United Conference on Trade and Development (UNCTAD), this involves functions relating to policy, regulation, resourcing, recording, analysis, control and operation activities. Debt management can be effective and efficient or inefficient. Efficient debt management involves proper portfolio analysis which among others makes it possible for proper schedule of maturities to be compiled and adhered to in order to avoid bunching and defaults. When appropriate schedule of maturities is in place, debt retirement is made simple and early signals are readily observed when resources are slim and defaults become imminent. This makes it possible for appropriate actions to be taken to prevent serious debt management crises from reaching critical levels (Ogunlana, n.d.).
- **Debt Management Office:** An agency of the government charged with the responsibility of carrying out a critical and holistic assessment of and managing Nigeria's debt portfolio. The creation of DMO consolidated the debt management functions in a single agency, ensuring proper coordination of the country's debt recording and management activities, including debt service forecast, debt service repayments, and advising on debt negotiation as well as new borrowings(Adepoju, Salau&Obayelu, 2007, p.12).

3. Theoretical Framework

The paper anchors its analysis on the dependency theory which originated among scholars from developing countries in the 1970s. The theory was developed and popularized by eminent scholars such as Andre Gunder Frank (1969), Samir Amin (1976), John Galtung

(1972), Fernado Cardoso (1972), Water Rodney (1969), Chinweizu (1974), Claude Ake (1981) and other proponents. The assumption of the theory was based on the implication that economic developments of the less developed countries are dependent on the advanced countries (Mbanwusi, 2011). This theory is based on the assumption that resources flows from a "periphery" of poor and underdeveloped states to a "core" of wealthy states thereby enriching the latter at the expense of the farmer. Dependency theory states that the poverty of the countries in the periphery is not because they are not integrated or fully integrated into the world system as is often argued by free market economists, but because of how they are integrated into the system. The dependency theory gives a detailed account of the factors responsible for the position of the developing countries and their constant and continuous reliance on external aid for their economic growth and development. According to Akin-Aina (1996), studies of political economy generally begin with discussions of inequalities within the international system. These inequalities include, first the uneven distribution of the world's resources between the rich states of the First World and the poor states of the Third World. The second is the uneven rate of development and economic growth within the international economic system, and lastly is the uneven distribution of material wealth within many states of the Third World which is far more uneven than the distribution of wealth within the states of the First World (Ako-Nai & Ayoola, 2013).

Dependency theory posits that the world is divided between the developed centre and underdeveloped periphery. The economic gap widens over time between the two, a situation that has reduced the latter to a state of dependency. The theorists attribute the debt burden to harsh economic policies imposed on debtor nations by International Financial Institutions(World Bank and IMF), the conditionality that put the nation's economy at a disadvantaged position and devastating state. The theory explains the economic dependency of a third world country like Nigeria, which has no control on the price of its product from crude oil extraction and refinery to finished products. This is based on the fact that the First World states that control international economic system control the prices of both the crude oil and the finished products to their own advantage while the producer of the product is always at the mercy of the buyers who dictate price at both ends (Ako-Nai & Ayoola, 2013). Also it explains the dependency of Nigeria on foreign loans as responsible for the accumulation of huge debt and the resultant effect of debt servicing on the socio-economic life of the nation.

4. Nigeria's External Debt: A Historical Overview

The history of Nigeria external debt dates back to 1958 when the sum of $28 million was contracted for railway construction. Prior to 1978, the Nigeria external debt was not much and was sustainable. The Central Bank of Nigeria (CBN) report in 1989 stated that 91.4% of the debt came from official sources and were the concessionary types of loans from bilateral and multilateral agencies. Then, much importance was not attached to debt management by Nigerian Government (Eyiuche, 2003), not only that the economy then had a magnificent growth following the oil boom of the 70's Nigeria foreign debt profile witnessed a dynamic change after 1978 following the world oil glut. Much pressure was then exerted on government finances and it became necessary to borrow for balance of payment support and financing of developmental project. The first major federal government borrowing of US $1 billion from the international capital market (ICM) was referred to as "Jumbo loan" increasing her total external debt to $22 billion. The condition worsened between 1981 and 1982 as various government agencies and state governments resorted to deficit budgeting partly financed through external loans secured from private sources under stiffen conditions (CBN, 1989; Ijeoma, 2013). The Debt Management Office (DMO) annual report and account (2001) reflected a 13.8% fall of official debt sources in favour of the private debt sources which rose again to an average of 82%. Trade arrears emerged by the end of 1982

constituting a large portion of the total external debt of the nation. The jumbo loan of 1987 was supported by the promulgation of decree No 30 of the 1978 which limited the external loans that the Nigerian government could raise to $5 billion (Ijeoma, 2013).

The increase in the size of Nigerian external debt was due to the preponderance of borrowing from international agencies and countries at non concessional interest rate. This borrowing came as a result of the decline in oil earnings from the late 70"s and the emergence of high trade arrears due to inability of the country to neither easily produce nor foot the bills of importation of the needed goods and services.

Nigeria's external debt can be traced back to the pre independence period, though the debt level was minimal until 1978, when the first Jumbo loan of more than $1.0 billion was raised from the International Capital Market (ICM) (Debt management office (DMO), 2004). However, from 1977, the debt stock incurred by the country has been on a steady increase, rising from $0.763 billion in 1977 to $5.09 billion in 1978 and $8.65 billion in 1980, an increase of over 73.96 percent (DMO, 2004). This subsequently rose to $35.94 billion in 2004. Following the debt relief in 2006 Nigeria was advantaged to offset substantial part of its debt but this later started to record an upward trend. According to Amaefule (2015) as cited in (Mbah, Umunna & Agu, 2016), Nigeria's total debt stock as at December 2014 stood at N12.4 Trillion. Despite the huge amount of debts which the country has continued to incur over the years, with the aim of achieving economic growth and development, high unemployment, poverty, and low standard of living is still prevalent in the country, as observed by Aiyedogbon and Ohwojasa (2012) and Nwagwu (2014). The inability of Nigeria to effectively meet her debt obligations has adverse effect on the economy, as interests arrears accumulate over the years, thereby creating a much greater debt burden on the nation resulting in a greater percent of her revenue being spent on debt service arrears. Audu (2004) opined that the debt service burden has continued to hamper Nigeria's rapid economic development and worsened the social problems; this is because debt servicing crowds out investment and growth. Furthermore, Pattilo et al (2002) assert that at low levels, debt has positive effects on growth but above the threshold point accumulated debt begins to have a negative impact on growth. This therefore has informed the need to embark on the present study with a view to empirically analyse the impact of external debt on economic growth rate (as measured by GDP growth) of Nigeria (Mbah, Umunna & Agu, 2016).

The Nigerian national budget has over the years been overly tied to the oil sector, with government revenue and expenditure always fluctuating in line with oil prices and production dynamics. During periods of oil boom, the Nigerian government passionately expanded expenditure and embarked on unguarded new projects in her budgets. When oil prices crashed, the economy suffered intense shock from discontinuity of programmes and projects, resulting in costly and wasteful distortions and dislocations of economic activity. Specifically, Nigeria is currently suffering immensely because apart from the dwindling prices, she is currently losing her major traditional crude oil customers like United States of America and China, while at the same time there are new African markets in Angola, Ghana, Gabon, and Algeria. Several researchers have undertaken studies to evaluate the effect of fluctuating crude oil prices on the Nigerian economy. Experts have argued that with the continuous decline in earned revenue from the national coffers, government's desire to provide tangible and intangible assets and services through the appropriation bill will be greatly impeded (Aremo et al., 2012; Mbah, Umunna & Agu, 2016).

5. Nigeria's Debt Management Office

The debt management office (DMO) was established in 2000. Since then, there has been a change in the approach to public debt management, with anticipation of stress situations – a perspective, which was lacking during previous periods of oil price crash. This

revived the domestic bond market and provided a leeway for the public and private sectors to raise long-term funds. This facility enables the government to conduct counter-cyclical expenditure interventions in times of economic crisis, in a non-inflationary manner, as evidenced during the 2008 – 2010 global economic and financial crises(Amenawo, Atsu, Ajaude & Ibor, 2016).

In other to improve on sustainability of debt management, the Federal Government in 2000 created a debt management office (DMO) to assume more proactive management of commercial debts. Other debt functions were consolidated in this single semi-autonomous debt management office. Proactive debt management involves continuously seeking possibilities to restructure debt by taking advantage of market opportunities (Udoka, 2010). He however, maintained that prior to the establishment of DMO, debt management in Nigeria was characterized by systematic and structural deficiencies, which includes:

- Inaccurate and incomplete loan records,
- Diffusion of responsibilities across numerous agencies,
- Inadequate data recording system and poor information flows across agencies,
- Complicated and inefficient debt service/payment arrangement,
- Low quality human resources and poor incentive system,
- Lack of a coherent, well defined debt strategy. It was against this background that the debt management office (DMO) was created.

The new Debt Management Office is charged with the following responsibilities.

- Maintenance of comprehensive, accurate and timely records of the country's debt;
- Prudent management of the debt portfolio and ensuring its effective servicing;
- Negotiating with, and ensuring debt relief from creditors;
- Assessing and advising government on new borrowing;
- Advising government on national debt strategy and borrowing policy;

Issuance of FGN domestic debt instruments tradable in the capital market and having long term tenure, with a view to depending on the capital market and eliminating the monetary financing of deficits (Nwankwo, 2011; Mbanwusi, 2011).

The DMO conducts a debt sustainability analysis annually and has developed a medium term debt management strategy. These initiatives have, through anticipating possible shocks to the economy, helped to formulate appropriate responses in the event of such occurrences (Nwankwo, 2015). For example, it is in anticipation of oil price crashes that the DMO ensured that Nigeria operates on a borrowing ceiling which is about 60% below the country's peer group threshold. This precaution was evidently non-existent in the past. In addition, since 2008, the DMO has worked with State governments to develop sound debt management practices at the sub-national level with the establishment of similar departments in the 36 States and the federal capital territory (FCT). As a result, States now have accurate data on their debt portfolio. Although this institution-building initiative is still work-in-progress, there is no doubt that Nigeria and the federating States are much stronger in public debt management this time than in the past. To further give State governments some respite, the DMO proposed restructuring of the short-term bank loans into long-term Federal government-backed bonds (Amenawo, Atsu, Ajaude & Ibor, 2016). The objective was to reduce the debt-service ratio outflows of States and free monetary resources to meet other germane services like payment of civil servant salaries, pensions etc. As at 2014, the DMO revealed that twenty three States had submitted formal presentations for the restructuring of these debts and the requests were treated in phases with the first phase consisting eleven States. These States' bank loans were restructured into twenty year federal government of Nigeria (FGN) bonds with effect from 2015, while the second phase had twelve States whose

loans were also restructured into 20 year FGN bonds with effect from September of the same year. In the first phase, fourteen banks were involved in the operations with a total amount being N322.788b, while the second phase had twelve banks with the sum of N252.728b, bringing the total for the twenty three States to N575.516b. The effect of the restructuring was that monthly debt service burden for the States dropped by a minimum of 55% and a maximum of 97% among the 23 States involved. Also, the exercise was beneficial to the banking sector because the balance sheets of the banks involved showed great improvements as poor quality sub-national loan assets were replaced with high quality sovereign assets (Nwankwo, 2015; Amenawo, Atsu, Ajaude & Ibor, 2016).

6. Nigeria's Debt and the Influence of Oil

While Nigeria's creditors continued to hold firm to the belief that Nigeria is a wealthy oil producer, it is important to consider the lack of development and the extreme poverty of the country's population. As shown above, oil has failed to stimulate economic growth and development. The problem was compounded by longstanding mismanagement of the country's oil revenues and the under-development of the sector.

As Atakpu (2003: 4) states, "most of Nigeria's debts were irresponsibly contracted by military dictators who plundered the nation's resources including external loans for selfish ends. It is ironical that Nigeria's most valuable resources added to the country's debt problems. However, Kretzman and Nooruddin (2005: 4) explaining the relationship between oil and debt posit; "increasing oil production and exports lead to increasing debt''. They explain that, the global oil economy improves the ability of countries to make debt payments while at the same time increasing their debt. This is said to be the result of three key factors: (1) structural incentives for, and direct investments in the oil industry by multilateral and bilateral institutions (particularly the World Bank and its sister organizations); (2) Oil fuelled fiscal irresponsibility:- both in the West by creditors eagerness to lend to nations perceived as oil rich, and in the South by unwise fiscal policies; and (3) the volatility of the oil market. The last two factors are particularly pronounced in Nigeria. As Ross (2003: 9) rightly puts it, Nigeria's system of intergovernmental finance is complicated and makes fiscal management extremely cumbersome. According to Kretzman and Nooruddin (2005), while declining oil revenues were the reason for the financing gap, Nigeria's oil resources were also the assets by which the government was able to leverage to secure international loans. Thus, the fact that Nigeria is dependent on oil contributed to the country's accumulation of external obligations and also failure to meet up with repayment schedules(Ako-Nai & Ayoola, 2013).

Nigeria as a country has not actually benefited from the dividends accrued to external borrowing which supposedly is to bridge the saving investment gap as opined by Chenery and Strout (1966) which in turn has the potential to induce economic growth. Surprisingly, the situation of Nigeria is not the case due to the fact that the governments failed on their part to prioritize their expenditures hence venturing into projects that will not yield the kind of development that is needed to boost economic growth, improve the standard of living and poverty reduction due to embarking on unproductive projects (Mbah, Umunna & Agu, 2016).

7. Nigeria's External Debt Management Strategies

External debt management according to Ajayi (2001), refers to the gamut of international and technical arrangements in organizing the external liabilities of a country so that the debt service burden is kept within sustainable level. He maintained that technical aspect of debt management is concerned with the determination of the amount or level of debt the economy can sustain and the conditions of borrowing are on favourable terms and consistent with the future debt servicing capacity. While the institutional aspect include the administrative, organizational, legislative, accounting and monitoring aspect of managing both the new borrowings and old stock of debt. External debt management involve among other things estimate of foreign exchange earnings, sources of external finance, projected returns from the

investment the loans has financed, the repayment schedule and debt service burden, choice of debt instruments, the amount to be borrowed and the currency composition and the terms of the debt service; an assessment of the country's capacity to service existing debt and judgment as to the desirability or otherwise of contracting further loans (Mbanwusi, 2011).

When the seriousness of Nigeria's debt problem became very obvious in the mid -1980s, several measures were adopted to manage the debt. These include: Refinancing of trade debt, Negotiation with the London Club, Paris Club Debt Negotiations, Debt Conversion and Buy-Back Programme, Servicing of Multilateral Debt, Adoption of Guidelines on External Borrowings(Ogunlana, n.d.).

Nigeria is currently implementing the 2016-2019 Debt Management Strategy which addresses many of the concerns arising from the current composition of Nigeria's debt stock and debt service ratios. The rising domestic debt profile was part of an ongoing strategy to deepen the domestic debt market and reduce exposure to exchange rate risk associated with debt contracted in foreign currency. This strategy has yielded good results with the development of several debt instruments; however, the rising cost of servicing domestic debt has led to a realignment of this strategy. This will entail a rebalancing of the debt portfolio from an 84:16 distribution between domestic and external debt to a 60:40 ratio by the end of the 2019 fiscal year. Thus, longer term external financing will form a significant part of Nigeria's debt portfolio going forward(Federal Ministry of Budget and National Planning, 2017).

To mitigate exchange rate risk, new borrowing has been contracted to fund investment projects at concessional rates where possible. Also, projects to be financed with external loans will be those that will support non-oil export, and/or reduce import dependence such that there will be no risk of external debt overhang. Appropriate borrowing limits have been set for new domestic and external borrowing in 2017 to operationalize this objective. In addition, the domestic debt profile is being restructured to smooth out interest and amortization payments. Thus, a domestic debt composition with a 75:25 ratio for long to short term debt has been set for the end of the 2019 fiscal year. In combination with ongoing fiscal strategies to improve government revenues it is expected that debt service costs as a share of revenues will decline.

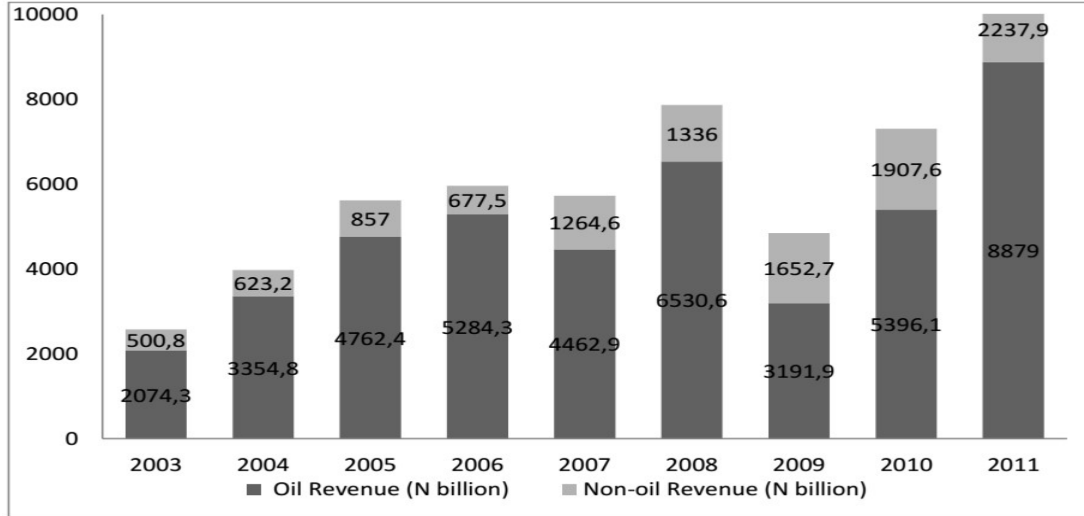
8. Nigerian Oil-dependent Economy and the Management of External Debt

Nigeria's economy can be described as a rapidly growing economy with an average growth rate of 7% in the last decade (World Bank 2013). According to Nigeria's National Bureau of Statistics, the GDP growth rate was 7.43% in December 2011 (First Securities Discount House, 2013). This makes Nigeria the second largest economy in Africa and one of the fastest growing economies in the world. Primary production is oriented around agriculture, mining and quarrying (which include oil and gas) and accounts for more than 65 per cent of real gross outputs and more than 80 per cent of foreign exchange revenues in the year 2011 (National Planning Commission, 2011).

Despite the growth of the service sector, the production of primary commodities has continued to dominate economic activities in Nigeria. The agriculture sector which includes crop production, forestry, livestock and fishery has accounted for most of GDP growth in the recent years (World Bank, 2013). In September 2011, agriculture remained Nigeria's largest sector accounting for 42.62 per cent of GDP (FSDH, 2013); however production levels remain low while growth has been triggered by expanding land. The sector remains primarily informal and production involves the use of simple technologies (National Planning Commission, 2011).Oil, however, accounts for 95% of Nigeria's exports and 75% of budgetary revenues (World Bank, 2013). In the recent years, the oil and gas sector has experienced a decrease in growth. From 2003 to 2011, the growth rate decreased from 23.9 per cent to -0.6 per cent (National Bureau of Statistics, 2012). The share of GDP also

decreased from 25 per cent in 2005 to 16 per cent in 2010 according to the National Planning Commission (National Planning Commission, 2011). The manufacturing sector, which includes cement, iron, steel and oil refining, has been targeted by the Federal Government as a priority for many years. Secondary activities including manufacturing and building and construction, have contributed a mere 4.14 per cent to foreign exchange and government revenue (National Planning Commission, 2011). According to the National Bureau of Statistics, the subsector accounts for about 10 per cent of total GDP annually and 12 per cent of the labour force in the formal sector (National Bureau of Statistics, 2010).

Figure 1: Federal-Collect Revenue from 2003 to 2011



Source: CBN Annual Report 2006, 2007 & 2011 as cited in Igberaese, (2013).

With more than 65 per cent of Nigeria's Federal-collected revenue coming from oil in the last decade, Nigeria's fiscal policy remains heavily influenced by the oil industry and its volatile movement. According to the IMF, beginning in 1970, Nigeria's revenue and expenditures followed a similar pattern to oil prices. In periods of high oil prices such as 1979-1982, 1991-1992, 2000-2002 and 2005-2009, revenue and expenditures also experienced sharp increases (IMF, 2003). Consequently, when oil prices subsided after the booms, Nigeria's revenue decreased as well as indicated by the figure above.

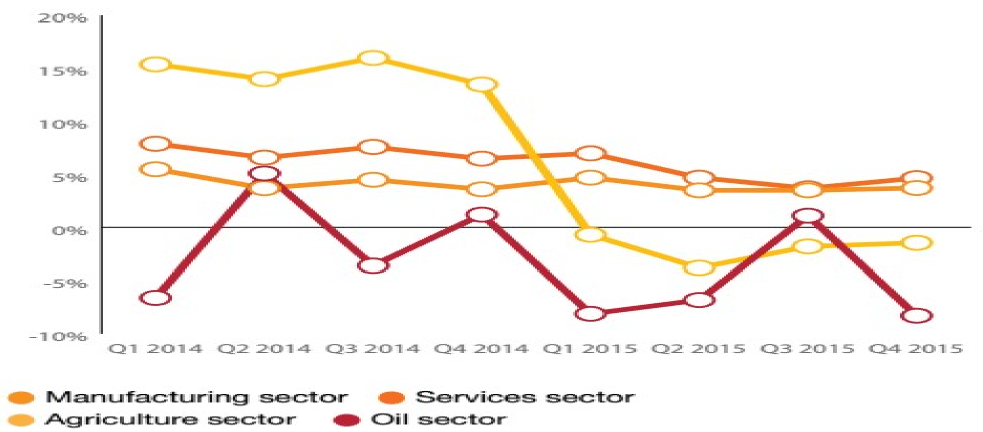
That the Nigerian economy has become compulsively an oil dependent economy is evident as crude oil sale has for decades accounted for about 80% of total revenue accruable to the federation account, 95% of foreign exchange earnings, 15% of the GDP and 4% of total employment (Agbaeze, Udeh & Onwuka, 2015). As a result of the above, any major shock in the international crude oil market negatively affects the Nigerian economy. Despite the above trend, Nigeria's crude oil production has declined consistently since December 2013. This has been compounded by the decline in crude oil price which is now well below the $38 per barrel budget benchmark for the2016 budget.

As stated above, the Nigerian national budget has over the years been overly tied to the oil sector, with government revenue and expenditure always fluctuating in line with oil prices and production dynamics. During periods of oil boom, the Nigerian government passionately expanded expenditure and embarked on unguarded new projects in her budgets. When oil prices crashed, the economy suffered intense shock from discontinuity of programmes and projects, resulting in costly and wasteful distortions and dislocations of economic activity. Specifically, Nigeria is currently suffering immensely because apart from the dwindling prices, she is currently losing her major traditional crude oil customers like

United States of America and China, while at the same time there are new African markets in Angola,Ghana, Gabon, and Algeria. Several researchers have undertaken studies to evaluate the effect of fluctuating crude oil prices on the Nigerian economy. Experts have argued that with the continuous decline in earned revenue from the national coffers, government's desire to provide tangible and intangible assets and services through the appropriation bill will be greatly impeded (Aremo et al, 2012).

Nigeria's economy grew by 2.7%y/y in 2015, which represents the slowest growth in the past five years, much lower than the 5-year real GDP average of 4.8%y/y. Real growth decelerated sharply to 2.1%y/y in Q4'15, reflecting the weakest quarterly performance following a contraction in growth across industries and moderation in the services sector (77% of GDP). Despite slowing significantly, Nigeria's economy remains driven by the non-oil sector which recorded growth of 3.7%y/y (2014: 7.1%y/y) as the oil sector continues to underperform. Real growth in the crude petroleum and natural gas sector was -5.4%y/y in 2015, even as oil exports declined c.49%y/y in 2015. Excluding this sector, the performance of the manufacturing sector was unimpressive with real growth at -1%y/y (2014:15%y/y) with the sector plagued by the deteriorating operational and macro backdrop; largely the impact of Foreign Exchange (FX) unavailability on raw materials and intermediate inputs (PWC, 2016).

Figure 2: Sector Real GDP Growth Rate (2014-2015)



Source: PWC (2016)

Figure 3: Real GDP Growth Rate (2011-2015)

Source: PWC (2016)

The difficulty of Nigeria to effectively meet her debt obligations have had adverse effect on the economy, as interests arrears accumulate over the years, thereby creating a much greater debt burden on the nation resulting in a greater percent of her revenue being spent on debt service arrears. In congruence to the above, Audu (2004), opined that the debt service burden has continued to hamper Nigeria's rapid economic development and worsened the social problems; this is because debt servicing crowds out investment and growth. Furthermore, Pattilo et al (2002) assert that at low levels, debt has positive effects on growth but above the threshold point accumulated debt begins to have a negative impact on growth. This therefore has informed the need to embark on the present study with a view to empirically analyse the impact of external debt on economic growth rate (as measured by GDP growth) of Nigeria (Mbah,Umunna & Agu, 2016).

The debt overhang theory of Krugman (1988), posits that huge borrowing leads to high indebtedness, debt traps and slow down of economic growth. According to him, accumulated debt stock results higher tax (tax disincentive) on future output and thus crowds out private investment. This means that due to large debt stock, potential investors would be discouraged on the expectation that government may finance its debt service obligation by imposing high taxes and this would further retard the growth of the nation. The importance of the debt overhang theory more or less cannot be over emphasized. According to Audu (2004) in (Mbah,Umunna & Agu (2016, p.4):

> the debt service burden has militated against Nigerian's rapid economic development and worsened the social problems. Service delivery by key institutions designed to mitigate the living conditions of vulnerable groups were hampered by decaying infrastructure due to poor funding. By cutting down expenditure on social and economic infrastructure, the government appears to have also constrained private sector investment and growth through lost externalities. This has reduced total investment, since public investment is a significant proportion of the total investment in the country.

Nigeria has not actually benefited from the dividends accrued to external borrowing which supposedly is to bridge the saving investment gap as opined by Chenery and Strout (1966), which in turn has the potential to induce economic growth. Surprisingly, the situation of Nigeria is not the case due to the fact that the governments failed on their part to prioritize their expenditures hence venturing into projects that will not yield the kind of development that is needed to boost economic growth, improve the standard of living and poverty reduction due to embarking on unproductive projects (Mbah,Umunna & Agu, 2016).

Nevertheless, the current dwindling in oil price since June 2014, after five years of oil windfall, has immensely affected the economy of Nigeria. Another huge blow to an oil dependent economy like Nigeria was America's reduction in the number of barrels they import from nations. Over dependence on oil revenue over the years has distorted and discouraged sourcing of funds from other source by the government, for example, as a result of huge oil revenue flows; Nigeria de-emphasized income taxes as a source of government revenue. Besides, low tax ratios and high consumption expenditures reinforce inflationary tendencies with regard to expenditure; government pay less or no attention to infrastructural development, encouragement of private sector investment, mechanizing the agricultural and manufacturing sector of the economy because of reliance on petroleum revenue. The realisation of the impact of the dwindling oil prices in the international market on the economy and development of Nigeria has made most of the state governments to turn to taxation in order to shore up their revenue base to enable them meet up with some of their responsibilities in finance critical infrastructural projects and also to avoid government shutdown. Tax evasion in most developing countries is worsens by the day as a result of the fact that governments have not made required effort to arrest the situation. Hence required revenue for the governance of the countries cannot be raise leading these countries into borrowing and public debt (both internal and external) which in turn not only crowd out the private sector of their economies, but also lead them to debt traps (Chiuma, 2006; Saidu & Dauda, 2014).

The dwindling oil revenue coupled with the evasion of tax by most citizens has hampered the government in their effort to meet up with their constitutional obligations. It has created avenue for most states and federal governments to resort to borrowing and mortgage the future of young Nigerians. Also the issue of corruption and hording of money as a result of failure of people to pay their tax, they are then forced to declare false income and horde their real income. The impact of the dwindling oil revenue on external reserve cannot be over-emphasised as Nigeria's external reserves has continuously be under pressure due to declining dollar receipts. The implication of the dwindling oil price on Nigerian economy which runs mainly on a single commodity is dire and the consequences can be seen in her rising debt profile and the recession which Nigeria fell into and is struggling to come out it. The external debt does not play any important role in the development process of Nigeria and has been unproductive in terms of its contribution to the Nigerian economic development due to mismanagement and embezzlement of public funds, corruption and challenges of debt sustainability. The servicing of external debt is detrimental to Nigeria as funds that should have been put into investment in the economy are been used in servicing the debt. Hence, external debt is no means through which the growth and development of the country can be stimulated.

9. Conclusion and Recommendations

The Nigerian national budget has over the years been overly tied to the oil sector, with government revenue and expenditure always fluctuating in line with oil prices and production dynamics. The creditor nations used debt as an imperialist and neo-colonial instrument, to maintain the dependent nature of the poor debtor nations. The debt relief granted Nigeria, was designed to make sure we remained in debt within a medium term range. As well, rescheduling arrangements often structured in way that the debt will still have to be paid back in future with the interest charges. This underlined the attitude of the creditors in Nigeria's debt problem (Mbanwusi, 2011). Despite the effort of the DMO to manage the Nigerian debt profile, the government has continued to borrow with the same reason given by past governments that the funds are to be used for developmental projects and investment, while

the country is still suffering from infrastructural decay, outdated social amenities and weak institutional arrangement. In line with the above, the paper put forward the following recommendations.

1. It is important that Nigeria, through its Debt Management Office, rearrange and prioritize debt management strategies in reducing the Nigeria's foreign debt stock.
2. There should be institutional reform to address the ways and manners the federal and states governments borrow and utilised the borrowed fund.
3. Government should try as much as possible to circumvent all forms of borrowing however; borrowing should only become an option when high priority projects are being considered.
4. Government should ensure that borrowed funds are channelled towards projects that would stimulate the Nigerian economy.
5. The DMO should make policies that will ensure that borrowed funds are properly invested and monitored for accountability and transparency.
6. Government should create enabling social-economic environment that will promote industrialization which will in turn attract foreign direct investment.

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Impact Of Debt Management On Nigeria's Economy In The Face Of Dwindling Oil Revenue

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Abstract
Nigeria is endowed with huge oil and other mineral deposits still suffer under the crushing weight of debt overhang, which means that the country currently has a huge debt that constitutes a significant proportion of the gross domestic product (GDP), and this has posed a serious challenge. Nigeria over the years has managed to service the foreign debts and even got debt relieve in 2005. However, the plunged of oil price in the international market to a record low, has affected Nigeria's ability to pay off or service the remaining portion of the debt and rather has resulted in excessive borrowing by governments both at the federal and state levels. The paper examined the federal government effort in managing Nigeria's debt within the reality of dwindling oil price and failure to attract foreign investment to stimulate economic growth and development. Anchoring our analysis on the dependency paradigm, and data drawn from documentary sources, with a qualitative descriptive method of analysis, findings amongst others revealed that the crash of oil price in the international market plunged the Nigerian economy into recession and affected her ability to manage her debt burden due to corruption among public officials, and the fact that the country is highly dependent on oil revenue to service her debt and finance other projects. The paper recommends that there is need for Nigeria to seriously diversify her economy and institute and encourage the culture of honesty; accountability and transparency in governance to ensure that she pay-off her debt and improve her economy.

Keywords: Debt Management; Economy; Oil Revenue; Debt Management Office (DMO); Development

1. Introduction

All countries have some kind of national debt, as a consequence of normal activity. In trying to meet their development needs nations are required to go into borrowing to aid the execution and completion of their physical and social infrastructures, thereby leading to the accumulation of debts. Sometimes, countries accumulate unmanageable levels of debt due to particular economic crises. According to Pattillo, etal., (2002),as cited in Ijeoma (2013), economic theory suggests that reasonable levels of borrowing by a developing country are likely to enhance its economic growth. Soludo (2003), is of the view that countries borrow for two broad reasons, higher investment, higher consumption (education and health) or to

finance transitory balance of payments deficits to lower nominal interest rates abroad, lack of domestic long-term credit, or to circumvent hard budget constraints. This means that countries borrow to boost economic growth and reduce poverty. When economic growth is enhanced, (at least more than 5% growth rate) the economy's poverty situation is likely to be affected positively. The struggle for political independence was majorly for economic liberation from the colonial masters whose only concern was to exploit and plunder the human and material resources of the nation. At independence, there was high hope as Nigerians thought it would grant them control over their destiny and resources for all round sustainable development. In order to encourage growth, countries at early stages of development like Nigeria borrow to augment what they have because of dominance of small stocks of capital hence they are likely to have investment opportunities with rates of return higher than that of their counterparts in developed economies (Ijeoma, 2013).

Writing on the origin and dimension of Nigeria's debt, Nwoke (1990), opines that all the hopes and optimism of economic freedom and development became a mirage after independence. He claims, this was due to the neo-colonial political structures that were put in place by the departing British colonialists before they left. Nwoke also notes that Nigeria's economy was largely an agricultural-base. For its lack of technological know-how, the country could not add value to these products and it had to export them as primary products with little income in return. As a result of the above scenario, it became largely impossible for the government to meet the yearnings and aspirations of the people since its earnings were not enough to feed not to talk of providing the basic necessities like education, good roads, potable water, electricity and so on. The government had no choice like its counterpart in the African continent than to borrow money from the developed nations to carry out economic plans that would bring about positive change in the country. These loans as always come with conditions and economic strategies from the creditors (Nwoke, 1990).

In order to avoid economic problems like inflation, political and social crisis inherent in the period (1980-1985), the government of Shagari opened the gate way to borrowing. Loans were raised primarily to finance a number of projects. Being a loan from private sources, it attracted higher interest rates while the maturity period was shorter. At the end of 1990, the level of total debt outstanding increased more than two-fold from the preceding years level of N1, 265.7 million. Since then more loans have been raised in the private capital market as funds from the bilateral and multilateral institutions dwindled. This caused a remarkable shift in the structure of the debt outstanding and consequent increase in debt burden (Okechukwu & Anele, 2012). Actually, the borrowing was done with the hope that there would be a turnaround in the international oil market perhaps in no distance future. It was equally, hoped that the borrowed fund would be a turnaround in the purchasing of domestic goods. However, the expected turn around did not materialize. Rather it came to a point that the amount borrowed was greater than the national income (Abula & Mordecai, 2016).

As one of the world's major oil producing country, it seemed incongruous that Nigeria became so indebted to many countries and organisations. Nigeria owed the Paris Club about US 32 billion and had total external debt obligations of approximately US 36 billion (Moss, 2004). Not only did Nigeria face a huge accumulation of external debt, but ordinary Nigerians were extremely poor with over 70 percent of the population living below $1 per day (World Bank 2005). All these situation were so in-spite of the country's huge income from oil resources. As a result of mismanagement of the resources, instead of being a blessing it became a curse. While the government failed to manage the resources well to better the living standard of the people, it served as collateral to borrow more money which could not be managed to transform the economy. These loans accumulated overtime and

servicing of the debt led to untold hardship on the citizenry. Yet while other Highly Indebted Countries were considered for debt cancellation, the same oil denied Nigeria this benefit.

The study examine critically the impact of debt management on Nigeria's economy in the face of dwindling oil revenue, bearing in mind the fact that the petroleum sector is the major source of revenue that has been sustaining the Nigerian economy. The paper is divided into nine sections namely; introduction, conceptual overview, theoretical framework and literature review, Nigeria's external debt: a historical overview, Nigeria's debt management office, Nigeria's debt and the influence of oil, Nigeria's external debt management strategies, Nigerian oil-dependent economy and the management of external debt, and conclusion and recommendations.

2. Conceptual Overview

- **Debt:** Debt is created by the act of borrowing. It is resource or money in use in an organization which is not contributed by its owner and does not in any other way belong to them. It is a liability represented by a financial instrument or other formal equivalent.When a government borrows, the debt is a public debt. Public debts either internal or external are debts incurred by the government through borrowing in the domestic and international markets so as to finance domestic investment. Debts are classified into two i.e. reproductive debt and dead weight debt. When a loan is obtained to enable the state or nation to purchase some sort of assets, the debt is said to be reproductive e.g. Money borrowed for acquiring factories, electricity refineries etc. Debt undertaken to finance wars and expenses on current expenditures are dead weight debts. When a country obtains a loan from abroad, it means that the country can import from abroad goods and services to the value of the loan without at the same time having to export anything for exchange(Adepoju, Salau&Obayelu, 2007, p.2).
- **Debt Management:** Debt management which may be defined as policy which seeks to alter the stock, composition, structure and terms of debt with a view to maintaining at any given time, a sustainable level of debt service payment, has become an important issue in macroeconomic management. It involves the planned acquisition, deployment and retirement of external loans drawn either for developmental purposes or for balance of payments accommodation (Ojo 1997). According to United Conference on Trade and Development (UNCTAD), this involves functions relating to policy, regulation, resourcing, recording, analysis, control and operation activities. Debt management can be effective and efficient or inefficient. Efficient debt management involves proper portfolio analysis which among others makes it possible for proper schedule of maturities to be compiled and adhered to in order to avoid bunching and defaults. When appropriate schedule of maturities is in place, debt retirement is made simple and early signals are readily observed when resources are slim and defaults become imminent. This makes it possible for appropriate actions to be taken to prevent serious debt management crises from reaching critical levels (Ogunlana, n.d.).
- **Debt Management Office:** An agency of the government charged with the responsibility of carrying out a critical and holistic assessment of and managing Nigeria's debt portfolio. The creation of DMO consolidated the debt management functions in a single agency, ensuring proper coordination of the country's debt recording and management activities, including debt service forecast, debt service repayments, and advising on debt negotiation as well as new borrowings(Adepoju, Salau&Obayelu, 2007, p.12).

3. Theoretical Framework

The paper anchors its analysis on the dependency theory which originated among scholars from developing countries in the 1970s. The theory was developed and popularized by eminent scholars such as Andre Gunder Frank (1969), Samir Amin (1976), John Galtung

(1972), Fernado Cardoso (1972), Water Rodney (1969), Chinweizu (1974), Claude Ake (1981) and other proponents. The assumption of the theory was based on the implication that economic developments of the less developed countries are dependent on the advanced countries (Mbanwusi, 2011). This theory is based on the assumption that resources flows from a "periphery" of poor and underdeveloped states to a "core" of wealthy states thereby enriching the latter at the expense of the farmer. Dependency theory states that the poverty of the countries in the periphery is not because they are not integrated or fully integrated into the world system as is often argued by free market economists, but because of how they are integrated into the system. The dependency theory gives a detailed account of the factors responsible for the position of the developing countries and their constant and continuous reliance on external aid for their economic growth and development. According to Akin-Aina (1996), studies of political economy generally begin with discussions of inequalities within the international system. These inequalities include, first the uneven distribution of the world's resources between the rich states of the First World and the poor states of the Third World. The second is the uneven rate of development and economic growth within the international economic system, and lastly is the uneven distribution of material wealth within many states of the Third World which is far more uneven than the distribution of wealth within the states of the First World (Ako-Nai & Ayoola, 2013).

Dependency theory posits that the world is divided between the developed centre and underdeveloped periphery. The economic gap widens over time between the two, a situation that has reduced the latter to a state of dependency. The theorists attribute the debt burden to harsh economic policies imposed on debtor nations by International Financial Institutions(World Bank and IMF), the conditionality that put the nation's economy at a disadvantaged position and devastating state. The theory explains the economic dependency of a third world country like Nigeria, which has no control on the price of its product from crude oil extraction and refinery to finished products. This is based on the fact that the First World states that control international economic system control the prices of both the crude oil and the finished products to their own advantage while the producer of the product is always at the mercy of the buyers who dictate price at both ends (Ako-Nai & Ayoola, 2013). Also it explains the dependency of Nigeria on foreign loans as responsible for the accumulation of huge debt and the resultant effect of debt servicing on the socio-economic life of the nation.

4. Nigeria's External Debt: A Historical Overview

The history of Nigeria external debt dates back to 1958 when the sum of $28 million was contracted for railway construction. Prior to 1978, the Nigeria external debt was not much and was sustainable. The Central Bank of Nigeria (CBN) report in 1989 stated that 91.4% of the debt came from official sources and were the concessionary types of loans from bilateral and multilateral agencies. Then, much importance was not attached to debt management by Nigerian Government (Eyiuche, 2003), not only that the economy then had a magnificent growth following the oil boom of the 70's Nigeria foreign debt profile witnessed a dynamic change after 1978 following the world oil glut. Much pressure was then exerted on government finances and it became necessary to borrow for balance of payment support and financing of developmental project. The first major federal government borrowing of US $1 billion from the international capital market (ICM) was referred to as "Jumbo loan" increasing her total external debt to $22 billion. The condition worsened between 1981 and 1982 as various government agencies and state governments resorted to deficit budgeting partly financed through external loans secured from private sources under stiffen conditions (CBN, 1989; Ijeoma, 2013). The Debt Management Office (DMO) annual report and account (2001) reflected a 13.8% fall of official debt sources in favour of the private debt sources which rose again to an average of 82%. Trade arrears emerged by the end of 1982

constituting a large portion of the total external debt of the nation. The jumbo loan of 1987 was supported by the promulgation of decree No 30 of the 1978 which limited the external loans that the Nigerian government could raise to $5 billion (Ijeoma, 2013).

The increase in the size of Nigerian external debt was due to the preponderance of borrowing from international agencies and countries at non concessional interest rate. This borrowing came as a result of the decline in oil earnings from the late 70"s and the emergence of high trade arrears due to inability of the country to neither easily produce nor foot the bills of importation of the needed goods and services.

Nigeria's external debt can be traced back to the pre independence period, though the debt level was minimal until 1978, when the first Jumbo loan of more than $1.0 billion was raised from the International Capital Market (ICM) (Debt management office (DMO), 2004). However, from 1977, the debt stock incurred by the country has been on a steady increase, rising from $0.763 billion in 1977 to $5.09 billion in 1978 and $8.65 billion in 1980, an increase of over 73.96 percent (DMO, 2004). This subsequently rose to $35.94 billion in 2004. Following the debt relief in 2006 Nigeria was advantaged to offset substantial part of its debt but this later started to record an upward trend. According to Amaefule (2015) as cited in (Mbah, Umunna & Agu, 2016), Nigeria's total debt stock as at December 2014 stood at N12.4 Trillion. Despite the huge amount of debts which the country has continued to incur over the years, with the aim of achieving economic growth and development, high unemployment, poverty, and low standard of living is still prevalent in the country, as observed by Aiyedogbon and Ohwojasa (2012) and Nwagwu (2014). The inability of Nigeria to effectively meet her debt obligations has adverse effect on the economy, as interests arrears accumulate over the years, thereby creating a much greater debt burden on the nation resulting in a greater percent of her revenue being spent on debt service arrears. Audu (2004) opined that the debt service burden has continued to hamper Nigeria's rapid economic development and worsened the social problems; this is because debt servicing crowds out investment and growth. Furthermore, Pattilo et al (2002) assert that at low levels, debt has positive effects on growth but above the threshold point accumulated debt begins to have a negative impact on growth. This therefore has informed the need to embark on the present study with a view to empirically analyse the impact of external debt on economic growth rate (as measured by GDP growth) of Nigeria (Mbah, Umunna & Agu, 2016).

The Nigerian national budget has over the years been overly tied to the oil sector, with government revenue and expenditure always fluctuating in line with oil prices and production dynamics. During periods of oil boom, the Nigerian government passionately expanded expenditure and embarked on unguarded new projects in her budgets. When oil prices crashed, the economy suffered intense shock from discontinuity of programmes and projects, resulting in costly and wasteful distortions and dislocations of economic activity. Specifically, Nigeria is currently suffering immensely because apart from the dwindling prices, she is currently losing her major traditional crude oil customers like United States of America and China, while at the same time there are new African markets in Angola, Ghana, Gabon, and Algeria. Several researchers have undertaken studies to evaluate the effect of fluctuating crude oil prices on the Nigerian economy. Experts have argued that with the continuous decline in earned revenue from the national coffers, government's desire to provide tangible and intangible assets and services through the appropriation bill will be greatly impeded (Aremo et al., 2012; Mbah, Umunna & Agu, 2016).

5. Nigeria's Debt Management Office

The debt management office (DMO) was established in 2000. Since then, there has been a change in the approach to public debt management, with anticipation of stress situations – a perspective, which was lacking during previous periods of oil price crash. This

revived the domestic bond market and provided a leeway for the public and private sectors to raise long-term funds. This facility enables the government to conduct counter-cyclical expenditure interventions in times of economic crisis, in a non-inflationary manner, as evidenced during the 2008 – 2010 global economic and financial crises(Amenawo, Atsu, Ajaude & Ibor, 2016).

In other to improve on sustainability of debt management, the Federal Government in 2000 created a debt management office (DMO) to assume more proactive management of commercial debts. Other debt functions were consolidated in this single semi-autonomous debt management office. Proactive debt management involves continuously seeking possibilities to restructure debt by taking advantage of market opportunities (Udoka, 2010). He however, maintained that prior to the establishment of DMO, debt management in Nigeria was characterized by systematic and structural deficiencies, which includes:

- Inaccurate and incomplete loan records,
- Diffusion of responsibilities across numerous agencies,
- Inadequate data recording system and poor information flows across agencies,
- Complicated and inefficient debt service/payment arrangement,
- Low quality human resources and poor incentive system,
- Lack of a coherent, well defined debt strategy. It was against this background that the debt management office (DMO) was created.

The new Debt Management Office is charged with the following responsibilities.

- Maintenance of comprehensive, accurate and timely records of the country's debt;
- Prudent management of the debt portfolio and ensuring its effective servicing;
- Negotiating with, and ensuring debt relief from creditors;
- Assessing and advising government on new borrowing;
- Advising government on national debt strategy and borrowing policy;

Issuance of FGN domestic debt instruments tradable in the capital market and having long term tenure, with a view to depending on the capital market and eliminating the monetary financing of deficits (Nwankwo, 2011; Mbanwusi, 2011).

The DMO conducts a debt sustainability analysis annually and has developed a medium term debt management strategy. These initiatives have, through anticipating possible shocks to the economy, helped to formulate appropriate responses in the event of such occurrences (Nwankwo, 2015). For example, it is in anticipation of oil price crashes that the DMO ensured that Nigeria operates on a borrowing ceiling which is about 60% below the country's peer group threshold. This precaution was evidently non-existent in the past. In addition, since 2008, the DMO has worked with State governments to develop sound debt management practices at the sub-national level with the establishment of similar departments in the 36 States and the federal capital territory (FCT). As a result, States now have accurate data on their debt portfolio. Although this institution-building initiative is still work-in-progress, there is no doubt that Nigeria and the federating States are much stronger in public debt management this time than in the past. To further give State governments some respite, the DMO proposed restructuring of the short-term bank loans into long-term Federal government-backed bonds (Amenawo, Atsu, Ajaude & Ibor, 2016). The objective was to reduce the debt-service ratio outflows of States and free monetary resources to meet other germane services like payment of civil servant salaries, pensions etc. As at 2014, the DMO revealed that twenty three States had submitted formal presentations for the restructuring of these debts and the requests were treated in phases with the first phase consisting eleven States. These States' bank loans were restructured into twenty year federal government of Nigeria (FGN) bonds with effect from 2015, while the second phase had twelve States whose

loans were also restructured into 20 year FGN bonds with effect from September of the same year. In the first phase, fourteen banks were involved in the operations with a total amount being N322.788b, while the second phase had twelve banks with the sum of N252.728b, bringing the total for the twenty three States to N575.516b. The effect of the restructuring was that monthly debt service burden for the States dropped by a minimum of 55% and a maximum of 97% among the 23 States involved. Also, the exercise was beneficial to the banking sector because the balance sheets of the banks involved showed great improvements as poor quality sub-national loan assets were replaced with high quality sovereign assets (Nwankwo, 2015; Amenawo, Atsu, Ajaude & Ibor, 2016).

6. Nigeria's Debt and the Influence of Oil

While Nigeria's creditors continued to hold firm to the belief that Nigeria is a wealthy oil producer, it is important to consider the lack of development and the extreme poverty of the country's population. As shown above, oil has failed to stimulate economic growth and development. The problem was compounded by longstanding mismanagement of the country's oil revenues and the under-development of the sector.

As Atakpu (2003: 4) states, "most of Nigeria's debts were irresponsibly contracted by military dictators who plundered the nation's resources including external loans for selfish ends. It is ironical that Nigeria's most valuable resources added to the country's debt problems. However, Kretzman and Nooruddin (2005: 4) explaining the relationship between oil and debt posit; "increasing oil production and exports lead to increasing debt''. They explain that, the global oil economy improves the ability of countries to make debt payments while at the same time increasing their debt. This is said to be the result of three key factors: (1) structural incentives for, and direct investments in the oil industry by multilateral and bilateral institutions (particularly the World Bank and its sister organizations); (2) Oil fuelled fiscal irresponsibility:- both in the West by creditors eagerness to lend to nations perceived as oil rich, and in the South by unwise fiscal policies; and (3) the volatility of the oil market. The last two factors are particularly pronounced in Nigeria. As Ross (2003: 9) rightly puts it, Nigeria's system of intergovernmental finance is complicated and makes fiscal management extremely cumbersome. According to Kretzman and Nooruddin (2005), while declining oil revenues were the reason for the financing gap, Nigeria's oil resources were also the assets by which the government was able to leverage to secure international loans. Thus, the fact that Nigeria is dependent on oil contributed to the country's accumulation of external obligations and also failure to meet up with repayment schedules(Ako-Nai & Ayoola, 2013).

Nigeria as a country has not actually benefited from the dividends accrued to external borrowing which supposedly is to bridge the saving investment gap as opined by Chenery and Strout (1966) which in turn has the potential to induce economic growth. Surprisingly, the situation of Nigeria is not the case due to the fact that the governments failed on their part to prioritize their expenditures hence venturing into projects that will not yield the kind of development that is needed to boost economic growth, improve the standard of living and poverty reduction due to embarking on unproductive projects (Mbah, Umunna & Agu, 2016).

7. Nigeria's External Debt Management Strategies

External debt management according to Ajayi (2001), refers to the gamut of international and technical arrangements in organizing the external liabilities of a country so that the debt service burden is kept within sustainable level. He maintained that technical aspect of debt management is concerned with the determination of the amount or level of debt the economy can sustain and the conditions of borrowing are on favourable terms and consistent with the future debt servicing capacity. While the institutional aspect include the administrative, organizational, legislative, accounting and monitoring aspect of managing both the new borrowings and old stock of debt. External debt management involve among other things estimate of foreign exchange earnings, sources of external finance, projected returns from the

investment the loans has financed, the repayment schedule and debt service burden, choice of debt instruments, the amount to be borrowed and the currency composition and the terms of the debt service; an assessment of the country's capacity to service existing debt and judgment as to the desirability or otherwise of contracting further loans (Mbanwusi, 2011).

When the seriousness of Nigeria's debt problem became very obvious in the mid -1980s, several measures were adopted to manage the debt. These include: Refinancing of trade debt, Negotiation with the London Club, Paris Club Debt Negotiations, Debt Conversion and Buy-Back Programme, Servicing of Multilateral Debt, Adoption of Guidelines on External Borrowings(Ogunlana, n.d.).

Nigeria is currently implementing the 2016-2019 Debt Management Strategy which addresses many of the concerns arising from the current composition of Nigeria's debt stock and debt service ratios. The rising domestic debt profile was part of an ongoing strategy to deepen the domestic debt market and reduce exposure to exchange rate risk associated with debt contracted in foreign currency. This strategy has yielded good results with the development of several debt instruments; however, the rising cost of servicing domestic debt has led to a realignment of this strategy. This will entail a rebalancing of the debt portfolio from an 84:16 distribution between domestic and external debt to a 60:40 ratio by the end of the 2019 fiscal year. Thus, longer term external financing will form a significant part of Nigeria's debt portfolio going forward(Federal Ministry of Budget and National Planning, 2017).

To mitigate exchange rate risk, new borrowing has been contracted to fund investment projects at concessional rates where possible. Also, projects to be financed with external loans will be those that will support non-oil export, and/or reduce import dependence such that there will be no risk of external debt overhang. Appropriate borrowing limits have been set for new domestic and external borrowing in 2017 to operationalize this objective. In addition, the domestic debt profile is being restructured to smooth out interest and amortization payments. Thus, a domestic debt composition with a 75:25 ratio for long to short term debt has been set for the end of the 2019 fiscal year. In combination with ongoing fiscal strategies to improve government revenues it is expected that debt service costs as a share of revenues will decline.

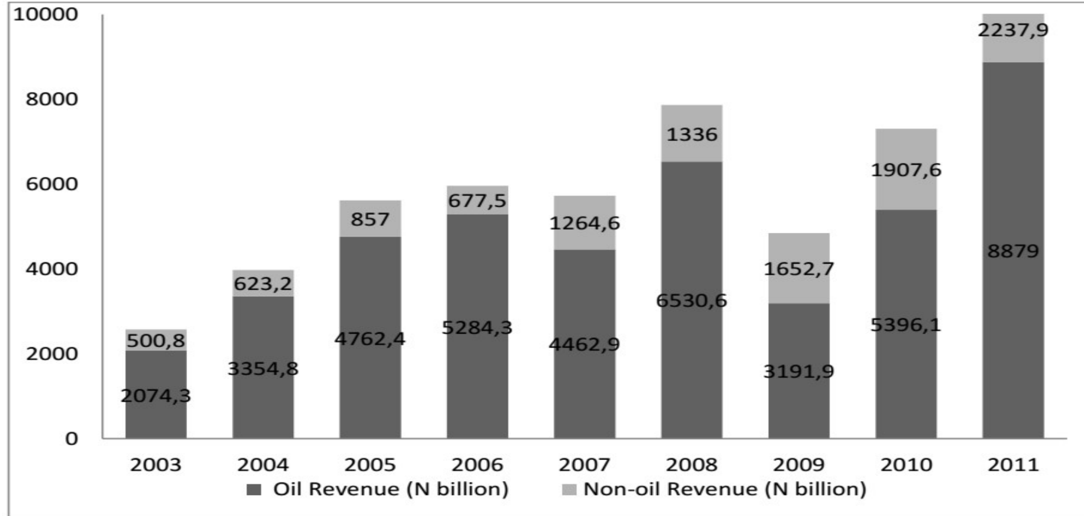
8. Nigerian Oil-dependent Economy and the Management of External Debt

Nigeria's economy can be described as a rapidly growing economy with an average growth rate of 7% in the last decade (World Bank 2013). According to Nigeria's National Bureau of Statistics, the GDP growth rate was 7.43% in December 2011 (First Securities Discount House, 2013). This makes Nigeria the second largest economy in Africa and one of the fastest growing economies in the world. Primary production is oriented around agriculture, mining and quarrying (which include oil and gas) and accounts for more than 65 per cent of real gross outputs and more than 80 per cent of foreign exchange revenues in the year 2011 (National Planning Commission, 2011).

Despite the growth of the service sector, the production of primary commodities has continued to dominate economic activities in Nigeria. The agriculture sector which includes crop production, forestry, livestock and fishery has accounted for most of GDP growth in the recent years (World Bank, 2013). In September 2011, agriculture remained Nigeria's largest sector accounting for 42.62 per cent of GDP (FSDH, 2013); however production levels remain low while growth has been triggered by expanding land. The sector remains primarily informal and production involves the use of simple technologies (National Planning Commission, 2011).Oil, however, accounts for 95% of Nigeria's exports and 75% of budgetary revenues (World Bank, 2013). In the recent years, the oil and gas sector has experienced a decrease in growth. From 2003 to 2011, the growth rate decreased from 23.9 per cent to -0.6 per cent (National Bureau of Statistics, 2012). The share of GDP also

decreased from 25 per cent in 2005 to 16 per cent in 2010 according to the National Planning Commission (National Planning Commission, 2011). The manufacturing sector, which includes cement, iron, steel and oil refining, has been targeted by the Federal Government as a priority for many years. Secondary activities including manufacturing and building and construction, have contributed a mere 4.14 per cent to foreign exchange and government revenue (National Planning Commission, 2011). According to the National Bureau of Statistics, the subsector accounts for about 10 per cent of total GDP annually and 12 per cent of the labour force in the formal sector (National Bureau of Statistics, 2010).

Figure 1: Federal-Collect Revenue from 2003 to 2011



Source: CBN Annual Report 2006, 2007 & 2011 as cited in Igberaese, (2013).

With more than 65 per cent of Nigeria's Federal-collected revenue coming from oil in the last decade, Nigeria's fiscal policy remains heavily influenced by the oil industry and its volatile movement. According to the IMF, beginning in 1970, Nigeria's revenue and expenditures followed a similar pattern to oil prices. In periods of high oil prices such as 1979-1982, 1991-1992, 2000-2002 and 2005-2009, revenue and expenditures also experienced sharp increases (IMF, 2003). Consequently, when oil prices subsided after the booms, Nigeria's revenue decreased as well as indicated by the figure above.

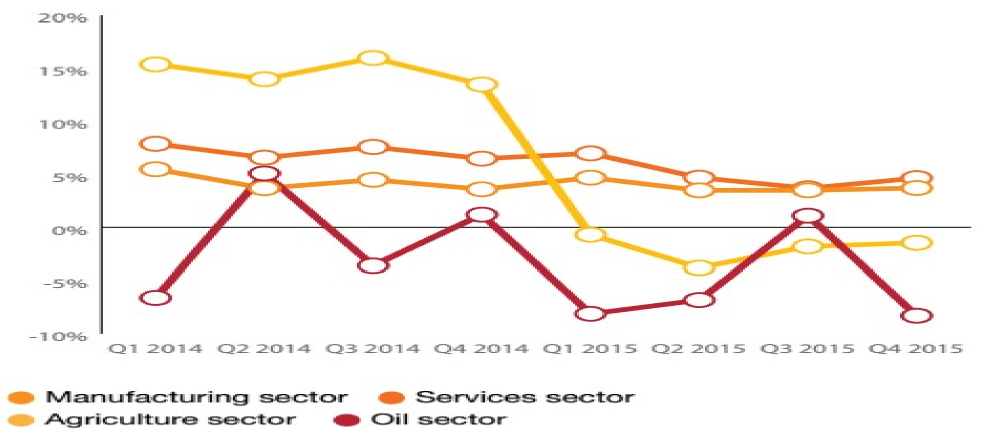
That the Nigerian economy has become compulsively an oil dependent economy is evident as crude oil sale has for decades accounted for about 80% of total revenue accruable to the federation account, 95% of foreign exchange earnings, 15% of the GDP and 4% of total employment (Agbaeze, Udeh & Onwuka, 2015). As a result of the above, any major shock in the international crude oil market negatively affects the Nigerian economy. Despite the above trend, Nigeria's crude oil production has declined consistently since December 2013. This has been compounded by the decline in crude oil price which is now well below the $38 per barrel budget benchmark for the2016 budget.

As stated above, the Nigerian national budget has over the years been overly tied to the oil sector, with government revenue and expenditure always fluctuating in line with oil prices and production dynamics. During periods of oil boom, the Nigerian government passionately expanded expenditure and embarked on unguarded new projects in her budgets. When oil prices crashed, the economy suffered intense shock from discontinuity of programmes and projects, resulting in costly and wasteful distortions and dislocations of economic activity. Specifically, Nigeria is currently suffering immensely because apart from the dwindling prices, she is currently losing her major traditional crude oil customers like

United States of America and China, while at the same time there are new African markets in Angola,Ghana, Gabon, and Algeria. Several researchers have undertaken studies to evaluate the effect of fluctuating crude oil prices on the Nigerian economy. Experts have argued that with the continuous decline in earned revenue from the national coffers, government's desire to provide tangible and intangible assets and services through the appropriation bill will be greatly impeded (Aremo et al, 2012).

Nigeria's economy grew by 2.7%y/y in 2015, which represents the slowest growth in the past five years, much lower than the 5-year real GDP average of 4.8%y/y. Real growth decelerated sharply to 2.1%y/y in Q4'15, reflecting the weakest quarterly performance following a contraction in growth across industries and moderation in the services sector (77% of GDP). Despite slowing significantly, Nigeria's economy remains driven by the non-oil sector which recorded growth of 3.7%y/y (2014: 7.1%y/y) as the oil sector continues to underperform. Real growth in the crude petroleum and natural gas sector was -5.4%y/y in 2015, even as oil exports declined c.49%y/y in 2015. Excluding this sector, the performance of the manufacturing sector was unimpressive with real growth at -1%y/y (2014:15%y/y) with the sector plagued by the deteriorating operational and macro backdrop; largely the impact of Foreign Exchange (FX) unavailability on raw materials and intermediate inputs (PWC, 2016).

Figure 2: Sector Real GDP Growth Rate (2014-2015)



Source: PWC (2016)

Figure 3: Real GDP Growth Rate (2011-2015)

Source: PWC (2016)

The difficulty of Nigeria to effectively meet her debt obligations have had adverse effect on the economy, as interests arrears accumulate over the years, thereby creating a much greater debt burden on the nation resulting in a greater percent of her revenue being spent on debt service arrears. In congruence to the above, Audu (2004), opined that the debt service burden has continued to hamper Nigeria's rapid economic development and worsened the social problems; this is because debt servicing crowds out investment and growth. Furthermore, Pattilo et al (2002) assert that at low levels, debt has positive effects on growth but above the threshold point accumulated debt begins to have a negative impact on growth. This therefore has informed the need to embark on the present study with a view to empirically analyse the impact of external debt on economic growth rate (as measured by GDP growth) of Nigeria (Mbah,Umunna & Agu, 2016).

The debt overhang theory of Krugman (1988), posits that huge borrowing leads to high indebtedness, debt traps and slow down of economic growth. According to him, accumulated debt stock results higher tax (tax disincentive) on future output and thus crowds out private investment. This means that due to large debt stock, potential investors would be discouraged on the expectation that government may finance its debt service obligation by imposing high taxes and this would further retard the growth of the nation. The importance of the debt overhang theory more or less cannot be over emphasized. According to Audu (2004) in (Mbah,Umunna & Agu (2016, p.4):

> the debt service burden has militated against Nigerian’s rapid economic development and worsened the social problems. Service delivery by key institutions designed to mitigate the living conditions of vulnerable groups were hampered by decaying infrastructure due to poor funding. By cutting down expenditure on social and economic infrastructure, the government appears to have also constrained private sector investment and growth through lost externalities. This has reduced total investment, since public investment is a significant proportion of the total investment in the country.

Nigeria has not actually benefited from the dividends accrued to external borrowing which supposedly is to bridge the saving investment gap as opined by Chenery and Strout (1966), which in turn has the potential to induce economic growth. Surprisingly, the situation of Nigeria is not the case due to the fact that the governments failed on their part to prioritize their expenditures hence venturing into projects that will not yield the kind of development that is needed to boost economic growth, improve the standard of living and poverty reduction due to embarking on unproductive projects (Mbah,Umunna & Agu, 2016).

Nevertheless, the current dwindling in oil price since June 2014, after five years of oil windfall, has immensely affected the economy of Nigeria. Another huge blow to an oil dependent economy like Nigeria was America's reduction in the number of barrels they import from nations. Over dependence on oil revenue over the years has distorted and discouraged sourcing of funds from other source by the government, for example, as a result of huge oil revenue flows; Nigeria de-emphasized income taxes as a source of government revenue. Besides, low tax ratios and high consumption expenditures reinforce inflationary tendencies with regard to expenditure; government pay less or no attention to infrastructural development, encouragement of private sector investment, mechanizing the agricultural and manufacturing sector of the economy because of reliance on petroleum revenue. The realisation of the impact of the dwindling oil prices in the international market on the economy and development of Nigeria has made most of the state governments to turn to taxation in order to shore up their revenue base to enable them meet up with some of their responsibilities in finance critical infrastructural projects and also to avoid government shutdown. Tax evasion in most developing countries is worsens by the day as a result of the fact that governments have not made required effort to arrest the situation. Hence required revenue for the governance of the countries cannot be raise leading these countries into borrowing and public debt (both internal and external) which in turn not only crowd out the private sector of their economies, but also lead them to debt traps (Chiuma, 2006; Saidu & Dauda, 2014).

The dwindling oil revenue coupled with the evasion of tax by most citizens has hampered the government in their effort to meet up with their constitutional obligations. It has created avenue for most states and federal governments to resort to borrowing and mortgage the future of young Nigerians. Also the issue of corruption and hording of money as a result of failure of people to pay their tax, they are then forced to declare false income and horde their real income. The impact of the dwindling oil revenue on external reserve cannot be over-emphasised as Nigeria's external reserves has continuously be under pressure due to declining dollar receipts. The implication of the dwindling oil price on Nigerian economy which runs mainly on a single commodity is dire and the consequences can be seen in her rising debt profile and the recession which Nigeria fell into and is struggling to come out it. The external debt does not play any important role in the development process of Nigeria and has been unproductive in terms of its contribution to the Nigerian economic development due to mismanagement and embezzlement of public funds, corruption and challenges of debt sustainability. The servicing of external debt is detrimental to Nigeria as funds that should have been put into investment in the economy are been used in servicing the debt. Hence, external debt is no means through which the growth and development of the country can be stimulated.

9. Conclusion and Recommendations

The Nigerian national budget has over the years been overly tied to the oil sector, with government revenue and expenditure always fluctuating in line with oil prices and production dynamics. The creditor nations used debt as an imperialist and neo-colonial instrument, to maintain the dependent nature of the poor debtor nations. The debt relief granted Nigeria, was designed to make sure we remained in debt within a medium term range. As well, rescheduling arrangements often structured in way that the debt will still have to be paid back in future with the interest charges. This underlined the attitude of the creditors in Nigeria's debt problem (Mbanwusi, 2011). Despite the effort of the DMO to manage the Nigerian debt profile, the government has continued to borrow with the same reason given by past governments that the funds are to be used for developmental projects and investment, while

the country is still suffering from infrastructural decay, outdated social amenities and weak institutional arrangement. In line with the above, the paper put forward the following recommendations.

1. It is important that Nigeria, through its Debt Management Office, rearrange and prioritize debt management strategies in reducing the Nigeria's foreign debt stock.
2. There should be institutional reform to address the ways and manners the federal and states governments borrow and utilised the borrowed fund.
3. Government should try as much as possible to circumvent all forms of borrowing however; borrowing should only become an option when high priority projects are being considered.
4. Government should ensure that borrowed funds are channelled towards projects that would stimulate the Nigerian economy.
5. The DMO should make policies that will ensure that borrowed funds are properly invested and monitored for accountability and transparency.
6. Government should create enabling social-economic environment that will promote industrialization which will in turn attract foreign direct investment.

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