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EVALUATION OF NIGERIA'S DEBT-RELIEF EXPERIENCE (1985-1990)

by

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RÉSUMÉ

Pendant les années 70 des bénéfices pétroliers très soutenus ont permis au Nigéria de connaître un accroissement considérable, mais non durable, de ses revenus et de ses dépenses publiques. L'agriculture fut négligée et l'économie devint étroitement dépendante du pétrole brut et moins résistante aux chocs extérieurs. Ceci a profondément modifié les structures de l'économie nigériane. Au début des années 80, l'excès de l'offre sur les marché pétroliers a provoqué une effondrement des cours du pétrole et le pays se trouva confronté à une grave crise économique. Face à ces imprévisibles coups du sort et incapable de ralentir le processus économique en cours, le gouvernement dut recourir à l'emprunt extérieur et au lieu d'une politique d'ajustement il adopta une politique de financement du déficit. Les déficits furent financés par des prêts sur le marché international des capitaux (MIC), par un tirage massif sur les réserves extérieures et par une accumulation des arriérés de paiement du commerce extérieur. Le stock de la dette augmenta rapidement, passant de 3.4 milliards de dollars en I980 à 17.3 milliards en 1985 pour atteindre 32.9 milliards en 1990.

En 1986, le gouvernement a adopté un programme d'ajustement structurel et sollicité l'aide financière internationale pour entreprendre un redressement de l'économie. L'assistance est venue des créanciers, spécialement sous forme d'un rééchelonnement de la dette. Entre 1986 et 199I une série d'accords sur le rééchelonnement de la dette furent signés avec les créanciers des Clubs de Paris et de Londres. Si de telles procédures de rééchelonnement de la dette ont constitué un allègement financier, cet allègement restait néanmoins très limité car les conditions de ces accords n'étaient pas préférentielles: elles n'étaient pas assorties de nouveaux prêts ni de réduction du stock de la dette. Un programme de conversion de dette fut mis en place en 1988 et entre 1988 et avril 199I, un montant de 574.6 millions de dollars fut converti et soustrait de la dette totale. Ceci peut être considéré comme un exploit mais eut une portée insignifiante étant donné l'énormité du stock de la dette nigériane. En 1989/90, le Nigéria bénéficia également d'une annulation de 107.2 millions de dollars de sa dette de la part du Canada et des États-Unis. Dans l'ensemble ces diverses mesures ont contribué au financement du programme de réforme économique mais elles ont été absolument insuffisantes pour une application réussie de ce programme.

SUMMARY

Buoyant oil revenues in the 1970s provided Nigeria with the basis for large but unsustainable increases in incomes and public expenditure. Agriculture was neglected and the economy became heavily dependent on crude oil and more vulnerable to external shocks. These led to fundamental changes in the structure of the Nigerian economy. When the oil revenues collapsed following the glut in international oil market in the early 1980s, the country faced an acute economic crisis. Unable to shift gears in the face of changing economic fortunes the country resorted to external borrowing. Instead of adjusting, the government adopted a policy of deficit financing. The deficits were financed

by borrowing from international capital markets (ICM), a drawn-down of external reserves, and by accumulation of arrears on external trade payments. The debt stock grew rapidly from $3.4 billion in 1980 to $17.3 billion in 1985 and $32.9 billion in 1990.

In 1986, the government adopted a structural adjustment programme and appealed to the international community for financial assistance to help revive the ailing economy. Assistance from the creditors came mainly in form of debt rescheduling. From 1986 to 1991, a series of debt rescheduling agreements were signed with the Paris and London Clubs of creditors. Such debt rescheduling provided financial relief; the relief was, however, severely limited because the terms of the rescheduling were not concessional; the rescheduling was not accompanied by new money and did not lead to debt stock reduction. A debt conversion programme was instituted in 1988, and from 1988 to April 1991, a total debt of $574.6 million was converted and eliminated from the debt stock. This was an achievement, though compared with Nigeria's huge debt stock it was insignificant. Nigeria also benefited from debt cancellation, worth $107.2 million, by Canada and the United States in 1989/90. On the whole, these various measures assisted in financing the economic reform programme, but fell by far short of the assistance required to implement the programme successfully.

PREFACE

Nigeria, one of the world's largest debtors, with a long-term public external debt of over \$30 billion, came back to negotiations with Paris Club members and commercial banks in 1986, after a period of huge arrears problems at the beginning of the 1980s. Since then, this country, being highly indebted to both official and private creditors, has negotiated three Paris Club and two London Club rescheduling agreements. This traditional arsenal of debt-relief policies has been supplemented by a debt-equity swap programme launched in 1988. Finally, Nigeria is also expected to complete soon a Brady-like accord with commercial banks.

N.E. Ogbe, a former Director of Research at the Central Bank of Nigeria, provides here a useful picture of these numerous and complicated debt-relief episodes, based on first-hand information and experience.

The traditional practice of debt rescheduling has provided little help to Nigeria in carrying out the painful economic reform on which it has embarked on the World Bank's advice. In particular, confidence of financiers has not been restored, in spite of some improvement, and banks have provided little new money. Thus, despite a significant reduction of debt service actually paid after rescheduling, Nigeria has received negative net transfers on long-term debt in recent years.

The scope of the debt equity swap programme was necessarily limited, in particular because of inflationary pressures which it would have created otherwise. This programme has nevertheless provided a 5 per cent reduction of the commercial debt. It has had significant additionality effects and has certainly contributed to the investment recovery process observed in recent years. Cautious innovations in the debt-management strategy, based on market solutions, seem therefore to be productive. The main test for this Nigerian strategy, however, is still ahead: the financial strength of Nigeria will depend to a large extent on the success or the failure of its comprehensive Brady-like programme, aimed at restructuring its whole commercial debt stock.

Louis Emmerij
President, OECD Development Centre
March 1992

INTRODUCTION

Evaluation of Nigeria's Debt-Relief Experience

The oil boom of the 1970s brought with it fundamental changes in the Nigerian economy. The main aim of the Nigerian policy makers during this period was to use the growing oil revenue to invest in social, physical and economic infrastructure. While significant progress was made in a number of areas, many public investments were later found to be unviable, while others were beyond the capacity of the government and its agencies.

Generally, the policies pursued led to structural changes which caused substantial price distortions in the economy, and made the economy more vulnerable to external shocks. The economy became heavily dependent on crude oil. By the beginning of the 1980s, the oil sector accounted for 22 per cent of GDP, 81 per cent of government revenue, and some 96 per cent of export earnings. The country's production and consumption became highly dependent on imports. The oil wealth encouraged conspicuous consumption of imported goods. Nigeria even became a major food importer. In addition the policy incentives and control of manufacturing ventures were based on imported inputs.

The competitiveness of the agricultural sector — the main source of GDP and export earnings before the oil boom — was eroded by the inappropriate pricing policy and rural-urban migration. Agriculture's share of GDP fell sharply from about 40 per cent in early 1970s to 20 per cent in 1980. Finally, the flow of oil money to the government led to substantial increases in public sector involvement in economic activities. The sector's involvement in economic activities became so pervasive that it accounted for about half the GDP and two-thirds of modern sector employment in 1980. By that year there were about 110 commercial and 70 non-commercial Federal parastatals, many of which needed the government to cover operating losses. The State governments also expanded their economic activities, having also created a large number of parastatals. The apparent affluence at the time blinded the nation to the precarious economic situation. It only needed the glut in the international oil market in the second half of 1981 to expose the shortcomings of the existing economic policies and the unpreparedness of the government to tackle realistically a fundamental economic problem.

I. THE DEBT PROBLEM - ORIGIN, CHARACTERISTICS AND IMPACT

When the oil boom finally burst during the second half of 1981 as a result of the glut in the international oil market, the seriously maladjusted economy, with price distortions, an overvalued currency, and heavily dependent on imports, was ill-equipped to cope with a prolonged period of depressed world oil prices. The sharp fall in oil prices and dramatic reduction in domestic oil production led to a sharp deterioration in the balance of payments and government finances. While the growth of merchandise exports (mainly crude oil) averaged 11.4 per cent a year between 1965 and 1980, it actually declined by an average of over 6 per cent a year between 1981 and 1986. There was a dramatic decline in the country's foreign reserves from $10 billion in 1980 to $3.9 billion in 1981 and to a little over $1 billion in 1986, as the balance of payments swung from a huge surplus of $4.4 billion in 1980 to a deficit of over $5.6 billion in 1981 and $2.6 billion in 1982.

Instead of adjusting, the government adopted a policy of financing the deficits. The deficits were financed by borrowing, drawing-down of external reserves, and a large-scale accumulation of arrears on external trade payments. The expansionary monetary and fiscal policies as well as the exchange rate and pricing policies had adverse consequences in the form of inflation, overvaluation of the naira, encouragement of imports, discouragement of production for export, and capital flight. The source of government borrowing added to the problem. Having seen that the assistance from the traditional sources (bilateral and multilateral institutions) could not meet its needs, the government resorted to the international capital market (ICM) for loans. The loans had medium-term maturities with higher and variable interest rates.

The shift in the term-structure of the country's external debt — shortened loan maturities — created the problem of bunching up of debt service obligations. Bunching up in turn increased the rate of default and the rapid build up of payment arrears. Furthermore, it should be noted that much of the increase of the external debt since 1985 is due to the high and variable interest rates on ICM loans capitalising the interest which could not be paid on the existing debt stock.

The government's reaction during the initial phase of the problem was based on the expectation that the crisis would be temporary, in part because the international financial community was yet to perceive the global debt problem in its proper perspective. With the rapid accumulation of trade and payment arrears beginning in 1982, lines of credit gradually dried up.

Meanwhile the stock of external debt rose rapidly from $4.6 billion in 1980 to $18.6 billion in 1986; this included the trade arrears accumulated in 1982 and 1983 amounting to $6.9 billion. The debt stock mounted to $29.7 billion by 1988 and $32.9 billion at the end of 1990. Of the $32.9 billion debt outstanding at the end of 1990, $17.1 billion was owed to official creditors who were members of the Paris Club, $5.9 billion to The London Club of creditors, $3.7 billion to multilateral financial institutions, mainly the World Bank group, $4.8 billion in the form of promissory notes issued by the Central Bank of Nigeria in respect of rescheduled, uninsured trade arrears, while other creditors accounted for the balance of $1.7 billion.

The magnitude and gravity of the country's debt burden is seen more clearly by reference to certain debt ratios. For example, external debt as a ratio of GDP rose from 21.9 per cent in 1985 to 93.6 per cent in 1987 and 159.2 per cent in 1989, declining to 110.35 per cent in 1990 (see Table 1). The ratio of debt service payments to the value of exports of goods and services (debt-service ratio) rose from 0.7 per cent in 1980 to 33.1 per cent in 1985, and thereafter the ratio fell below 30 per cent due to debt rescheduling and accumulation of arrears on debt-service payments. In the absence of debt rescheduling and accumulation of arrears, the ratio would have been over 75 per cent in 1986 and 81 per cent in 1988. The ratio of debt stock to earnings from exports of goods and services increased from 44.7 per cent in 1980 to 137.7 per cent in 1985, and 428.3 per cent in 1988. In 1989 and 1990, the ratio was 399.7 per cent and 223.4 per cent respectively.

Impact of the Debt Problem

As already indicated, the need to protect the balance of payments and stop further accumulation of trade arrears led to drastic cuts in imports. Moreover, debt servicing absorbed a significant portion of available foreign exchange resources, leaving very little for procuring imports necessary to service the economy. For example, imports were reduced from the 1981 peak of about $18 billion to only $8.3 billion in 1985. Import cuts led to sharp reductions in development projects and industrial production. Capacity utilisation averaged less than 25 per cent in 1986. Real GDP had an average annual growth rate of 8 per cent between 1965 and 1980; but, with the exception of 1985, real GDP growth rates were negative from 1982 to 1986. These led to curtailment of domestic output and a fall in national income, which in turn led to scarcity of goods and services, and spiralling inflation. Poor economic performance increased unemployment and aggravated social problems.

On recognising that the oil glut and economic crisis it unleashed were not transitory, the government adopted a macroeconomic strategy designed to stabilize the economy, stem inflation and protect the balance of payments. From 1982 to the end of 1985, tight monetary and fiscal policy measures were aimed at reducing money supply and budget deficit, drastically cutting imports, and cutting public and civil service wage bills. The austerity measures which helped to stabilize the economy somewhat, had very serious adverse socio-economic consequences.

The control measures were quite unsuccessful with regard to the fundamental structural deficiencies of the economy, of which the most important were the over-dependence on crude oil for foreign exchange and government revenue, the excessive dependence on imports, the overvalued naira, the perennial weakness of the agricultural sector, and the pervasive and excessive role of the government in the economy.

A policy change came with the military administration that came to power on 27 August, 1985, under the leadership of President Babangida. The new government recognised that austerity measures without structural adjustment were an inadequate response to the fundamental economic and financial problems confronting the country. Thus in July 1986, the Babangida Administration decided to move from "austerity alone" to austerity with structural adjustment, and seek the support of the international financial community for the programme.

The structural adjustment programme (SAP) adopted (July 1986 - June 1988) had the following objectives:

(a) to restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports;

(b) to achieve fiscal and balance of payments viability over the medium term;

(c) to lay the foundation for a sustainable non-inflationary (or minimal inflationary) growth;

(d) to lessen the dominance of unproductive investments in the public sector, and stimulate the growth potential of the private sector.

Thus the SAP envisaged not only the strengthening of demand management policies but also adopting measures to stimulate domestic production and broaden the supply base of the economy. Other key elements of the SAP were the adoption of a realistic exchange-rate policy, rationalisation and restructuring of tariffs to promote industrial diversification, promotion of trade and payments liberalisation, and abolition of the complex administrative controls.

II. DEBT-MANAGEMENT STRATEGY AND DEBT RELIEF

One of the earliest steps of the Nigerian government on debt management was taken in 1970 after the Civil War, when the external loans (Rehabilitation, Reconstruction and Development) Decree was promulgated. The Decree put a ceiling of 1 billion naira on external borrowing for reconstruction, rehabilitation and development, including on-lending to the State governments. Moreover, the loans were to be obtained only from bilateral and multilateral sources. In 1978, the limit of 1 billion naira was raised to 5 billion naira under Decree 30 of that year, because of the need to borrow for balance-of-payments support and to increase the pace of development. Authority to borrow from external sources, however, was vested only in the Federal Ministry of Finance; State governments and other agencies were allowed to borrow externally only after the due approval from the Federal government. This was necessary to ensure proper co-ordination and monitoring.

However, the civilian administration under Alhaji Shehu Shagari, which came to power in October 1979, granted the state governments authority in 1980 to raise external loans to a maximum of 200 million naira each, in any one year, without having to seek Federal government approval or guarantee. This led to very serious abuses and excesses, resulting in much of what now constitutes Nigeria's debt problem. Worried about the phenomenal increase in external debt stock between 1981 and 1984, the government, imposed a temporary embargo on external borrowing in 1984, except for projects considered absolutely essential to the public interest. In the same year, the government fixed a ceiling of 30 per cent of total export earnings that could be utilised for external debt servicing.

In February 1988, the most comprehensive external borrowing policy guidelines were issued by the Federal government. The guidelines set forth procedures for orderly acquisition, monitoring and servicing of external loans. Under the new policy, authority for granting approval for external loans was once again vested in the Federal Ministry of Finance and Economic Development.

The guidelines include the following:

(a) For projects in the economic sector, the internal rate of return should be computed and must be at least as high as the cost of borrowing; projects in the area of social services or infrastructure would be ranked on the basis of cost/benefit ratios.

(b) Projects to be financed with external loans must be supported by feasibility studies.

(c) External loans required by the private sector and public sector projects that were of a commercial nature might be obtained from the international capital market.

(d) All loans being obtained externally by the federal agencies, states and the private sector must receive Federal government approval.

(e) Down payment and counterpart funding required in external loans should be deposited in an account, preferably before the loan agreement is signed so as to avoid the perennial problem of payment of commitment charges before the loans are disbursed.

(f) Loan agreements should contain a provision that makes it mandatory to send information on drawings to the Federal Ministry of Finance and

Economic Development.

(g) Beneficiaries of foreign loans should service their debt regularly through the Foreign Exchange Market (FEM) and promptly inform the Federal Ministry of Finance and Economic Development for purposes of record.

(h) As for private sector loans, export-oriented industries were directed to service their debts from their export earnings while others were to use FEM facilities.

Apart from the external borrowing policy and other debt-management policy actions described above, debt management had been concentrated on three strategies. These were debt refinancing, debt restructuring and rescheduling, and debt conversion. In other words, the government had sought debt relief through these debt-management strategies.

Refinancing

The steep increase in short-term external debt, especially in the form of trade arrears, between 1982 and 1983 became a source of serious concern. Also during this period, Nigeria's foreign creditors had started to refuse to open new lines of credit. The government decided to seek debt relief through refinancing. Thus under an agreement reached in July 1983, the arrears in respect of confirmed letters of credit outstanding as of 13 July 1983 were refinanced. Under the agreement, claims totalling $2.112 billion (1.5849 billion naira) were refinanced.

The main features of the agreement included a six-month grace period and repayment period of two and a half years beginning from January 1984. Interest rate was fixed at LIBOR plus 1.5 per cent. Full repayment was made in July 1986. In spite of the refinance exercise, trade arrears continued to mount. With the objective of seeking further relief, the government decided to refinance the uninsured trade arrears (those on open account, bills for collection, unconfirmed letters of credit and some invisible trade transactions) by issuing promissory notes.

Thus the uninsured trade arrears worth $4.8 billion were refinanced by promissory notes between 1984 and 1988. The terms of the agreement, according to the Trade Debt circular of 18 April 1984, provided for a maturity period of six years, including a grace period of two and a half years. Interest was set at LIBOR plus 1 per cent. The notes were to be redeemed in 14 equal quarterly instalments with effect from October 1986. The notes could also be redeemed in local currency (naira) on terms agreeable to the Nigerian authorities.

Stock of Promissory Notes Issued 1984-1988

(US $ Million)

1984	258.5
1985	1 050.1
1986	202.1
1987	1 684.4
1988	650.8
	3 845.9

Capitalised interest	1 045.4
Total	4 891.3

Debt Rescheduling

Since 1986 Nigeria has relied more on debt rescheduling than any other strategy to obtain debt relief and reduce the debt service burden. This required the support of the IMF and the World Bank. Therefore, the government adopted a rigorous structural adjustment programme of an IMF/World Bank type which induced the two international financial institutions to give their stamp of approval. The World Bank supported the programme in 1986/87 with a trade and investment policy loan of $450 million and with a similar loan in the amount of $500 million for 1988/89. The IMF also gave its support through two successive stand-by arrangements. The assistance of the two institutions formed an important plank of the debt management and debt relief strategy. Their support permitted the Nigerian government to combine debt management with economic adjustment measures, while enabling the country to maintain a regular dialogue with the various creditor groups with the objective of normalising relations with them, and securing debt relief through debt rescheduling on terms consistent with the realities of the country's external finances.

In 1986, the government sought assistance from the external creditors to help finance the structural adjustment programme. In November of that year it reached an agreement with the London Club, representing commercial creditor banks, to reschedule $1.7 billion medium- and long-term (MLT) debt, maturities falling between April 1986 and December 1987, and $2.2 billion in arrears on letters of credit outstanding as of 26 September 1986. This was to be repaid from 1988 to 1990 while the MLT was repayable from April 1990 to March 1996 (see Table 4). Interest payable on the rescheduled MLT and letters of credit was LIBOR plus 1.25 per cent. Late interest was treated differently. For instance, the late interest in respect of letters of credit ($550 million) was to be repaid according to the following schedule: December 1987, 10 per cent, January to March 1988, three equal payments of 10 per cent; the remaining 60 per cent was to be repaid in equal instalments between April and October 1988.

Agreement was also reached in December 1986 with the Paris Club representing creditor governments and official credit agencies. The Paris Club agreed to reschedule debts totalling $6.1 billion (excluding late interest). The $6.1 billion comprised public and publicly guaranteed MLT, $3 billion; letters of credit, $500 million; and insured trade arrears, $2.3 billion (see Table 5). The interest rate was negotiated bilaterally with the various creditor governments. On average the rate was about LIBOR plus 0.5 per cent. The late interest in respect of insured trade arrears ($470 million) was capitalised up to the end of 1986, and repayment terms made the same as for the principal. Regarding the public and publicly guaranteed MLT, the late interest ($129 million) was excluded from the consolidation and was to be repaid by a date to be agreed in bilateral negotiations, while the late interest in respect of letters of credit ($50 million) was to be repaid by 15 November 1987.

Refinancing, restructuring and loan facility agreements were signed with the London Club in November 1987.

As the country had a continuing weak balance-of-payment position, the government was unable to meet the payment terms of the agreement. It therefore approached the London and Paris Clubs for new rescheduling agreements. Thus a new set of agreements was signed with the London Club in March 1989. Under the agreements, which came into effect on 7 June 1989, the banks agreed to restructure all debts due to them, totalling $5.9 billion. This comprised $500 million of payable debt (i.e interest charges and commission payable on letters of credit); $2.5 billion of letters of credit arrears rescheduled earlier for four years under the 1987 agreement, and $2.5 billion of medium- and long-term debt (due over the next 8 years), of which $1.7 billion had been rescheduled under the 1987 agreement. The rescheduled medium- and long-term debt was to be repaid in 20 years, including a three-year grace period, at an interest rate of LIBOR plus 7/8 per cent per annum (see Table 4a). The repayment period of the trade credit was 15 years, including a three-year grace period, while the payable debt was to be repaid in three years with zero interest and no grace period.

Agreement on rescheduling terms was also reached with the Paris Club in March 1989. Under the agreement, payments due from 1 January 1989 to 3 April 1990, plus the amounts due as of 31 December 1988 which were not paid and late interest charges, all amounting to $5.7 billion, were all rescheduled. Specifically, these consist of $2.8 billion of medium- and long-term debt, $2.4 billion of refinanced letters of credit and $0.5 billion of payable debt (see Table 5a). For the medium- and long-term debt, the repayment period was from 1992 to 2008, with a three-year grace period, while the interest rate which was bilaterally negotiated averaged about LIBOR plus 0.5 per cent. The refinanced letters of credit debt was repayable from 1992 to 2003 after a three-year grace period. The repayment period for the payable debt was three years with no grace period.

As a result of the rescheduling agreement with the London Club, payments to the Club members in 1989 were reduced to $797 million from the $1.7 billion that was due originally under the 1987 agreement. Similarly, the agreement with the Paris Club had the effect of reducing payments to the Club in 1989 to $410 million from the $2.2 billion payable without the agreement (1). Also the various reschedulings (1986-1988) were said to have reduced Nigeria's debt obligations due in 1988 by $2.4 billion, from $5.6 billion to $3.2 billion (2).

Debt-Service Profile

	(US $ million) 1988
A. Total debt due:	5 584
Interest	2 189
Principal	3 395
B. Total due after (1986-1988) reschedulings:	3 171
Interest	1 688
Principal	1 483

Since Nigeria had been unable to meet the terms of the agreement on promissory notes of 1984 (as amended in 1987), the promissory-notes debt totalling $4.8 billion was rescheduled effective January 1988 over a period of 22 years, including a two-year grace period. The rate of interest was fixed at 5 per cent.

On 18 January 1991, Nigeria reached another agreement, the third rescheduling agreement, with the Paris Club.

Under the agreement, Nigeria's debts were rescheduled on terms applicable to medium-income heavily indebted countries "of the lower category" (3). Congo, Morocco, Honduras and El Salvador had earlier been accorded the same treatment by the Club.

1. Debts totalling $3.2 billion were rescheduled as follows:

   (a) $1.8 billion, representing 100 per cent of principal and interest on non-previously rescheduled debts due for payment between 1 May 1990 and 31 March 1992 were rescheduled for 15 years, including an eight-year grace period.

   (b) $1.4 billion, representing 100 per cent of principal and interest on debt rescheduled in 1986 and maturing between 1 January 1991 and 31 March 1992, were further rescheduled for 8 years, including a four-year grace period.

2. Also, official development assistance (ODA) loans not previously rescheduled were to be rescheduled for 20 years, including a ten-year grace period. The consolidation period was 1 May 1990 to 31 March 1992.

Arrears as at 30 September 1990 were to be repaid at the latest 28 February 1991, while arrears as at 31 December 1990 were to be paid at the latest 31 May 1991. Bilateral agreements were to be concluded by 31 August 1991. Interest rates on the amounts rescheduled would be based on appropriate market rates.

For the first time, a debt conversion option on a voluntary basis was introduced into a rescheduling agreement with the creditors as follows:

1. For commercial credits, 10 per cent of the amount outstanding as at 31 December 1990, subject to a maximum of $20 million, could be converted under the Nigerian Debt Conversion Programme. Such conversion could be for any of the following purposes: debt for equity, debt for nature, debt for aid and debt for local currency.

2. In the case of ODA loans, 100 per cent of the amount outstanding as at 31 December 1990 could be converted.

In March 1990, Nigeria put forward a proposal for debt-service reduction before the London Club which opened up a long series of negotiations.

On 1 March 1991, after a whole year of negotiation, agreement was reached, in principle, with the Club on options available to Nigeria's bank creditors. The agreement was subject to subsequent ratification. The agreement provided the basic framework for restructuring the London Club's claims, amounting to $5.8 billion, in a manner that would provide Nigeria with both debt reduction and debt-service reduction.

The arrangement consists of a menu of three options:

Option A - Buyback
Option B - Collateralised bonds
Option C - New Money Bonds

The creditors would be required to commit the full amount of the eligible debt to one or more of the options. It was envisaged, however, that 60 per cent of the whole debt would go into option A, 30 per cent into option B, and 10 per cent into option C.

Option A: Nigeria would offer to purchase eligible debt from the creditors at a fixed price in US dollars. Priority would be given to the creditors tendering 100 per cent of the debt owed to them, when the amount does not exceed $20 million. Nigeria could purchase up to 60 per cent of the eligible debt. However, it might purchase more than 60 per cent provided it is done at the same fixed price and all other conditions are satisfied.

Option B: Under this option, reduced fixed interest par bonds with appropriate principal and interest collateral would be issued. The interest would be 6.25 per cent per annum payable semi-annually. The collateral would be US Treasury zero coupon bonds.

There would be one bullet repayment using the collateral proceeds 30 years from 1 November 1990. Interest collateral account is to be established with an amount equivalent to 12 months' interest. The bond, which would be listed on the Luxembourg Stock Exchange, would be eligible for conversion under the Nigerian debt-conversion programme.

Option C: This involves a traditional 20-year rescheduling with a ten-year grace period and new money equivalent of 10 per cent of the base debt. The base debt will be converted into bonds at a floating interest rate of LIBOR plus 13/16 per cent.

The arrangement also makes provision for value recovery — additional interest payment to the creditor banks if the oil price exceeds $28 a barrel after a grace period of six years. Interest arrears accumulated between May 1990 and March 1991, amounting to $356 million, would be paid before signature.

Debt Conversion Programme

(a) Initial Steps

By 1987, it had become clear that the traditional approach to debt relief through debt rescheduling was inadequate. Rescheduling does not extinguish any debt; it only stretches out the payment period. It is a palliative. It does not reduce the debt overhang problem and in many cases it amplifies the problem in the long run.

It was against this background that the government decided to establish a Debt-Conversion Programme in July 1988 to complement its debt-management strategy. Another factor influencing that decision was awareness of the emergence since 1982 of the secondary market with large discounts for loan claims on debtor countries, and the desire to obtain part of such discounts on Nigeria's debt. Furthermore, the authorities were convinced that a well designed and properly implemented debt-conversion programme could assist in reducing the debt stock, lightening the debt service burden and encouraging capital inflows.

Thus in his budget speech of 1988, the President stated *inter alia* that, "As part of our strategy to reduce our external debt burden, authentic debts owed to willing foreign creditors will be considered for conversion to equity investments, especially in new and high priority projects which will use local raw materials and provide employment for our people ...".

In February 1988, the Federal government established a Debt-Conversion Committee (DCC) having the responsibilities of drawing up and implementing an efficient debt conversion programme in Nigeria. It was empowered to establish clear approval criteria and procedures, approve applications and transactions and monitor, on a continuous basis, the progress of the programme.

On 5 July 1988, the DCC released a 13 page document entitled, "Guidelines on Debt-Conversion Programme for Nigeria", which contains comprehensive guidelines for the operation of the programme. According to the Guidelines (page 1, paragraph 1.2) the objectives of the Debt-Conversion Programme are to:

i) Reduce Nigeria's external debt position by reducing the stock of outstanding foreign currency denominated debt in order to alleviate the debt service burden;

ii) Improve the economic climate and make it attractive to foreign investors and serve as an additional incentive for the repatriation of flight capital;

iii) Stimulate employment generating investments in industries with significant dependence on local inputs;

iv) Encourage the creation and development of export-oriented industries, thereby diversifying the export base of the Nigerian economy, and increase access to appropriate technology, external markets and other benefits associated with foreign investment.

(b) Legal Environment

The Guidelines provide all the rules and regulations governing the operations of the debt-conversion programme and, of course, in accordance with the existing investment laws of the country. The highlights of the rules and regulations are summarised below.

Initially, the scope of the programme was narrow with eligible debt limited to promissory notes and transaction coverage restricted to debt-for-equity and debt-for-cash conversion, the latter being allowed in respect of gifts and grants to Nigerian non-profit-making entities such as educational institutions, charitable organisations, research establishments, religious bodies and trusts. The scope was later enlarged so that the eligible debt was defined to include restructured and refinanced bank debts while transaction coverage was broadened to include debt-for-debt transactions.

Among the eligible transactions, some economic activities are given priority. First in order of priority is investment in production processes based on at least 70 per cent local raw materials, especially in agriculture and agriculture-related industries, production of raw materials for local industries and production for export.

The second priority is investment with high-employment content. Ranking third in priority is investment for extracting and commercialisation of the country's minerals and other natural resources, and investment that will improve or use existing inventions in Nigeria relating to new machinery and new products.

All legitimate holders or assignees of eligible debts, whether Nigerian or foreign, corporate bodies or individuals, resident or non-resident, are allowed to participate in the debt-conversion programme provided the necessary guidelines are complied with. For the purpose of ensuring that the relief being sought through the debt-conversion programme is not frustrated, and that the exercise does not result in giving preferential terms of repayment to an investing redemptor over other creditors contrary to the terms and conditions of existing debt-rescheduling arrangements, the following limitations are placed on remittance of income arising from invested redemption proceeds: interest or profits/dividends from projects financed with conversion proceeds are not repatriable for a minimum period of five years from the date of release of redemption proceeds for actual investment. Capital proceeds arising from subsequent disposal of the investment made under the programme cannot be repatriated for a minimum period of 10 years from the time of effective investment of the proceeds. Repatriation of capital after 10 years is limited to 20 per cent per annum.

The Guidelines also stipulate that the naira proceeds of debt conversion can only be applied to meet the local costs of the project in which the investment is made. All off-shore costs of such projects are to be provided by the redemptor. Debt conversion is by auction; however, the DCC may at its discretion approve an application for conversion outside the auction. In the rare case of conversion outside the auction the price is to be determined by the weighted average of discounts offered by successful bidders in the most recent auction.

In order to ensure that any possible adverse effects of debt conversion are reduced to the barest minimum, the Guidelines provide for control under which the amount of monthly/yearly conversion is fixed by the DCC.

(c) The Conversion

The first auction was held on 30 November 1988. Forty applicants participated and only eight were successful, resulting in conversion of debt worth $40 million. The average discount of the successful bids was 42.14 per cent. During the second auction on 29 December 1988, a total of $12.58 million of debt was converted, while the discounts averaged 40.7 per cent. In 1989, eight auctions were conducted resulting in the conversion of debt totalling $201.3 million, while the average discount was 48.8 per cent. A total of $110.24 million was redeemed in six auctions conducted in 1990. Discounts obtained from the redemptors averaged 47.4 per cent. Thus from the programme's inception in November 1988 to December 1990, $364.12 million of debt was converted, of which $251.33 million had been promissory notes, $79.92 million had been restructured debt and $32.88 had been refinanced debt.

By special permission, some debts were also converted outside the auctions. Such conversions amounted to $149.99 million of which promissory notes accounted for $90.3 million. Total conversion through auction and non-auction by the end of 1990 was therefore $514.12 million. In other words, $514.12 million of the country's external debt had been extinguished. From January to April 1991, three auctions were undertaken which resulted in total debt conversion of $50.41 million. Non-auction conversion during the period was $10.07 million, bringing the total conversion to $574.58 million. The value of discounts obtained from all the conversions by auction up to December 1990 amounted to $199.62 million and rose to $237.3 million at the end of April 1991 (see Table 9). The value of discounts from non-auction conversions amounted to $75.2 million, bringing the total to $312.8 million, as of the latter date.

The proceeds of debt conversion, with the exception of those used for gifts, were invested in the approved sectors of the economy. From the inception of the programme in 1988 to the end of April 1991, disbursements of conversion proceeds totalled 2.0047 billion naira of which cash gifts and grants amounted to 357.7 million naira. The balance of 1.647 billion naira was invested in the various approved sectors and projects in the economy. Manufacturing took the lion's share, having received 800.5 million naira or 39.9 per cent of the total disbursements. A total of 307.5 million naira (15.4 per cent) was invested in agriculture and agriculture-related businesses, while 221.3 million naira went into hotels and tourism. See Table below.

Cumulative Disbursement of DCP Funds as at End of March 1991

Sectors	Total Disbursement (Millions of naira)	Per cent of Total
Agriculture and related	307.52	15.4
Manufacturing	800.49	39.9
Hotels and Tourism	221.32	11.1
Cash and grants	357.71	17.8
Building and Construction	118.63	5.9
Services	8.00	0.4
Debt for debt	191.04	9.5
Total	2004.71	100.0

Nigeria's debt instruments had been traded on the secondary market long before the debt conversion programme was started. Their prices had been fluctuating widely since 1986 when they were first recorded. In December 1986, both promissory notes and loans were trading at 35 cents per dollar, but started falling sharply in July 1987. From September 1987 to August 1988, they were trading at between 18 cents and 24 cents. The impact of the debt conversion programme became clearly visible beginning in July 1989 when the prices picked up vigorously. Since then they have maintained an upward trend. In 1990, the price of promissory notes averaged 33.2 cents while that of loans was 37 cents on average. They were over 40 cents in 1991, reflecting not only the impact of the debt-conversion programme but also the gradual return of confidence in Nigeria's economic performance (see chart on page 49).

III. NIGERIA AND RECENT DEBT-RELIEF INITIATIVES

In recent years a number of debt-relief initiatives or strategies have been put forward. These include the Baker Plan (1985), the Toronto Accord (1987), and the Brady initiative (1989), as well as the bilateral initiatives of a number of countries including Canada, France, USA, etc.

The US bilateral initiative that President George Bush announced in July 1989 involved a programme to absolve some 23 sub-Saharan African countries of about $1 billion of debt owed to the US government. This was followed by Congressional legislation in the same year that permitted forgiveness of US development assistance (DA) and Economic Support Fund loans (ESF) for sub-Saharan African countries that have instituted IMF/World Bank approved adjustment programmes.

Nigeria has benefited from the US debt cancellation initiative. In 1989, the US government cancelled $32.9 million of debt which it had been owed by Nigeria. Another debt, amounting to $31.9 million, owed to the government was also cancelled in 1990 (see Table 10). Both the principal and interest were cancelled. Nigeria also benefited from the bilateral debt-cancellation initiative of the Canadian government which in 1989 cancelled $42.4 million of debt it had been owed by Nigeria.

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

Apart from the US and Canadian initiatives, Nigeria has not benefited from any of the recent debt relief initiatives for assisting heavily indebted middle-income, or low-income countries. Nigeria was treated as a heavily indebted middle-income country in rescheduling agreement terms, but did not receive any new money from the creditor banks, as recommended by the Baker Plan.

Nigeria also has not benefited from the Toronto Accord even though it is really a poor country, a fact that had been confirmed by the World Bank after a careful study in 1988. The country's creditors in both the Paris and London Clubs did not agree that Nigeria was sufficiently poor to be accorded the type of concessional debt relief that had been given to other poor sub-Saharan African countries. Thus the country had been unable to take advantage of the Toronto Accord in its debt-relief negotiations with the official creditors.

Furthermore, Nigeria has not yet obtained any benefits from the Brady initiative, although it has taken steps to avail itself of that plan's advantages. On 1 March 1991, after a protracted negotiation agreement, in principle, was reached with London Club on options available to the creditors. The agreement, which was subject to subsequent ratification, was a basic framework for restructuring the London Club's claims in order to provide Nigeria with debt and debt-service reduction. The arrangement consists of three options: debt buy back, collateralised bonds, and new money bonds (see above). If the agreement is ratified and implemented, Nigeria would obtain some debt and debt-service reduction in line with the provisions of the Brady initiative. A major hurdle in this regard is the resources required for operating debt buy backs. Debt buy back involves the use of foreign exchange which is the scarcest commodity in debtor countries including Nigeria. Nigeria, in fact, will not be able to provide from its own resources all the necessary foreign exchange for the buy back operations and acquisition of the collateral implied in the agreement. If Nigeria is to engage in worthwhile buy back operations, its own resources will have to be supplemented by external assistance from multilateral financial institutions or donor countries.

The country has a large commercial bank debt and also implemented a World Bank/IMF approved structural adjustment programme. These qualify Nigeria to receive World Bank financial assistance under the Bank's guidelines for its assistance for debt-service reduction operations when and if the agreement with the London Club is ratified. In 1986/87 and 1988/89, Nigeria received investment and trade policy loans from the Bank. There is thus no cause to doubt whether the country could secure assistance from the Bank for debt-reduction operations. Nigeria also qualifies under the IMF's guidelines for making resources available for debt reduction operations. In 1986, however, Nigeria made a political decision not to use IMF financial assistance and still adheres to this policy. A different administration could alter this stance.

Another source of funds mentioned for the record is the recently introduced "debt-reduction facility for IDA-only countries." Nigeria is eligible to use this facility. It was declared IDA eligible by the World Bank in 1988. Actually Nigeria met all the requirements such as having a heavy debt burden, a medium-term economic reform programme and GDP per capita not exceeding $580. However, the maximum assistance a country can normally obtain under the facility is $10 million, which is so insignificant in relation to Nigeria's needs that the country is unlikely to use it.

IV EVALUATION

Faced with a seriously ailing economy, declining real output, rising unemployment and inflation, large fiscal deficits, severe balance-of-payments pressures, and an unsustainable external debt burden, the government in July 1986 adopted a structural adjustment programme designed to restructure and revive the economy, bring it back on the path of steady and balanced growth. Nigeria appealed for external assistance to finance the economic reform programme. The assistance from the external creditors came in form of debt rescheduling. The government signed a series of debt-rescheduling agreements with both the Paris and London Clubs from 1986 through 1991. The aim of debt rescheduling was to reduce the debt-service burden over the medium term.

Debt rescheduling, no doubt, brought some relief. First, it enabled Nigeria to maintain a regular dialogue with the various creditor groups and to normalise relations with them. Second, the debt-service burden was reduced and considerable amounts of foreign exchange that would have been spent on external debt service became available for purchase of goods and services and supply of investment capital for the economy. The debt-service ratio fell, and from 1986 through 1990 was below the 30 per cent ceiling set by the government. However, performance of the economy under the structural adjustment programme was below expectations. The programme had run into difficulties mainly due to insufficient financing especially foreign exchange. However, some achievements were recorded. For instance, the gross domestic product (GDP) which declined by 2.1 per cent in 1986 and showed an increase of 1.2 per cent in 1987, grew 4.2 per cent, 4.1 per cent and 5.2 per cent in 1988, 1989 and 1990 respectively. After recording sizeable deficits in 1986 (800 million naira) and 1988 (2.3 billion naira), the balance of payments swung into large surpluses of 8.7 billion naira in 1989 and 18.5 billion naira in 1990. These improvements were accounted for partly by the debt rescheduling and partly by economic developments, particularly in the oil sector.

Since the oil boom days of the 1970s, the petroleum sector has been the main mover of the Nigerian economy. It accounts for over 80 per cent of government revenue and more than 95 per cent of Nigeria's foreign exchange earnings. Thus any significant increase in the price and output of crude petroleum invariably leads to appreciable improvements in the balance of payments and foreign exchange supply, increased government revenue, and investments in the economy generally. The increase in foreign exchange enables the country to import badly needed investment capital, equipment, raw materials, and other inputs. This was the case when the output of crude petroleum rose from 1.323 million barrels per day (mbd) in 1987 to 1.447 mbd in 1988, 1.715 mbd in 1989, and 1.810 mbd in 1990, while the average price increased from $14.78 per barrel in 1988 to $17.90 in 1989 and to over $24 in 1990. These developments were followed by increased investments in most sectors of the economy, including agriculture and industry. From 1987 to 1990, gross domestic investment increased by an average of 11.7 per cent per year.

However, in spite of these achievements, the Nigerian economy continued to be plagued by low productivity, high inflation and high unemployment. Moreover, over-indebtedness, as measured by the various indicators of debt-carrying capacity persisted. For instance, total debt as a ratio of GDP rose from 51.0 per cent in 1986 to 159.2 per cent in 1989, while the debt/export ratio rose from 137.7 per cent in 1985 to 428.3 per cent in 1988. In 1990 it was still as high as 223.4 per cent. Rescheduling did not have the expected impact because it could not prevent net resource flows from Nigeria in the form of debt service payments to the various creditor groups. This situation was worsened by the fact that debts owed to multilateral financial institutions as well as some portions of the debts owed to official creditors, such as the post cut-off date debts, were unreschedulable (see Table 6). For example, in 1988, total resource flows to Nigeria from the various creditor groups amounted to $776 million while the country's debt service payments totalled $2 billion. Resource flows from the creditors totalled $1.5 billion in 1989 as against debt service payments of $3.2 billion (see Table 3).

Although debt rescheduling has become an established source of debt relief and financial assistance to heavily indebted developing countries, it should be pointed out that current debt rescheduling practices have several weaknesses: they do not extinguish the rescheduled debt; they only stretch out repayment over a longer period, and thus constitute only a palliative. Moreover, the rescheduling packages for Nigeria did not result in any new money flows to the country from the creditors. Although the 1987 agreement with the creditor banks provided for new money in the amount of $320 million, nothing was received. Under the 1989 agreement the banks refused to provide for new money.

For rescheduling to provide real and significant relief for Nigeria, its terms must be sufficiently concessional. Unfortunately, the rescheduling packages for the country were not based on very concessional terms. For instance, market-related interest rates were applied to the rescheduled debt. The interest rates were usually some margin above LIBOR. Such rescheduling based on market-related interest rates has contributed to the gradual build up of the debt stock. Moreover, in spite of the fact that Nigeria was a low-income country (GNP per capita below $300 in 1989), as confirmed by the World Bank, the creditors refused to give it concessional rescheduling terms such as those under the Toronto Accord. The rescheduling agreement with the Paris Club in January 1991, though a bit more concessional in some respects, was still on terms applicable to medium-income heavily indebted countries "of the lower category", and the interest rates were still based on appropriate market rates. Only a substantial reduction of interest rates on rescheduled debt would lead to a gradual reduction in debt stock relative to GDP and to a significant decline in the debt-service ratio.

Another weakness of the rescheduling packages for Nigeria was the brevity of the consolidation periods. In virtually all the rescheduling agreements, the consolidation periods were brief, ranging between 12 and 18 months. This was said to be due to the linking of rescheduling to the IMF programme, designed to overlap with the Fund's stand-by agreement which enables the creditors to monitor progress in adjustment programmes and to enforce conditionality. This brevity of the consolidation period has been largely responsible for the frequency of "back-to-back" reschedulings, revealing that a longer consolidation period would have been more appropriate at the time of the initial rescheduling. Such frequent reschedulings were costly to both parties involved, but particularly to Nigeria the debtor country. They were very costly in both human and financial resources to Nigeria, which had to send delegations to Europe frequently for protracted rescheduling negotiations. Asked for his opinion on current rescheduling practice and negotiating procedures, Mr. P.A. Obaro, Director of External Finance, Federal Ministry of Finance and Economic Development, said the current practices consume too much time, and could be described as wasteful of time, money and energy. He added that it would be better to adopt the recent Trinidad initiative under which all the reschedulable debts of a debtor country are rescheduled at once.

It is necessary to make a remark here about the relative bargaining powers of creditor groups and the debtor country in debt-rescheduling negotiations. The creditors have formed themselves into two formidable groups, or cartels, the Paris and London Clubs. There is no comparable organisation of debtor countries. The Paris Club consists of powerful industrialised countries while the London Club consists of powerful banks from the same powerful countries. Moreover, the debtor is in the position of a beggar requesting assistance. Thus the creditors negotiated from a position of strength while Nigeria, as a debtor, negotiated from a position of weakness. According to Mr. Animashaun, Director of Debt Management at the Central Bank of Nigeria, the creditors have all the information and facilities necessary for effective negotiation. They exchange information among themselves. The debtors are not in the same position. The creditors, he said, set the terms under which negotiation must be conducted. Although the debtor country is given the opportunity to present its case in the best possible light, most of the time it is confined to a choice among the options offered to it. Virtually all the officials questioned agreed with this view.

The repayment and grace periods which in most cases ranged from five to fifteen and one to three years respectively were also inadequate. A repayment period of 25 to 30 years with a grace period of 12 to 15 years would be more appropriate for a low- income heavily indebted country like Nigeria. If rescheduling is to assist significantly in achieving the declared objective of restoring a country's creditworthiness, and enabling growth and development to resume, its terms must be very concessional, and should include measures to reduce the debt overhang, and promote investment and growth.

Debt conversion was another strategy through which the Nigerian authorities sought to achieve debt relief. The objective of the debt-conversion programme was to reduce the country's stock of external debt so as to alleviate the debt-service burden, serve as an incentive for foreign direct investment and for the repatriation of flight capital. In the conversions from November 1988 to April 1991, a total of $574.6 million had been eliminated from the country's external debt stock (see Table 9). In addition, a sum of $312.8 million, representing the value of discounts, as well as $8.3 million, representing commissions paid by the redemptors, have all been appropriated for the benefit of the economy. All these items have had some beneficial impact on the balance of payments, however small, through their cumulative effect on reduced interest and capital repayments and increased new money inflow.

Moreover, the debt conversion has generated 1,647 billion naira (excluding cash and gifts) of new investments in the economy. All the investments were in the high-priority sectors of the economy. The Debt-Conversion Committee (DCC) screened all investment proposals and inspected all actual investments to ensure that conversion proceeds were channelled into investments in high-priority sectors of the economy in accordance with the objectives of the debt-conversion programme. The investments were concentrated in manufacturing, agriculture and agriculture-related industries. Other sectors that had significant shares in the investments were hotels and tourism, and building and construction. All these, no doubt, helped to create employment, expand national income and broaden the tax revenue base.

Through the programme some manufacturers in the textile industry have engaged in large-scale farming to produce cotton. Some of them employed the services of "outgrowers" who were financed by them, thus saving the farmers from the difficulty of obtaining agricultural loans from banks. The programme has also been used to finance and reactivate spinning, an area hitherto abandoned or neglected by the textile manufacturers. An example is Alkem (Nigeria) Limited which is producing fibre and yarn from polyester chips. Downstream industries which will make use of the products of the petrochemical industry are being financed under the programme. There is no doubt that the programme is giving an impetus to the downward integration drive of the government and providing increased employment. Some of the products of the companies being financed with conversion proceeds are now being exported. For instance, Grand Cereals and Oil Mills Limited is producing vegetable oil for the domestic market and for export, J.K. Industries Limited produces dried rubber for export. Moreover, direct investment often includes new technology and management expertise, which can lead to significant increases in productivity. For this reason, the financial value of the debt-conversion programme understates its overall benefits to the economy.

Additionality: What was the additionality of the foreign direct investment that accompanied Nigeria's debt-conversion programme? Additionality of foreign direct investments in this case refers to foreign direct investments that accompanied the debt-conversion programme *minus* those direct investments that would have taken place without the debt-conversion programme. There are two methods by which one might try to estimate the additionality. One is by looking at the level and trend of direct foreign investment in Nigeria some years immediately before the debt conversion programme, and the level and trends over a period after the programme was underway. From these, one could estimate roughly the additionality.

The main source of information on foreign investments in Nigeria is the Central Bank of Nigeria's annual survey of foreign direct investments in the country. Unfortunately this survey did not cover the relevant years to enable us to use the information. Another method that may be used is a direct survey of all the establishments in which conversion proceeds were invested. Through such a survey, it would be possible to obtain information directly from the investors or their representatives as to whether or not they would have invested in Nigeria during the period if there had been no formal debt-conversion programme. Due to time constraints, this survey could not be carried out for use in this paper since the relevant establishments are scattered all over the country. Thus the additionality of investment that followed Nigeria's debt-conversion programme cannot be estimated scientifically at present. However, from an impressionistic assessment, it is generally agreed that the bulk of the investments carried out with conversion proceeds could be regarded as additionality because direct foreign equity investment had been on the decline since 1984 and had virtually disappeared by 1986/87. Moreover, much of the conversion proceeds were invested in areas that investors did not favour before.

The provisions in the Debt-Conversion Guidelines to minimise the inherent problems were strictly enforced. There are controls to help ensure that the programme is consistent with government's monetary and inflationary policy objectives. The amount of conversion to be carried out in a year and in each month was predetermined and included in the projected credit/money supply requirement of the economy. Remittance restrictions assisted in limiting the use of conversion proceeds to local costs of projects and thus reduced the incidence of "round-tripping". Permission given to Nigerians and Nigerian residents to participate in the programme removed the fear of foreign domination of business ownership.

In spite of its achievement, the debt-conversion programme has had a minimal impact on Nigeria's huge external debt stock. Though the impact was minimal there is still a strong belief in some quarters that debt conversion could play a useful role in a debt-reduction strategy. While this may be true, the fact remains that a future role will be very limited. The secondary market for LDC debt instruments as a whole is relatively small. Apart from this, the expansion of Nigeria's debt-conversion programme in the future will depend on a number of factors, which include the supply of Nigeria's debt instruments in the secondary market, which itself depends on the willingness of creditors, especially banks, to dispose of their Nigerian loan assets at a discount. On the demand side, there are factors such as the availability of attractive investment opportunities in Nigeria, and the discounts at which the debt instruments can be purchased in the secondary market and converted under Nigeria's conversion programme. The laws governing foreign investment introduce another factor affecting profits, remittances, repatriation of capital and, in particular, involving possible restrictions of the Indigenisation Decree. Another major factor is whether the overall economic climate is conducive to foreign investment. More importantly, the volume of conversion will be determined largely by the need to minimise the feared problems inherent in debt conversion, especially the impact on money supply, inflation, and balance of payments.

V. CONCLUSION

This paper has attempted to evaluate Nigeria's debt relief experience in the period 1985-1990. It gives a brief survey of the country's debt profile, its genesis, structure, characteristics, and magnitude, underscoring the significant deterioration of the economic and financial situation which followed the collapse of the oil boom in the early 1980s. It identifies debt overhang as one of the great obstacles to the restoration of financial viability, economic growth, and development. The paper shows that after embarking on a structural adjustment programme (SAP) in 1986, the Nigerian government appealed for external financial assistance and debt relief to implement the SAP successfully.

The major creditors, the Paris and London Clubs responded by agreeing, after negotiations, to reschedule Nigeria's debts held by them with a view to reducing the country's debt-service burden. A series of debt-rescheduling agreements were signed between 1986 and 1991.

Debt rescheduling did result in some measure of debt relief for the economy. It alleviated the country's debt-service burden, leading to some decline in debt-service ratio, but weighed against the gravity of Nigeria's debt and debt-service problems, the relief and its impact were not very significant.

Debt rescheduling, however, has great potential as a debt-relief strategy and as a means for quickly disbursing untied financial assistance to a debt-ridden developing country. What severely limited the impact of rescheduling for Nigeria during the period were: (i) debt rescheduling was not accompanied by new money flows to the country; (ii) the classification of Nigeria as a middle-income country; and (iii) application of traditional rescheduling practices on the basis of market-related interest rates, short consolidation periods, as well as repayment and grace periods that were too short. In order to have the desired impact, debt rescheduling for a low-income heavily indebted country like Nigeria should be more dynamic and innovative, and should include measures aimed not only at improving the cash flow position of the country over the next few years, but more importantly, should tackle effectively the problem of the debt overhang by substantially reducing the stock of debt through concessional debt relief. Such concessions should include sufficiently long consolidation, repayment, and grace periods, as well as below-the-market interest rates and debt cancellation, in part or in whole. The measures must also take into account the structural nature of Nigeria's economic problems which cannot be solved by short-term measures.

In search of increased debt relief, a debt conversion programme was instituted in November 1988 to supplement debt rescheduling. The great advantage of debt conversion is that it is a debt-reduction strategy. Every debt converted eliminated some debt from external debt stock. The equity investments and other inflows of funds that followed the debt conversion were also beneficial. It must be emphasized, however, that the impact on the debt stock and the economy generally was marginal, especially when viewed against the needs of the country. The debt-conversion programme could be expanded in the future, provided developments in the secondary market for debt instruments and other conditions are suitable. There will be several limiting factors, the most important of which will be the need to minimise some of the inherent problems, particularly the programme's impact on the money supply, inflation, and the balance of payments.

Debt cancellation is the most complete and effective form of debt relief for heavily indebted low-income countries. In spite of the arguments against debt cancellation from some quarters, there appears to be a growing consensus that debt cancellation has to form a part of overall debt-relief strategy if the debt crisis is to be resolved.

On the whole, Nigeria's experience of debt relief so far shows that no single debt-relief strategy is capable of solving the debt problem, but that a combination of several strategies will be required. It also shows that any relief strategy that does not help to reduce the debt stock significantly is nothing more than a palliative. In this regard the current traditional practice of debt rescheduling needs to be properly adapted to achieve the desired objective. The Nigerian experience also has shown that a relief strategy for a debtor country that is implementing painful economic reform must include inflow of new money if the reform programme is to be successfully implemented.

The Nigerian economy has great potential and prospects. Adequate debt relief and increased new money inflows are two of the major ingredients needed for the realisation of its potential. These require more dynamic, innovative and effective debt-relief arrangements for Nigeria that take into account not only the country's debt-servicing capacity, but also its structural economic problems and investment needs for growth and development. This is necessary if the country is to be able to "out-grow" its debt problem, restore creditworthiness, and resume balanced growth and development.

NOTES AND REFERENCES

1. See Central Bank of Nigeria: Bullion, Vol. 13, N° 2, April/June, 1989, pp. 25-26.

2. See Nigeria: Country Report, by the Institute of International Finance, Washington D.C., June 1988, page 16.

3. During the period under review, Nigeria was treated as a middle-income country by both the Paris and London Clubs in determining the terms for rescheduling its debts. This was probably an incorrect assessment. Nigeria's temporary oil wealth had concealed its poverty. For instance, after a careful study of Nigeria's socio-economic and infrastructural indicators, the World Bank concluded that Nigeria was a very poor low-income country, and declared the country IDA eligible in 1988. The country's GPN *per capita*, which had been estimated at $ 1 000 in 1980, fell to $370 in 1987 and has been below $300 since 1988.

Table 1. Nigeria's External Debt, Debt Service and Debt/GDP Ratios 1985–1990

Year (End–Dec.)	Total Debt Oustanding ($ million)	Value of Export of Goods & Services ($ million)	Total Debt Service Payments ($ million)	Debt Service Ratio (%)	Debt as a Ratio of GDP (%)	Debt as a Ratio of Value of Exports (%)
1985	17 297.5	12 567.0	4 166.4	33.1	21.9	137.7
1986	18 631.3	6 371.8	1 968.2	28.0	51.0	292.4
1987	24 517.0	7 590.1	977.7	11.8	93.6	323.0
1988	29 688.1	6 931.7	1 959.2	25.7	91.8	428.3
1989	31 464.9	7 871.0	2 035.8	23.1	159.2	399.7
1990	32 897.0	14 726.1	3 823.8	26.0	110.3	223.4

Source : Central Bank of Nigeria.

Table 2. **Nigeria's External Debt and the Creditor Groups as at End December, 1988-1990**

	1988	1989	1990
Paris Club	12.9	15.8	17.1
London Club	5.8	5.6	5.9
Promisory note holders	4.8	4.6	4.5
Multilateral Institutions (mainly World Bank group)	3.1	2.8	3.7
Other Creditors	3.1	2.6	1.7
Total	29.7	31.4	32.9

Source : Central Bank of Nigeria.

Table 3. **Debt Service Payments and New Money Inflow**

($ million)

	1988			1989 (1)		
	Debt Services Payments (1)	New Money Inflow (2)	Difference Between 1 & 2 (3)	Debt Services Payments (4)	New Money Inflow (5)	Difference Between 4 & 5 (6)
	987	456	531	1 275	1 375	-100
Official Creditors						
	446	265	181	440	584	-144
Multilateral						
	541	191	350	835	971	44
Bilateral						
Private Creditors	997	320	677	1 937	116	1 821
Commercial Banks	648	53	595	831	0	831
Other Private	349	267	82	1 106	116	990
Total	1 984	776	1 208	3 212	1 491	1 721

1. Estimate.

Source: World Bank's World Debt Tables, 1989, (First Supplement) pp. 172-173.

Table 4. **Debt Recheduling With The London Club of Creditors (1986-87)**

($ million)

	Amount Rescheduled					
Type of Debt (1)	Pre-1986 Arrears (2)	1986 Maturities (3)	1987 Maturities (4)	Total (2+3+4)	Repayment Period (5)	Interest Rate % (6)
		3 022	873	3 895		
Letters of Credit	-	2 200	-	2 200	To be repaid over 1988 to 1990	Libor + 1 1/4
MLT	-	822	873	1 695	To be repaid over April, 1990 to March 1996	Libor + 1 1/4

1. MLT = Medium and Long-Term.
2. The above amounts exludes late interests which were treated differently in terms of repayment period. The late interests amounted to $550 million in respect of Letters of Credit.
3. All figures are tentative.

Source: Various sources including the Central Bank of Nigeria, and unpublished World Bank papers.

Table 4a. **Debt Rescheduling with the London Club (1989)**

($ million)

Year	Type of Debt	Amount Rescheduled	Interest Rate %	Repayment Period	Grace Period
1989		5.9			
of which:					
	Payable debt	0.5	0	3	0
	Trade Credit	2.5	Libor + 13/16	15	3
	Medium/Long term	2.9	Libor + 7/8	20	3

Source: Central Bank of Nigeria.

Table 5. **Debt Recheduling with the Paris Club (1986-87)**
($ million)

	Amount Rescheduled					
Type of Debt (1)	Pre-1986 arrears (2)	1986 Maturities (3)	1987 Maturities (4)	Total (2+3+4)	Repayment Period (5)	Interest Rate % (6)
	2 912	1 710	1 501	6 123		
Public and Publicly guaranteed MLT	409	1 070	1 501	2 980	To be repaid Nov. 1992 to May 1997	Libor + 0.5 (average)
Private Non-guaranteed MLT	140	140	-	280	To be repaid Nov.1992 to May 1997	ditto
Letters of credit and other credits	-	500	-	500	Repaid by Nov.15, 1987 and 90% to be repaid over 1988 to 1990	
Insured Trade arrears	2 363	-	-	2 963	To be repaid over 1990 to 1994	ditto

1. MLT = Medium and Long-term.
2. The figure exclude late interests which were treated differently regarding repayment period. The late interests were $470 million in respect of insured trade arrears, $129 million for public and publicly guaranteed MLT and $50 million in respect of letters of credits.
3. All figures are tentative.

Source: Various sources including Central Bank of Nigeria and World Bank unpublished papers.

Table 5 a. **Debt Rescheduling with the Paris Club (March, 1989)**

($ billion)

Year	Type of Debt	Amount Rescheduled	Interest Rate %	Repayment Period	Grace Period
March 1989		5.7			
	MLT	2.8	Libor + 0.5 (average)	1992 to 2008	3 years
	Refinanced letters of credit	2.4	ditto	1992 to 2003	3 years
	Payable Debt	0.5	ditto	1989 to 1990	0

Source : Various sources including Central Bank of Nigeria and World Bank unpublished papers.

Table 6. **Non-Reschedulable Debt**

($ million)

Year	World Bank Group	IMF	ADB	Post Cut-Off Date Debt*	Total	Non-Reschedulable Debts as a Ratio of Total Debt (%)
	(1)	(2)	(3)	(4)	(5)	(6)
1986	2 437.04	-	-	n.a	2 437.04	13.1
1987	2 042.83	-	0.25	364.40	2 406.48	9.8
1988	2 074.80	-	46.61	1 008.60	3 130.01	10.5
1989	2 525.81	-	236.91	2 433.40	5 196.15	16.5
1990	3 313.38	-	531.76	2 398.90	6 244.04	19.0

n.a. Not available.
* The figures include post cut off date debts of Paris Club, and other debts of similar attributes.

Table 7. **Actual Debt Conversion by Auctions, November 1988 - 30 April, 1991**

($ million)

Date	Auction	Conversions	Total Converted (cumulative)	Average Discount (%)	naira / $* Exchange Rate
30/11/88	1	40.00	40.00	42.14	5 3364
29/12/88	2	12.58	52.58	40.77	5 353
03/02/89	3	17.50	70.08	46.44	7 2477
31/03/89	4	2.99	73.07	47.33	7 5875
28/04/89	5	30.93	104.00	48.85	7 5586
23/06/89	6	29.13	133.13	48.55	7 2741
01/09/89	7	36.50	169.63	51.39	7 3000
06/10/89	8	32.18	201.81	51.31	7 3735
24/11/89	9	30.10	231.91	49.06	7 5250
29/12/89	10	21.97	253.88	47.67	7 6500
26/01/90	11	17.21	271.09	48.00	7 8805
23/02/90	12	15.36	286.45	47.27	7 9175
30/03/90	13	16.54	302.99	47.02	7 9400
04/05/90	14	11.68	314.67	47.19	7 9400
08/06/90	15	25.56	340.23	47.40	7 9400
27/07/90	16	23.89	364.12	47.29	7 9500
11/01/91	17	13.50	377.62	51.06	9 1729
22/02/91	18	25.46	403.08	52.90	9 6643
05/04/91	19	11.45	414.53	43.03	8 7881

* The exchange rate applied to convert the redeemed debt to naira amount which is credited to the redemptor's account.

Source: Central Bank of Nigeria.

Table 8. **Debt Conversion by Auction and Non-Auction**
($ million)

	Nov. 88	31 Dec. 89	30 June 90	31 Dec. 90	30 April 91
Auction (a)	40.00	212.67	321.95	364.13	414.52
Promisory Notes	40.00	209.47	249.04	251.33	283.89
Restructured Debt	0.00	3.20	58.26	79.92	96.19
Refinanced Debt	0.00	0.00	14.65	32.88	34.44
Non-Auction (b)	0.00	84.32	96.02	149.99	160.00
Promisory Notes	0.00	77.75	79.43	90.30	95.66
Restructured Debt	0.00	6.57	15.23	36.81	37.07
Refinanced Debt	0.00	0.00	1.36	22.88	27.33
Total (a + b)	40.00	296.99	417.97	514.12	574.58

Note: Figures shown above from December 1989 to December 1990 are cumulative. The first conversion was undertaken in November 1988.

Source: Central Bank of Nigeria.

Table 9. **Summary of Total Conversion Done as at April 30, 1991**

	Total amount converted ($ million)	Average Discount (%)	Value of Discount ($ million)	Commission paid ($ million)
From Auctions	414.52	47.31	237.30	6.60
Non-Auctions	160.06	49.58	75.52	1.74
Total	574.58	48.45	8.34	8.34

Source: Central Bank of Nigeria.

Table 10. **Debt Relief by Debt Cancellation**

($ million)

Creditor Country	Amount of Debt Cancelled	Aspect of Debt Cancelled	Date
Canada	42.2	Both principal and interest	1989
United States	32.9	Principal and interest	1989
United States	31.9	Principal and interest	1990
Total	107.2		

Source : Federal Ministry of Finance and Economic Development, Lagos.

(INSERT FIGURE : Nigeria external debt prices)