ASSESSMENT OF THE ROLE OF CENTRAL BANK OF NIGERIA IN THE NATIONS EXTERNAL DEBT RELIEF AND CANCELLATION

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DECLARATION

I hereby declare that the work in the thesis entitled **The Assessment of the Role of Central Bank of Nigeria in the Nations External and Debt Relief Cancellation** has been performed by me in the Department of Business Administration. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this thesis was previously presented for a higher degree at any University.

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CERTIFICATION

This is to certify that this project titled: **Assessment of the role of Central Bank of Nigeria in the Nation's external debt relief and cancellation** by AHMED, Rakiya Dodo meets the regulations governing the award of the degree of master in Business Administration (MBA) of Ahmadu Bello University, Zaria and it is therefore approved for its contributions to knowledge literary presentation.

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DEDICATION

I dedicate this project work to my husband Ibrahim Babah Gusau who stood by me throughout the programme.

AKNOWLEDGEMENT

Praise be to Allah who made my educational programme a reality. My sincere gratitude goes to my entire family, my father Alhaji Ahmad Dodo, My late mum Hajiya Binta Ahmad, my sisters and brothers for being there always. Sincere appreciation goes to my children for enduring my absence during this educational pursuit.

Special thanks go to my supervisor Mr. J.C. Onu for the guidance contributions towards making this thesis a reality.

Abstract

The study assessed the role of Central Bank of Nigeria in the nation's debt relief and cancellation. The Nigerian economy experienced a rapid growth and sustainable development in the 70s partly due to successful external sector performance and relatively sound domestic policies. However, the Nigerian economy went into deep depression as a result of political, institutional, economic and social problems in the 80s. The study employed historical, descriptive and survey methods of research to determine the role played by Central Bank of Nigeria on external debt relief and cancellation. The study used descriptive statistics in data analysis and relied majorly on secondary data. The study found that the Central Bank of Nigeria is confronted with a formidable challenge in the nation's debt relief negotiations. It concluded that the nation's external debt relief of $18billion will provide the nation enough fund to embark on valuable development projects with direct bearing on the citizens. The study recommended, among others, the need to increase the nation's output when using the debt conversion programme and a reduction of Nigeria's debt burden through debt securitization.

TABLE OF CONTENTS

Title page - - - - - - - - - - i

Declaration - - - - - - - - - - ii

Certification- - - - - - - - - - iii

Dedication - - - - - - - - - - - iv

Acknowledgements - - - - - -- - - - - v

Abstract - - - - - - - - - - vi

CHAPTER ONE

INTRODUCTION

1 .1 Background to the study - - - - - - - 1

1.2 Statement of the problem - - - - - - - 6

1.3 Objective of the study- - - - - - - - 8

1.4 Research questions- - - - - - -- - - - 9

1.5 Significance of the study- - - - - - -- - - 9

1.6 Scope of the study - - - - - - - - 10

1.7 Limitations of the study- - - - - - - - 11

1.8 Plan of the study - - - - - - - - - 12

1.9 Definitions of terms - - - - - - - - 13

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction - - - - - - - - - 18

2.2 The concept of External Debt Management- - - - - 19

2.3 Theoretical Frame Work - - - - - - - - - 23

2.4 The Central Bank of Nigeria and the external Debt. - - - 28

2.5 Composition of the Nigerians' External Debt. - - - - 31

2.6 Causes of Nigeria's External Debt - - - - - - 36

2.7 External Debt Management Strategies- - - - - - 39

2.8 Requirements for External Debt Relief/Cancellation- - - - 43

2.9 Benefits of External Debt Relief/Cancellation- - - - - 45

2.10 Economic Implication of External Relief/Cancellation- - - 46

2.11The role of CBN in the Nation's External Debt Management - 49

2.12 Summary - - - - - - - - - 55

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction - - - - - - - - - 58

3.2 Research design- - - - - - - - - 59

3.3 population sampling technique and sample size of the study- 59

3.4 Sources of Data - - - - - - - - 61

3.5 Methods of data collection - - - - - - - 62

3.6 Technique Used in data analysis- - - - - - - 66

3.7 Justifications for the methods and techniques used- - - - 66

3.8 Summary- - - - - - - - - - 67

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction- - - - - - - - - - 69

4.2 Presentation of data - - - - - - - - 70

4.3 Data Analysis - - - - - - - - - 73

4.4 Discussion of findings - - - - - - - 85

4.5 Summary- - - - - - - - - - 86

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary - - - - - - - - - 87

5.2 Conclusion - - - - - - - - - 88

5.3 Recommendations - - - - - - - - 89

Bibliography - - - - - - - - - 92

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The Nigerian economy experience rapid and sustained growth in the 1970's partly as a result of a successful external sector performance, and partly as a consequence of relatively sound domestic policies. The turn of that decade and up to the third quarter of the 1980's witnessed a sustained downturn in economic performance on account of international and domestic factor that tend to hurt external and fiscal balance. In the pre-colonial era the economy was mono-cultural, dependence was mainly on agricultural products. At the beginning of the period in 1960, Agriculture was the leading sector in the economy not only in terms of its contribution to the GDP and employment in the economy, but also as the main provider of government revenue and foreign exchange but of which the country's economic development programmes were financed.

The moment petroleum was discovered in the country, it replaced Agriculture as a foreign exchange earner for the country. In 1970, petroleum accounted for a mere 10.8% of the GDP, it doubled to 22% in 1980 in terms of revenue accruing to the government, the petroleum sector grew from almost zero before independence to 26.3% in 1970 and a phenomenal 87% in the 80s. With regards to export earnings our non-oil export which comprised mainly agricultural produce (cash crops) shrunk to less than 4% in the 1980s from the 50% of the 70's yielding pride to petroleum which contributes 96% of the GDP (Dike,1991).

During the 1980's the Nigerian economy went into a deep slumber or depression as a result of political, institutional, economic and social factors. At this period high level of unemployment and under employment rapid decline of foreign reserves due to the oil glut and failing price of crude oil, high rate inflation, large volume of indebtedness, corruption, poor management of the country's resources and a very low level of living standards characterized the ailing economy. Although, in 1986 the Nigeria government adopted certain economic measures to resuscitate the economy, the structural adjustment program (SAP) among other economic and social reconstruction policies, were introduced to revamp the ailing economy. Without much doubt, there exist an organic link between the decline in Nigeria's economic performance, the foreign exchange crisis and the burden of external debt management.

Debt is a term used to refer to an obligation to pay certain sum of money, principal and the interest (as stipulated in the contracted term) at a later date. Debt can be defined as whether: Internal or External Debt. Internal if it is sourced from within the country and external debt is the one that is sourced outside the country.

In this research work, we shall dwell on external debt. External debts are debt owed by a country to institution or countries abroad. The payment of interest and repayment of principal has implications for the country's balance of payments. It becomes a liability and subsequently a burden where the nation concerned can no longer meet the maturity obligation at the stipulated time. In this respect, time dimension and interest plus the principal become the reluctant aspect of debt obligations.

The rational for raising external loan by developing countries has always been to bridge the domestic resources gap in order to accelerate economic development. To that extent, no one will quarrel with any developing country for resorting to external borrowing provided that the proceeds are utilized in a productive way that will facilitate the eventual servicing and liquidation of the debt. Thus Nigeria resorted to external borrowing early in her history in order to quicken the pace of economic development.

In the initial stages, the amounts borrowed by Nigeria were quite modest. In 1970, even after the civil war, the level of Nigeria's external debt outstanding was relatively low at N488.8 million. At this level, external debt constituted only 9.2% of Gross Domestic Product (GDP). The external loans (Rehabilitation, Reconstruction and Development) Decree of 1970 had sanctioned the raising and use of external loans not extending N 1 billion later in 1978. Between 1970 and 1977, external debt outstanding was below 4500 million on a yearly basis and the service ratio averaged 1.4% a year. (Ajayi, 1989).

Nigeria remained largely under borrowed throughout the 1970's in relation to the high absorptive capacity of the economy. The need for external borrowing was not particularly fact during this period as the country was receiving large inflows of foreign exchange through the oil sector. This was the period of the "oil boom" The country's foreign exchange position was so comfortable that Nigeria was in a position to lend money to the international monetary fund (IMF) under Oil facility in 1974.

During this period of 1970's the level of external debt outstanding was not only relatively low, but also the bulk of it (about 78%) consisted of bilateral and multilateral loans. Such loans are usually provided on concessionary of" soft" terms and the payment period is much longer (up to 50 years) and the interest rates are lower. Thus, debt servicing did not pose any serious problem during the period.

In the word of Ezenwa (1992) "external debt with specific reference to West Africa sub-region been solely a product of the religion weak export base coupled with the limited ability to cut back imports drastically without a devastating import on their economies" The Nigeria financial system consists of several institutions, instruments and operators. The institutions include three major regulatory bodies, the Central Bank of Nigeria (CBN), the Federal Ministry of Finance and the Securities and Exchange Commission (SEC). Other institutions include the Nigeria Deposit Insurance Corporation (NDIC), the Nigeria Export Import Bank (NEXIM), the Commercial and the Merchant banks, Development and Specialized Banks, Insurance Companies, National Provident Fund (NPF), the National Reconstruction Fund, Finance Companies, Bureau de Change and mortgage institution.

The CBN is the apex regulatory body of the Nigerian financial system. CBN evolved from an attempt to eliminate certain monetary policy deficiencies and to promote the growth of the domestic monetary and capital market before independence in 1960.

The CBN came into being by the Central Bank of Nigeria Act of 1958. It commenced business on 1 July 1959. The Act, which has undergone some amendments, was re-enacted as the CBN Act NO. 24 of 199. In addition, Banks and other financial institutions Act NO.25 of 1991 was promulgated. The two Acts with the necessary amendments up to 1999 gave CBN more flexibility in regulating and supervising the banking sector and licensing finance companies, which hitherto operated outside any regulatory framework.

The mandate of the Central Bank of Nigeria (CBN) is derived from the Act that sets it up. The initial one was the 1958 Act of parliament which was severally amended before it was jettisoned and replaced by the Central Bank of Nigeria Decrees NO 24 of 1991 (as amended in 1993, 1997, 1998, 1999) the decree now Act of the National Assembly of the Federal Republic of Nigeria makes provision for the continuance of the CBN with a Board of Directors consisting of the governor, four deputy governors and five non executive directors and charges the Bank with the overall control and administration of the monetary and financial sector policies of the federal government, both within and outside Nigeria.

1.2 Statement of the Problem

The Nigerian economy is undergoing a major debt crisis, the most serious in its history since the country's incorporation into the world capitalist system the turn of this century. As with other Third World Countries, the Nigerian debt crisis is part of a wider crisis of accumulation, which has already resulted in a marked deterioration in the aggregate performance of the productive sectors of the economy,

Apart from the magnitude of the Nigerian debt, its structure (term, maturity, and so on) rendered the debt virtually unmanageable, particularly as there was no framework for monitoring, let alone, managing the debt. The near-state of insolvency culminating in payment default and debt-layering brought the issue of external debt into focus and to the public glare, for the first time in the early 1980's. The effects of external debt on the country's economic, social and political life were so severe and profound that solutions to them have had to be equally drastic and painful.

Debt constitutes a serious problem in term of the burden it imposes on our impoverished economy. It is not the amount of the debt itself, but given the faster rate at which the debt grow, while the country is left suffering a dual effect of rising debt service ratio and declining capital inflow. For the past many years, the economy of Nigeria has been particularly hit by: mismanagement of loans from what they are meant for, the agreed of foreign banks for profit and assets, over dependence of government on the oil sector, huge budget deficit, reckless contraction of loans, poor performance of the non- oil sector, structural imbalance in the economy resources gap between the rich sector of the economy and the poor sector. The magnitude of the debt burden is better appreciated if the debt ration is examined .The debt GDP ratio that relates the stock of external debt to domestic output is very alarming. From a mere 3.8% in 1980 it shot up to a whooping 30.5% in 1988.The debt service ratio that is a measure of the debt becomes relevant. The ratio is equally staggering. It grew rapidly from 0.790% in 1980 to 33.2% in 1985, and by 1992, it was estimated to be at 30%. The internal dynamics of the debt problem reveals the geometric rate at which the debt multiplies even with double efforts at setting them.

It is thus necessary to assess the role of the Central Bank of Nigeria in the nation's external debt relief and cancellation and what Nigeria stands to gain from such relief and cancellation.

1.3 Objectives of the Study.

The objectives of this research work are:

i) To assess the Role the Central Bank of Nigeria plays on external Debt Relief / cancellation for the nation.

ii) To Identify the Nation's benefits or gains from Debt Relief and cancellation.

iii) To identify External Debt Management Strategies.

iv) To examine the requirements for External Debt Relief and cancellation.

v) To identify the Economic Implications of the External Debt Relief / cancellation.

vi) To suggest policy recommendations for general improvement.

1.4 Research Questions

In every research project, some questions have to be raised. This research work within the limit of its scope should be able to produce answers to some vital questions that are as follows.

i) What role does the Central Bank of Nigeria play in nation's external debt relief/ cancellation?

ii) What are the benefits or gains derivable from debt relief cancellation?

iii) What are the strategies used in managing external debt in Nigeria?

iv) What are the requirements for external debt relief and cancellation?

v) What conditions are attached to debt relief cancellation and their economic implication?

1.5 Significance of the Study

The significance of the study is apparent and needs little justification. The main reason for raising external loan by developing countries including Nigeria is invariably to bridge the domestic resources gap in order to accelerate economic development. Such borrowing are used judiciously for the purpose for which they were meant for and add in such away as to facilitates the eventual repayment and liquidation of the debt.

It is however, important to look at the Nigeria's debt and reschedule its redemption in relation to development of her economy. This research work will help other researchers who will want to carry out a research work on a similar topic. It will as well help the future leaders of CBN in adopting policies needed for the management of external debts. Also, this work shall be of immense use to the government, potential investors to know the economic position of the country, parastatals, companies and the general public in which they are investing in.

The research shall also benefit staff of the Debt Management office and to the international financial institutions such as Paris club, London club and IMF.

1.6 Scope of the Study

This research work focuses on the role of Central Bank of Nigeria in the Nation's external debt relief and cancellation. The researcher will look into the Nigerian economy, the history of Nigeria's external debt, composition of the Nigeria's external debt profile, some major causes of the debt burden, various management strategies used to reduce the debt, requirement for external debt relief, conditions attached to debt relief and economic implication. This study also covers a period of six years from 2001 to 2006.

1.7 Limitations of the Study

Every research work has limitations. In the course of writing this research work the researcher will encounter a number of difficulties. The researcher would like to acquaint the reader with some of the constraints, which are highlighted below:

a. **FINANCE:** carrying out research in such a wide area as “An Assessment of the roles of the Central Bank of Nigeria in Nation’s external debt relief and cancellation” involves leasing with the Central Bank and its agency i.e. the debt management office which are bodies handling this issue. The researcher was constraint by finance and therefore could not pay adequate visits to such bodies. As such, the researcher went there to get some relevant materials.

b. **ACCESS TO INFORMATION**: there is no much reference Material related to external debt relief and cancellation because it is a current issue in the economy. As such the researcher relied on the available materials.

c. **TIME FACTOR:** the time within which the researcher is given to complete the work is very limited and may affect the study and the researcher personally, couple with the nature of the researchers work time and the time for the research.

1.8 Plan of the Study

The plan of the study shows the framework of the research project, which is divided into five chapters.

Chapter one which is the introduction consists of background of the study, statement of the problem, objectives of the study, research questions, significance of the study, scope, limitations, plan of the study definition of terms.

Chapter two which is the literature review consist of the introduction, the concept of external debt management, theoretical framework, composition of Nigeria's external debt profile, causes of Nigeria's external debt, external debt management strategies, requirements of external debt relief and cancellation, benefits of external debt relief/cancellation. The chapter, also discusses the economic implications of external debt relief/cancellation, roles of CBN in the nation's external debt management, their economic implications and finally summary.

Chapter three which is research methodology consist of introduction, research design, sources of data, methods of data collection, population and sample size, techniques used in data analysis, justification for the methods and techniques use, summary.

Chapter four, which is data presentation and analysis consists of introduction, data presentation and data analysis, discussion of findings and summary of the chapter.

Chapter five consists of the summary, conclusion and recommendations.

1.9 Definition of Terms

In this study, some key terms used include:

Additionality: New investment generated through debt conversion. For example, debt-equity swaps can be used to promote foreign investment in priority sectors of the economy and to stimulate privatization or non-traditional exports.

Case By Case Approach: Treats the case of each debtor country individually and not collectively.

Comparability of Treatment: A debtor country cannot grant any member of the Club a treatment that is more favorable than what it grants to any other member of the Club or any other creditor.

Conditionality: Debt treatment is applied only for countries that implement reforms to resolve their payment difficulties.

Consensus: All member countries of the Paris Club must agree to a position before it is taken as the decision of the Club.

Counterpart Fund: Local currency funds set aside to finance development activities, as stipulated in the agreement of debt conversion.

Cut-Off Date: Date of rescheduling agreement of a debtor country that establishes the eligibility of debt included in future rescheduling.

Debt Buy-back: The repurchase by a debtor government of all or a portion of its external debt at a discount from face value.

Debt Sustainability: Ability of debtor nation to meet its debt obligation as at when due and still performs its other responsibilities to its citizenry.

Debt Conversion (swap, exchange): The cancellation of external debt, typically at a discount from face value, in exchange for payment in local currency or another asset (bonds, public buildings or land, etc). The terms' conversion', 'Swap', and 'exchange' is used interchangeably.

Debt Conversion Programme: Programme officially sponsored for the conversion of debt by debtor or creditor country. It generally involves the issuance of programmed guidelines or regulations.

Debt Management: It involves establishment of the conditions of issue and redemption of foreign loans.

Debt Management Strategies: Approaches or measures (sometimes on short term) designed or established to ensure debt burden sustainability.

Debt Overhang: Accumulation of principal amounts of debt, plus interest and penalties which are unpaid.

Debt Retirement: Payment of debt obligation as contained in agreement for debt.

Debt Rescheduling: This involves the conversion of an existing debt into another category of debt through refinancing, rescheduling, issuance of collateralized bonds etc either on short term medium or long term.

Debt Servicing: This refers to combined interest payment and principal repayment.

Debt Service Burden: The impact of debt, particularly external debt, on a country in terms of payments to creditors of funds which should have been available for development e.g. in the health sector etc.

Discount from face value: Percentage of reduction from the value of debt. The inverse of the discount is the 'purchase price" or the 'redemption price'. It is also called 'haircut'.

Economic growth and Development: In terms of economic welfare and social indicators such as Health, Education, Housing etc.

External Debt: Comprises bilateral and multilateral as well as commercial debts contracted outside the country. It is also called foreign debt.

Face Value: The original amount of loan owed under a loan or other credit agreement before a debt rescheduling or reduction. It is also known as 'nominal value' of debt.

Moratorium: A period set aside to enable a debtor nation or government recuperates from its debt crisis. Mexico Moratorium in 1982 is an example.

Principal: The initial amount borrowed or owed by the debtor.

Par Bond: This is a bond usually issued in a strong currency against which a debt may be guaranteed.

Promissory Notes: They are uninsured trade credits arising from trade arrears incurred and accumulated between 1982 and 1983 in Nigeria. They were issued by CBN on behalf of the Federal Government.

Purchase price: The price in percentage paid to buy debt from a creditor. The purchase price is the inverse of the discount from 'face value'.

Round- Tripping: Conversion of local currency debt conversion proceeds into hard Currency for illegal gain.

Solidarity: Participating creditor countries agree to implement the terms agreed strictly as embodied in the Agreed Minute.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The Nigerian economy is undergoing a major debt crisis, the most serious in its history since the country's incorporation into the world capitalist system. As with other third world countries, the Nigerian debt crisis is part of a wider crisis of accumulation, which has already resulted in a marked deterioration in the aggregate performance of the productive sectors of the economy,

Apart from the magnitude of the Nigerian debt, its structure (term, maturity, and so on) rendered the debt virtually unmanageable, particularly as there was no framework for monitoring, or managing the debt. The near-state of insolvency culminating in payment default and debt-layering brought the issue of external debt into focus and to the public glare, for the first time in the early 1980's. The effects of external debt on the country's economic, social and political life were so severe and profound that solutions to them have had to be equally drastic and painful. Thus for the purpose of getting a grasp of Nigeria's debt issue, there is a need to have a sound knowledge about the concepts and historical background of the Nigerian economy and the history and trends of the external debts.

2.2 The Concept of External Debt Management

According to Johnson (1999) public debt can be defined as money raised or borrowed by the government. It is the amount of money owed by the government to institutions, governments and individuals' resident within or outside Nigeria. Debt management is a system of controlling, coordinating and managing the total amount of money owed by the government to outsiders whether from internal or external (ICAN PATHFINDER 2003). Debt management can be used as an instrument of fiscal policy to influence the level of income, consumption, production and employment. If government intends to pursue concretionary policy, it can increase debt servicing or debt repayment, thereby reducing the level of money supply, income, consumption, production and employment.

The word debt according to (ICAN PATHFINDER 2003) is used to refer to an obligation to pay certain sum of money, principal and the interest (as stipulated in the contractual term) at a later date. It becomes a liability and subsequently a burden where the nation concerned can no longer meet the maturing obligation at the stipulated time. In this respect, time dimension and interest plus the principal become the relevant aspect of debt obligations. In this respect, various forms of paper lectures have been presented by government officials, firms, corporation, financial institutions and individuals at various times and at different forums. The speakers and writers were drawn from almost every facet of the society from economist, accountants, bankers, government work etc.

All these categories of people have spoken extensively on the topic debt and its effect on the nation.

In the words of Ezenwa (1992) "external debt with specific reference to West African sub-region has been solely a product of the regions weak export base coupled with the limited ability to cut back imports drastically without a devastating impact on their economic".

He stressed that not only the distressed export markets and high interest rate have caused the debt traps of the region but also by poor management of the loan. The commensurate effect of these he buttressed would necessarily pose new problems in expanding exports and delay process in development prospect. To this end he concluded that external finance is needed to supplement the domestic earnings and if necessary external loans should not come from the multilateral and bilateral institutions, where there is a high rate of interest and a short period of payment, all aimed at mortgaging the country. It also amounts to trying the nation to the apron strings of the imperialist countries thereby making out political, economic and social sovereignty of man.

According to Oshilim and Adidun (1989) Nigeria has joined the league of debtor nations with her indebtedness of over $40 billion as at the end of 1988.

This figure they argued emerged as a result of the decline in export earnings from petroleum, which has been the source of foreign reserve earnings. Other factors they believe to be responsible for this quantum of debts are the high debt servicing ratio and weak domestic currency, which jointly pushed the debts burden above the $3Obillion level, and these have exerted a dislocation culture in the economy.

By implication, the resources that should have been used locally in the production of goods and services are rather diverted into debt servicing. The corresponding effects of this behavour they contend are the resultant drying of credit lines, shortage of raw materials and spare parts, decline in output as well as increased unemployment, drastic depreciation of the Naira value, inflation etc. The macro economics dimension of these variables on any economy are far reaching, hence the government has taken the bull by the horn aimed at reducing the stock of the national debt so as to sanitize the macro economic problems thereby stimulating recovery.

However, Ajayi (1990) shared a slightly different opinion from these previous scholars. According to him, almost all the third world countries witnessed social, political and economic upheavals between 1966 and 1976, basically as a result of the emergence of an indigenous cum neo-colonial administrations, but the democratically elected governments in most countries never stayed long enough. In his records “these political administration ended no sooner than they had started.

They were over-thrown and replaced by their own armed forces which legitimized their existence by the extension of social amenities which as we have seen drained their resources further, and led them to serious foreign debts".

Though most of the third world countries had their fortune from the sky rocketed or increased oil prices, these funds were squandered uselessly. On the exhaustion of these funds they invariably had to scout for funds to finance some projects in their respective countries. He also uncovered how the accumulated riches during the oil boom were squandered through open entry and exit of our border to foreigners as regular Nigerians. This, coupled with the naturally high birth rate of Nigeria increased the population of the country to an unimaginable magnitude; this was accompanied with building of social amenities and infrastructures such as schools, hospitals, roads, bridges, etc. These according to him were constructed with foreign loans, hence the gate way to some of these debt. He stressed that the high loans led to the accumulation of debts. These factors are therefore said to be responsible for the entrapment of our economy in the debt web syndrome. He also sees these loans as "green" for the creditors and 'hell' for the borrowers. These every green loans are exploitative credit facilities whose initial principal amounts are too big for borrower to repay and or the every rising trend through the negative effects of compounding interest and its capitalization. He concluded by encouraging source of loan able funds for investment as the best and effective way of achieving sustained economic growth.

Enwere (1991) noted that the articulation of interest, which engineered contraction of rising external loans for Nigeria, could be traced to the accumulation system of Nigerian. Execution of public projects requires that the state must resort to foreign sources, he argued.

Eskor (1988) rested his verdict on debt crisis on the high interest rate charged by creditors. He cited the interest rate of USA (the sixth month dollar)and the London inter-bank offer rate (LOBOR) which increased from 9.5% in 1978 to 16.6% in 1981. Eventually the rate decline to 13.3% in 1983, 11.3% in 1984 and 6.9% in 1986 these were seen as still high interest rate as compared to the previous years. He also believes that underlying the debt burden and aggravating it, is the worsening balance of payment problems in the third (developing) world countries (Nigeria inclusive). To this end, the problem of indebtedness in third world countries are said to be caused and perpetuated by high profit and other payment from developing countries to the developed capitalist cum imperialist ones.

2.3 Theoretical Framework

Debt Conversion is neither a new concept nor a buzzword. It has been around for over two centuries (Okpechi, 1988). The origin of debt conversion can be traced to the emergence of Limited Liability Companies in the l7’ century as a result of conscious efforts to improve on their financial capital. The companies who were instrumental to this development included; the Russian Company chartered in 1555, the East Indian Company 1600 and the Hudson Bay Company 1670. The capital provisions in their charter are clearly evident.

In the 1970s, debt conversion resurfaced in another forms. During the period, there was oil boom which provides the impetus for heavy trading and international projects by multinational companies and multilateral bodies. As a result of this characterization the forms of settlement that were employed to facilitate and sustain the tempo or level of business transactions were greatly influenced. For example, Pilbeam (1998:365) reported that the first well-documented currency swap involved the World Bank and International Business Machines (IBM) in 1981 whereby the World Bank committed itself to financing some of IBM’ s Dutch mark/Swiss franc debt in return for a commitment by IBM to finance some of the World Bank’s dollar debt.

Furthermore, in the early 80s when the world oil price collapsed, the use of debt conversion as a policy of debt management strategy in developing countries became preponderant. Its manifestation was mainly amplified by the determination of Mexico on August 12, 1982, to opt out from further settling her debt obligations through her moratorium. Consequently, creditor nations became reluctant to grant further credits to debtor nations and began to device means to ensure repayment of existing loans. In the circumstance, some banks began to trade the debt instruments of Less-Developed Country (LDC) for another in order to bring together their lending portfolios. These transactions led to the evolution of the secondary market for debt trading where debt instruments of debtors' countries were traded at very high discounts. The secondary market soon became the centre and medium for exchange of debt and in order that the national economies might benefit from its activities, many debtor countries began to implement the debt conversion programme (Okpechi, op cit).

Among the third world countries, Chile was the first country to establish an institutionalized Debt — Equity Swap programme in 1985 (Hannon and Haugen, 1987 and Monye, 2001). Other countries that followed include; Argentina, Brazil, Bolivia, Columbia, Ecuador, Mexico, Morocco, South Africa, Uruguay and Venezuela. The World Bank (1996) reported that Argentina, Brazil, Chile and Mexico used the medium to secure considerable and remarkable reduction in their external debt between 1985 and 1994. This achievement was a great impetus to debt conversion programme in other debtor countries. In Nigeria, the debt conversion programme was embraced and established in February 1988.

The concept of debt conversion is on the need to reduce debt and its attendant burden on a debtor while hedging a creditor against loss of assets e.g.

money etc. According to Monye (2001), debt conversion “involves the voluntary exchange by a creditor with its debtor, of debt for cash, another asset or a new obligation with different repayment terms”. The economic rational for debt swaps, according to him, “is based on the willingness of a creditor to accept less than ‘Face Value’ for debt and of the debtor to make payment at a higher value, but usually less than 100% of face value of the original debt”. The implication is that debt conversion is impossible unless the parties involved are willing and have agreed to make some concessions in a form of tradeoffs, with the hope that neither of the party will be worse off ultimately. The creditor in particular is very conscious of this fact. Thus, the conceptual framework of debt conversion is hinged on the need to facilitate business transactions between parties (bilateral or multilateral) by ensuring that debts are settled through an arrangement that will not only reduce debt burden of a debtor and improve its state but also assuage and confer some acceptable benefits on the creditor.

In relation to a state or nation, Debt conversion involves the exchange of a country’s foreign denominated debts by the holder, otherwise assignee, into equity or local debt instruments in the country of the debtor usually at a discount. According to the Debt Conversion Committee Secretariat (2001), when a foreign denominated debt is converted to local currency denominated debt instrument or equity, the foreign debt is extinguished while the proceeds are deployed to the productive investments in the debtor country. Debt conversion is also seen in the context of tool or medium used to assist the underprivileged. For example, Leak and Fuller (2002) said that debt conversion was premised on the assumption that the developed world had a vital interest in helping highly indebted nations overcome the burden of foreign debt, and that this could be accompanied by supporting initiatives that serve both domestic and international needs.

The International Monetary Funds (IMF) recognized two official conversion schemes. They are; debt conversion by foreigners and debt conversion by nationals. Debt conversion by foreigners is where foreign banks, institutions, or lenders apply their own loan claim to acquire Equity Investment or any form of asset while debt conversion by Nationals is where a loan claims may be purchased by resident nationals of a debtor country using his/her external assets. One important advantage to the Investor, as reported in IMF Journal (1988), is that such financial assets may be redeemed at near par by the authorities on the date of redemption.

Features of Debt Conversion Scheme vary from one country to another depending on the circumstances of each country (Hannon and Haugen 1987, Satomi, 1988)). Sometimes too, there are identical features. However, success of each scheme reflects on the individual characteristics of each country' s view of foreign investment, its regulation of foreign exchange and its management of domestic capital markets, as well as an investors existing relationship in the country. There are some conditions that should be met or prevail when debt conversion is being anticipated in any country. Four of these conditions are:

I. It must be designed as part of a country's overall debt management strategy. That is, it must be recognized as an integral part of debt management strategy of the state or nation.

II. It must be designed to support a country's investment priorities and used to attract "additional" investment to the country.

III. It must attracts proper co-ordination among debtor country government agencies which may have to work with planning ministries in order to analyze the macroeconomic impact and micro-level results to be achieved through the scheme.

IV. It should be designed in such a way as to promote participation by civil society in funding and administering development programmes.

2.4 The Central Bank of Nigeria and the External Debt

The CBN cooperates with the other agencies to manage the country's external debt. Amongst the agencies is the Debt Management Office (DM0) which was set up in 2000 as a semi autonomous unit of the Federal Government. Its assigned task includes:

I. Centralizing and coordinating the nation’s debt recording and management activities.

II. Providing debt service forecasts.

III. Making debt service payment.

IV. Advising government on debt negotiations as well as borrowings.

The role of the DM0 also includes coordinating the activities of numerous management agencies that sprung up in recent years. In the year 2000 there were eight agencies:

I. The externals finance department of the ministry of finance.

II. The multi lateral institution department of the ministry of finance.

III. The Africa and bilateral economic relations department of the ministry of finance.

IV. The Home finance department of the ministry of finance.

V. The treasury department of the accountant general’s office.

VI. The debt management department of the Central Bank.

VII. The Debt conversion committee Secretariat of the Central Bank.

VIII. The public debt office of the Central Bank.

These departments lacked functional cooperation and collaboration. Their debt recording was weak; while their loan records were often incomplete as a result their inability to reconcile debt statement with creditors was very difficult. Also their service/payment arrangements were so unwieldy and inefficient that the delays in this situation often resulted in several penalties. The coordinating role of the DM0 includes:

a) Maintaining a comprehensive inventory of loans together with forecasts of debt service.
b) Providing timely and accurate information on the national debt to assist policy makers.
c) Publishing up to date debt statistics so as to improve transparency in debt management.
d) Effecting debt services payments accurately and on time.
e) Managing the country's debt portfolio so as to minimize costs to an acceptable risk profile.
f) .Conducting risk analysis and developing appropriate risk management policies.
g) Conducting debt sustainability analysis to assess optimal borrowing levels.
h) Assessing lending terms from various sources and negotiating best possible terms for future borrowing.
i) Helping to inform and craft a debt management strategy with appropriate linkages to fiscal and monetary policies and overall macroeconomic management.

DMO’S Activities

Since inception in 2000, the DM0 has recorded success in:

a. Auditing Nigerian’s debt portfolio

b. Updating and computerizing the debt database and reconciling figures.

c. Negotiating the rescheduling of external debts by arriving at agreements with the Paris club.

d. Structuring the above agreements on Houston Terms, which provides for the rescheduling of debts totaling $21.4 Billion over an 18 — 20 year period.

e. Meeting with individual creditor countries negotiate bilateral agreements. Working with a team of financial adviser to explore option for the restructuring of the nation’s commercial debt.

2.5 Composition of the Nigeria’s External Debt Profile

Nigeria’s has traditionally relied on loans from sources as diverse as the World bank, Official foreign government agencies, private contractor finance and suppliers credits, and deferred payments for external financial support of domestic resources. What follows is an analysis of those sources of loan beginning with the resources, which the country has drawn from the World Bank. The compositions of Nigeria’s debt are as follow.

(a) The World Bank Group

The group comprises the international Bank for reconstruction and development (IBRD) the International Finance Corporation (IFC), the International Development Association (IDA), and the Multilateral Investment Guarantee Agency (MIGA). These constitute the largest source of long-term external loans to Nigeria. As at the end of December 1989, the IBRD had provided a total capital loan of $5.3 billion to the country since it started operations in Nigeria on 1958. Of the amount, $3.05 billion had been disbursed, $127 million cancelled, and $778.6 million repaid, loaning $2.1 billion undisturbed. The IBRD loans to Nigeria have largely been utilized to finance agricultural development, the construction of road networks, electricity and water supply, urban development, industries, and port development (Ashinze, 1996).

The World Bank loan profile and philosophy have changed drastically especially since the early 1 980s from project tied loans to the more flexible and broad based programme loans. Until 1980, lending by the Bank was almost exclusively for financing specific projects. However, with the changing circumstances of the 1 980s, the World Bank not only initiates structural adjustment programme financing, but also solicits for balance of payments support loans in collaboration with the International Monetary Fund (IMF). Nigeria has, since the introduction of its structural adjustment programme (SAP), benefited from this new lending by the World Bank. Under the program, the World Bank enlists, loan support for:

i. Trade and investment under its trade and investment policy loans

ii. Funding of the foreign exchange Market, and

iii. Re-scheduling Nigeria's External Debt over an extended period of time and providing additional amount of external resources as relief

(b) The International Finance Corporation (IFC)

The IFC is a member of the World Bank group charged with promoting private investment through equity investment and loan participation. At the end of the 1989, the IFC's investments in Nigeria amounted to \$76.2 million, \$ 5.1 million in equity and the rest in loans.

(c) The International Development Association (IDA)

The IDA provides soft credit to low-income development countries. Nigeria received two IDA credits of \$ 21.4 million and \$ 18.7 million respectively in the early 1970s for educational development and road projects in northern Nigeria. With the advent of oil boom and the consequent increase in the country's per capital income, which saw her being listed as a middle income country, Nigeria ceased to qualify for IDA loan. However, in 1989, following the drastic fall in the country's per capital income subsequent upon the economic crisis the IDA resumed credits to Nigeria when it provided \$ 100. 9 million credits for country-wide agricultural extension services and small- holder farm families IDA terms are at confessional rates with 10 years grace period, nil interest rate except a service of 0.50 percent.

(d) International Monetary Fund (IMF)

Since Nigeria became a member of the IMF in 1963 she had borrowed a total amount of SDRs, 220 million ($ 264m) out of which SDRs 70 million ($84m) was repaid while SDRs 150 million ($180m) was yet to be drawn down under Nigeria's Structural Adjustment Programme (SAP), IMF granted SDR 612 million ($475m) standby facility to Nigeria. The amount was, however, never utilized, since Nigeria had undertaken to finance its SAP program from source other than the IMF (DM0 2003 Annual Report & Statement of Accounts)

(e) The African Development Bank (ADB)

Until 1985, Nigeria borrowed only $ 12.2 million from the African Development Bank for Enugu and Calabar airports development. At the same time, it established a Nigerian Trust fund (NTF) of $ 20 million from which soft loans are granted to other African countries. However, between October 1986 and December 1989, Nigeria had signed loan agreements totaling $ 1437.7 million with the African Development Bank to finance a number of projects.

(f) Japan

Available data from Debt Management Office of Nigeria showed that Japan started extending loans to Nigeria from 1966. Between that year and 1989, the country received some $ 855 million from the Japanese. The major projects, which benefited from the Japanese credit package include:

(1) $113.4 million for the kayinji dam project and the NEPA power distribution project signed in 1972.

(2) $113.4 million for railway expansion project signed in 1974.

(3) $31.8 million of Arewa Textile mills.

(4) $38.2 million for United Nigeria Textile mills. Nigeria,

(g) European Economic Community

Nigeria has benefited from the two anns of the European Economic Community's (SEC) institutional co-operation programmes. First as the Economic development Fund (EDF) which assist projects by way of grants and loans under European Economic Community at Lome convention signed in 1977. During the Lorne convention, Nigeria was reported to have received the following credits:

(i) $4.8 million manpower training and development.

(ii) $ 2.6 million for water resources development

(iii) $2.2 million for industries and industrial research and

(iv) $0.5 million for trade promotion and external debt.

The data from DM0 indicate that the external debt stock at end December 2003 was US $ 32.9 billion, constituting an increase of US$ 31.0 billion. The increase was attributable to the capitalization of unpaid interest and charges on Paris clubs debt as well as the depreciation of the dollar viz —a-vis Euro and the Japanese ten external dept as a percentage of GDP was 61.1 percent compared with 72.0 percent in 2002.

Available data showed that the Paris clubs accounted for US$27.5 billions or 83.6. Percent of the total while multilateral and the London club's claim totaled US$5.0 billion and us $ 0.9 billion or 2.7 percent while "other" accounted for the balance of US $ 0.05 Billion or 0.2 percent (Muktar,2005).

2.6 Causes of Nigeria External Debt

Generally, the external indebtedness of a country becomes a problem when the burden of servicing the debt becomes so heavy and unbearable that it imposes intolerable constraints on the economy and on the development efforts of the authorities. In such circumstances, the bulk of the foreign exchange earnings are earmarked for servicing of the debt and at times and worse still debt, drawings on now loan may be needed to service existing debt. In such a situation, only a small proportion of total foreign exchange earnings is available for financing of economic and social projects.

Although, Nigeria's debt problem became pounced in 1981, its causes may be traced largely to the activities and decision of the past years. Some of these major causes are discussed below:

a) Low Saving Propensity:

There are very few rules in economics but in sustaining a high savings propensity are also those which have achieved the best performance in terms of economic growth. Nigeria had in the past had a great propensity not just consume but to waste.

During the days of oil boom we developed exotic and expensive tastes, wasted and squandered resources. Remember those days when champagnes almost replaced water for Nigeria. Even when the resources were drying up, the extravagance continued and expenditure both at public and private was not adjusted to high accumulation of short-term trade debts.

b.) Unrealistic Exchange Rate

Both the monetary and exchange rate policies of Nigeria did not respond quickly enough to reflect the external value of the Naira at the time when there was a drastic decline in inflow of resources from the depressed oil market. The result of this was that the Naira becomes highly over valued and this created a savers pressure on our external sector. There was a large Naira based which at the existing rate of exchange made it possible for individual, corporation and even government to incur foreign exchange obligations which the country's resources would not sustain and this let to accumulation especially of short term trade debts which were unplanned and therefore emerged fortuitously. The overvaluation also gave great incentive to leakages and capital flight, which substantially dwindled away the already dwindled foreign exchange earnings.

c. Poor External Debt Management Policies

The acquisition of external loans should normally be for development purposes or for balance of payments support. In deciding on the optimal level of commitments. It is expected that a careful planned schedule acquisition, deployment retirement of such loans be prepared. Moreover good estimates of foreign exchange earnings as well as projected returns from investments financed with the loans are required. In Nigeria contact and particularly between 1980 and 1983, there was a general lack of consideration for these factors.

d. Financing of Long-Term Project Short/Medium —Term Loans

Most medium —term loans were drawn to finance long term projects. Example of such projects include the lopping paper mills and the steal projects at Ajeokuta and Aladja like other from the 1CM, these loans have relatively short grace periods and a repayment period of between 5 to 8 years.

f. Declining Foreign Exchange Earnings And High Import Bills

Nigeria's major foreign exchange earner since early 1970s has been crude oil. Unfortunately, the glut in the international oil market has affected adversely the country's foreign exchange earnings from this source since 1981. On the other hand, the consumption pattern of most Nigerians had changed in favour of foreign goods and services thereby increasing the level of foreign exchange commitments. For instance, the level of imports reached its peak of N13 billion in 1981.

g. Diversion of the Proceed of Loan into Other Uses

Especially during the civilian rule were reported (according to various tribunals) to have been diverted to other uses (of personal to have or partly interest) instead of being unvested in projects for which they were contracted. To the extent that such malpractices existed the external debt of the country must have increased without any corresponding increase in the official assets that would enable the country to service such loans eventually.

2.7 External Debt Management Strategies

With the emergency of external debt problem in Nigeria government have taken various measures or strategies to curtail the situation. Government efforts so far at debt management would be discussed in this research work in order to guide the research for further solutions. Those strategies are mentioned as follows:

I. **Embargo on New Loans:** this involves temporary stoppage of further external commitments in the form of loans until the debt position improves. This measures was however, not intended to reduces the burden of servicing existing debt rather it is aimed at preventing additional burden.

It should be recalled that since 1984, an embargo has been placed on new government borrowing from abroad, certain exception were however granted in respect of the economy. Moreover, loans whose terms are exceptionally favourable especially in terms of interest rate and long repayment period are also accommodated. This is an enforced discipline that becomes necessary in view of the past experience. However, foreign capital is a necessary complement in the development process. What is required is a judicious utilization of the borrowed funds.

II. **Statutory provision for maximum level of commodities**

Immediately after the circular in 1970, it became necessary to raise some external loans to support the rehabilitation and reconstruction of the war damaged facilities. At this time also the government was conscious of the optimal level of indebtedness consequently, there was the promulgation of rehabilitation, reconstruction and development decree of 1970 which limited the level of indebtedness to a maximum of1.0 billion. This was adhered to until 1978 when decree NO. 30 of 1978 was promulgated raising the ceiling to N5.O billion.

III. Issuance of Directives By Federal Government

Federal government issued a directive asking each state government not to exceed a maximum of N200 million limits as external loan outstanding. Moreover state governments were to ensure they maintain financial prudence by not utilizing more than 10 percent of their revenue on debt service.

The Federal government also threatened to deduct at source the equipment of debt service obligations before the balance of their allocation would be released. Reflecting high debt services burden the government as indicated by placing embargo on further borrowing in 1984. However, drawings were allowed to continue on existing project tied loans and other project loan that were considered to be in the overall interest of the economy such loans were however, to be on short terms.

IV. Refinancing Of Trade Arrears

The growth of short-term liabilities especially in the form of trade arrears become a problem beginning from 1982. at this time also, Nigeria's foreign creditors had started to refuse the opening of new line of credit. It therefore becomes necessary to seek debt relief by refinancing the trade arrears. Consequently agreements were reached to refinance arrears in respect of confirmed receivers of credit (L/C2) outstanding as at 13th1 July, 1983. Under the agreements, a total of $ 2,112.0 million or Ni, 584.9 million worth of letters of credits were refinanced.

The main features of the agreement include six months of grace and repayment period of 30 months beginning from January 1984. Interest was fixed at 1 1/2 percent above. Full repayments of the refinanced arrears were however, completed in July 1986.

In spite of the refinancing exercise, the arrears continued to mount and this increased the level of indebtedness. Moreover the changes of opening new lines of credit became narrower and this further reduced the level of economic activity.

V. Rescheduling of Debt:

Similarly, relief measure in the form of rescheduling of external debt has been worked out with private and official creditors. The negotiation with the London club-the private creditor —which commenced during the secondary quarter of 1986 was concluded and an agreement was reached to reschedule a total of $3.8 billion of principal payments and arrears on L/Cs falling due between April 1986 and December 31, 1987. The terms included interest payments of 11/4 percent above LIBOR and maturity of 8 years with 4 years grace period. Moreover, new money amounting to $20 million would be made available between 1986 and 1987. Similarly, agreements were concluded with the Paris club officials involving a total of $6.8 billion debt relief. These involved the rescheduling of principal and interest on medium and long term debt that are due to this group between October 1, 1986 and December31, 1987.

If an adequate result is to be achieved from this debt management there is the need for a team management on the external debt. The team is to coordinate and manage the total debt of this nation.

2.8 Requirements for External Debt Relief/Cancellation

With regards to the present voluntary debt reduction operations, all the operations have performed excellently, well, but there is still the need to pursue the goal of setting this external debt at the earliest possible time. Hence, the debt conversion exercise should be expanded to include all other form of conversion. The requirement for external debt relief and cancellation are seen below as provided by

Druker (1990), requirements known as the seven new requirements for managers of tomorrow in other to manage our external debt effectively.

a) They must manage by objectives (MBO). This means that all future loans must have a definite and good objective. Typical example here is the $120 million for the Federal Universities, which is strongly believed, would not to be mismanaged by universities administrators.

b) They must take more risks and for longer period ahead risks such as privatization and commercialization, foreign exchange and so on must be continued and new one introduced.

c) They must be able to build integrated teams (such as the TCPC, NPC and DCC and others in Nigeria) each member of which is capable of managing and measuring his own performance and results in relation to the common objectives.

d) They must communicate information fast and clearly (recent information e.g. the minister of education on external loan for the Nigeria Universities is good example). This is highly necessary if the government want to guide against "terrible" and "wicked" rumour.

e) They must be able to co-ordinate or integrate their function in the management of this great country. Defense, Health Care, Education, Banks, Transportation and others must be coordinated together for better result.

f) They must be able to make strategic decisions.

g) They must be able to relate their activities, actions, and authorities with their environment. Nigeria's environment consists mainly of the poor people; hence adequate care must be taken to care for this poor people and not the rich people in the various part of the country. (Drucker, 1997).

2.9 Benefits of External/Debt Relief/Cancelation

The following are the benefits Nigeria stands to gain in the Debt relief according to CBN governor, Soludo.

1. The debt write off of $1 8billion is a direct saving on debt service payment of which the country would have had to make over the next 20-22 years.
2. Henceforth the government will be able to spend an additional $1 billion, which could have been used for debt service payment annually to fund education, health and other socio-economic services and infrastructure. This applies to both the Federal and State Governments and will assist Nigeria to meet the Millennium Development Goals.
3. The debt deal will de-classify Nigeria as a "bad and doubtful debts" country. This will encourage the inflow of investment.

   Export Credit Guarantee Agencies will have confidence to restore insurance cover for exports of goods and services, as well as investment capital to the

Nigerian private sector. This will improve the competitiveness of private enterprises.

Nigeria's early and permanent exit from the Paris club debt overhang will bring a psychological and emotional relief to all Nigerians

2.10 Economic Implications of External Debt Relief/Cancellation

Britain's policy on debt relief was clearly stated by the IMF meeting in Washington in April 1987. It was here that they reaffirmed Britain's support for the internationally agreed approach of new finances for debtors' confines being conditioned on approved policies of economic reform. The divided the problems into the poorest debtor countries are not in position to solve their debt problems themselves and most of their debt were owned to government, but according to them the middle income debtors had the resources to get themselves on the road to recovery and that most of their debts were owned to commercial banks.

However, they attached some conditions to be met before being eligible for consideration to Debt Relief and Cancellation, and these include:

a. Conversions of existing loans to grants were to be continued and given wider adoption.

b. The debt should be rescheduled with repayment period lengthened to 15 or2O years, with grace period of up to 10 years.

c. Interest rates to be reduced to well below market levels in the rescheduling process.

At any rates, three conditions must as well be met before being considered for Debt Relief and Cancellation.

a) The country would have to be very poor, with an annual income per head of less than $425.00.

b) The country must be very heavily indebted with a high debt-service ratio.

c) The country must be involved in implementing appropriate reform policies.

However, Britain believes that with the right economic policies, middle income countries could, in the long term, repay their debts in full, while there is no way in which the poorest countries problems could be solved without some relief, because they cannot meet interest payments alone at present, and they may be able to do this in the nearest future.

The debt problems of the world's poorest have, for long, been a cause of international concern. Cancellation of official aid debt by Britain was formalized in 1978 with a scheme of retrospective terms adjustment. In April 1978, Britain proposed an important extension of debt relief measures to the poorest countries. The debt problems of middle-income countries have been negotiations to reschedule the largely commercial debt of certain countries of the heavily indebted middle-income countries.

In the 1950s and 1960s, there was rapid growth in the industrialized countries but the economics of the developing countries grew in parallel, but it became apparent that their growth was unevenly distributed, with the poorer countries falling farther behind.

In the 1970s oil prices rose sharply twice in 1973-74 and then again in 1979, each time with immediate effect on the balance of payments of Nigeria. The different measures adopted resulted in further divergence between the poorest countries and the group of middle-income countries in both the size and the structure of their external debt.

High debt ratio leads to unemployment and underemployment. This is because the manufacturing firms cannot purchase or import their machineries for production easily. The concomitant effect of this is the low production and lying off of workers, leading to a critical swell up in the already difficult labour market. Sam Aluko was very unequivocal when he noted that no country can do well by spending as much as 30% of her foreign earnings in debt servicing. This is an opinion shared by Eskor Toyo too. In fact, this has been the fraud in the economy of Nigeria, hence the disastrous effects on her economic growth vis-à-vis development. In the same way, high interest rate makes the country to pay more for her debt than one borrowed.

The pressure of debt burden refund growth by substituting for rather than supplementing domestic savings. It also focuses on stimulating the growth of modern sector thereby increasing the gap in living standards between the rich and the poor in the third world countries.

2.11 The Roles of Central Bank of Nigeria in Nations External Debt Relief/Cancellation

The Central Bank of Nigeria (CBN) through one of its arms, the DCCP secretariat accepts and processes applications for debt conversion programme transactions. Applications are processed strictly on merit and in accordance with relevant provision of the DCP guidelines, upon approval redemptory participate at monthly auction and thus on winning surrender relevant debts instrument for cancellation. Promissory notes are surrendered to chase Manhattan Bank, New York, Brady bonds/pars to Citibank New York, Paris club debts to export credit guarantee department (ECGD) (London) and ministry of finance notes to federal ministry of finance Abuja.

Debts conversion in a broad sense is the exchange of monetary instruments (e.g. promissory notes) for tangible assets or other financial instruments. It is a mechanism employed by the central bank of Nigeria in reducing Nigeria’s external debt burden by changing the character of its debt. Debt conversion may or may not bring in addition to money but it helps to improve a country's access into international capital market arena.

In a debt conversion arrangement the Central Bank of Nigeria agrees to repay a foreign currency dominated loan of or guaranteed by the public sector in local currency on the condition that the local currency proceeds are used for specified domestic activities. Debt conversion comes in various forms and includes:

I. Debt for Cash

This is done on a very small scale and usually by multinational corporations (MNCs) with subsidiaries in the debtor country. Under this arrangement the MNCs purchase the debt at a discount and as it is redeemed, the proceeds are used in financing their local subsidiaries activities.

II. Debt for Goods

This as the name implies is an exchange of debt for exportable commodities, which are used in redeeming some portion of the foreign debt. It helps in export promotion.

III. Relenting

Under this arrangement, the foreign currency denominated debt is relenting to another local borrower. Since the borrower would have paid the local equivalent of the original debt to the Central Bank, which invariably could not fund the foreign exchange equivalent at the material times, the creditor in theory now owned a foreign currency deposit against such loan. This can be relenting to another local borrower while the Central Bank would disburse the local equivalent of the loan.

IV. Debt for Debt or Loan Swaps

This scheme provides for swapping creditors in order to eliminate claims on a certain country and to concentrate claims in another country. Debt for debt conversion is normally carried out for the purpose of liquidity, risk reduction, tax and other purposes.

V. Debt Equity Swaps

This is by far the most popular form of debt conversion as it offers market-based mechanism for channeling resources into the private sector. Under the scheme, an investor takes up equity position in an existing or new enterprise, (whether government owned or private) in exchange for some proportion of external debt which is converted at face value and at the prevailing rate of exchange. Such an arrangement helps to match repatriation of earnings to a firm's earrings generation capabilities.

VI. Debt for Financial Investment

This involves the use of debt (redemption proceeds) to buy shares and fixed interest bearing securities in the domestic market.

However, the debt management office (DM0) took over the management of the debt conversion programme from Central Bank in 2005. Activities in this area have however been slow due to moratorium on debt swap operations imposed by the Paris club creditors. Concerted efforts were made during the period to secure the lifting of the embargo. The resumption of debt conversion activities will open new possibilities for reducing Nigerian's debt burden while attracting foreign investment inflows.

According to Mukhtar(2005) "despite the challenges encountered during the year, we have recorded some successes. We have moved closes to our vision of building a world-class organization capable of making Nigeria's debt sustainable by 2006".

However, apart from the debt conversion programme, various policy instruments were initiated by the Central Bank of Nigeria aimed at reducing the exasperating debt problem. These, debt management tools are import reduction propensity export promotion, debt rescheduling, debt reduction equity swap, privatization and commercialization, refinancing option, refinance of trade arrears, embargo on new loans and most of others.

Under the import reduction strategy, import of goods have been restricted to a great extent through outright devaluation, the introduction of foreign exchange and total bar of some goods, especially food items, and in place over promotion of local substitutes. It has been noted that Nigeria import bill rose from N756.4 million in 1970 to #143.2 billion in 1992 (Ukpong, 1993). The inability to settle these bills resulted in the rapid buildup of trade debt with reduction in import, now Nigeria can be able to pay for her imports on cash rather than buying on credit. This has brought about significant reduction in the accumulation of trade debts.

Privatization and commercialization of public enterprise became another measure designed to bring about reduction in the debt burden. This method involves the transfer of government assets or function to private sectors. It is aimed at remaining government entirely from any involvement in the activity companies in order to reduce government spending.

Debt cancellation has also become an instrument of debt reduction. In this respect the total debt owed is cancelled by the creditor nation. A number of scheme are being floated around an per debt cancellation out of which the brandy plan and Africa development Bank's (ADB) plan forum which Nigeria has already benefited from USA and other countries like Canada and Western Germany, Nigeria was able to have her debt cancelled to the turn of $100.4 million from the government of Canada and USA. However, about $650.0 million debt was cancelled for the country since the inception of the programme in the mid 1980's (Muktar, 2005).

Another role played by CBN in reducing Nigeria's external debt is the sought for debt service payments. This involves changing the maturity structure, spreading interest payment over a longer period until the debt is finally liquidated for example, in 1986, the debt valued at $1.6 billion due to the London club and payable in 1987, was rescheduled to extent to 1996 with a four year grace period. In 1988, the $5.9 billion debt owed to members of the London club was consolidated and rescheduled over a twenty-year period including a three years period of grace. Under an agreement with Paris club in 1991, the Central Bank of Nigeria succeeded in rescheduling the repayment of debt stock totally $3.2 billion over periods of eight to twenty years, in early 1992, Nigeria became eligible to draw from the IMF's Enhanced Structural Adjustment Facility (ESAF). This facility enhances economic fund and also induces concessional debt relief from office and a multilateral creditors.

2.12 Summary

Altogether, Nigeria's debt crisis erupted in 1980s when the country could no longer make interest payments on its debt, the nation's debt problems actually date back to mid-i 960s. At that time, trends were already evident that debtservice payments, small as they were had started taking their toll on the economy. In time, Nigeria's debt problem graduated from one of the illiquidity during 1980 to 1984 to one of the virtual insolvency in 1986 in the context of structural and policy problems. In effect it grew from being a simple financial to a developmental problem. The problem can be attributable to how saving propensity, unrealistic exchange rate, poor external debt management policies, financing of long term project with short/medium loans, declining foreign exchange earnings and high imports bills and diversion of the proceeds of loan into otherwise.

Nigeria's external indebtedness to US is $ 27.5 billion or 83.6 percent of total. While multilateral and London Clubs claims totaled US $3.0 billion and US $0.9 billion or 2.7 percent while "Others" accounted for the balance of US $0.05 billion or 0.2 percent. However, there is the need for better management and monitoring of Nigeria's debt, based on the examples from other countries and the history of debt in the country.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research is simply the process of arriving at dependable solutions to problems through the planned and systematic collection, analysis and interpretation of data. Research is the most important tool for advancing and developing knowledge, for promoting progress, and for enabling man to relate more effectively to his environment, to accomplish his purposes, and to resolve his conflicts. Research is oriented toward the discovery of the relationships that exist among the phenomena of the world in which we live. It is devoted to finding conditions under which a certain phenomenon occurs and the conditions under which it does not occur in what might appear to be similar circumstances (Osuala, 2001).

All research studies have to follow certain procedures before drawing conclusions and generalization being made. However, specific procedures are to a high degree determined by the research method adopted for particular studies. Each of the research method is designed to answer a different type of question depending on the topic of the research. Knowledge of various methods and procedures involved in each is important both for the researchers and consumers of the research findings.

The main objective of this research is to assess the role the Central Bank of Nigeria plays on external debt relief/cancellation on the nation. In trying to achieve this objective and other subsidiary objectives, this chapter discusses research methods, methods of data collection, techniques of data analysis, population and sample of the study and justification of methods and techniques used.

3.2 Research Design

The selection of the right method of investigating a given problem is the key consideration to the researcher. There must be a thorough knowledge of basic method of research to solve the researcher's problem. For the purpose of this study, historical, descriptive and survey methods of research were employed.

3.3 Population of the Study and Sample Size

Population may be defined as the entire group whose elements or characteristics are to be determined. It may be classified into two namely; target population and accessible population. "The target population is all members of the group of a specified group to which the investigation relates while the accessible population is defined in terms of those elements in the group within the reach of the researcher" (Nworgu,1991).

The population of this study comprises government organizations or agencies that are involved in debt conversion or debt related activities in Nigeria. Essentially, it involves staff who are engaged in the analysis of macroeconomic impact and micro level results of debt swaps or conversion and mainly from 4 Federal Government establishments namely; Debt Management Office (DM0), Central Bank of Nigeria (CBN), National Planning Commission (NPC) and Federal Ministry of Finance (FMF).

A sample size of 2 representing 50% of the population was selected after consideration of such matters as the role and specific mandate of these organizations and attempt at spreading them across all the 4 establishments. The samples selected are Central Bank of Nigeria and Debt Management Office from where we gathered our data for the study. Sufficient data were obtained; convenient sampling technique was adopted to select Central Bank of Nigeria. This is because it is the target of the research.

For the purpose of this study, historical, descriptive and survey methods of research were employed.

3.4 Sources Of data

Data are normally collected in the course of carrying out any research work. There are basically two sources from which data can be obtained (Osuala, 2001). They are:

Primary sources

Secondary sources

Primary Data

Data may be expressly collected for a specific purpose. Such data are known as primary data. The collection of facts and figures relating to the population in the census provides primary data (Osuala, 2001). The main advantage of obtaining such data is that the exact information wanted is obtained. Terms are carefully defined so that as far as it is humanly possible, misunderstanding is avoided.

Besides, primary source of data is the data that come mainly from direct observation of the event, manipulation of variables, performance of experiment and response of questionnaire (Asika, 1991). Collection of data through primary source involves the use of direct observation, interview and questionnaires.

Secondary Data

The secondary source of data collection comes from textbooks, journals, magazines, periodicals gazette, Newspapers and related documents. However, Osuala(2001), contends that such data must be used with caution, because it may not give the exact information needed and may also not be in the most suitable form, since initially it was collected for some other purposes.

The secondary sources are information's that have been collected by persons or agencies for the purpose of other solution to the problem at hand. They are data collected from the review of available documents or from related field of study. They can also be regarded as those data collected from officers or other institutions and completed research that have already aggregated the data. Secondary data is the name given to the data that are being used for some purposes other than that for which they were originally collected (Francis 1991).

3.5 Methods of Data Collection

Data are often collected in the normal course of administration and not specifically for statistical purposes. The instruments or tools for data collection need to be selected or constructed very carefully in order to obtain valid, relevant and standardized information from all subjects in a sample. The following list covers most important instruments of collecting data (Owojori, 2002):

Questionnaire, Interview, Documentations and observation.

All of the above instruments were used for data collection both for primary and secondary sources of data.

Questionnaire

Any research instruments comprising carefully designed questions for the respondents to answer can be called a questionnaire (Owojori, 2002). There are two basic types of questionnaires; the structured or closed form and the open-ended questionnaire.

The structure questionnaire is one in which items for responses have already been written. All the respondent needs to do is to complete the blanks with a tick, one word, a phrase or sentence. In some cases the respondent will underline, or draw a circle round an item, or assign a numerical value if he/she agrees with the statement already expressed by the researcher. The all-important feature of a structured questionnaire is that it sets limits or exerts some control over the extent to which the respondent can answer questions.

The second type of questionnaire, the open-ended type contains direct questions for which sufficient space is provided for the respondent to write their answers. It is easier to construct6 and permits the respondent to expand or clarify their answers freely. Extra information of which the researcher was not aware when structuring his question can be gained using open-ended questionnaire.

Interview

According to Tijjani (2002) the interview is an oral questionnaire. It is a face to face interaction situation in which one person (the interviewer) asks another person (the interviewee) questions which are responded to orally. An interview has many advantages over other instruments of data collection if well conducted. Respondents are usually more willing to talk than to write. The interviewer can explain more explicitly the purpose of his research and just what information he/she wants.

Direct interviews with the subjects are valuable data collection tools particularly when the subjects cannot read and write or are too young or too old to read (Owojori, 2002). The flexibility not afforded by written questionnaires can easily be afforded when interviews are conducted. The flexibility is desirable as the researcher usually ends up collecting more useful data than he/she had set out to collect. Several unforeseen issues crop up during the interview and if skillfully probed, in-depth information can be collected.

On the other hand, data collection through direct interviews can lead to bias since the respondent may be able to see what direction the researcher wants him to go. In his attempt to please the researcher, the respondent may give answers that are expected. The researcher's style of dress, mannerism, politeness and method of approach could favourably or adversely influence responses. However, it is time consuming and one of the most difficult techniques to employ successfully.

Observation

This is also one of the tools of data collection. In order to try and overcome response faking and personal bias which are common with self-reporting techniques such as questionnaires and interviews, the researcher sometimes decides to obtain data directly by means of naturalistic observations.

Observational techniques have their limitations, in the first place, if the subjects know that the observer is present, their behaviour can be change and even faked. As such, a researcher should find ways of observing behaviour without being noticed. In addition to the above limitations, is that it is time- consuming (Owojori, 2002)

Documentation

The most objective research instrument for data collection is the documentations of the subject. This involves historical happenings about the subject for a long period of time which was documented. It includes reports, minute of meetings and historical background of a particular organization.

3.6 Techniques of Data Analysis

For a reasonable and statistical significant result to be achieved in any study appropriate statistical techniques have to be adopted. According to Osuala (2001) data analysis is defined as the ordering and breaking down of data into constituent parts. Hence, the analysis of the raw data is the means by which the research problem is answered.

The main techniques made use of for data presentation in this research is descriptive statistics. The justification for the use of the techniques were given in 3.8

a. Descriptive Statistics

Descriptive statistics is a technique used to describe set of numerical data. With the set of data, many different numbers can be computed based on this statistical method. The statistical tools used for this study were tables and simple percentages. These tools were used in the presentation of data collected from the various sources of data discussed earlier in this chapter.

3.7 Justification of Methods Used

For the purpose of this study, the researcher adopted historical, descriptive and survey research methods. This is because the study is concerned with the collection of data on the roles of Central Bank of Nigeria in Nation's External Debt Relief and Cancellation. This has to do with the past and the present.

The secondary sources of data were used in this research work. However, the instruments used for the secondary sources of data used include text books, previous research works, journal articles, Descriptive statistics were used as techniques of data presentation and analysis. This comprises of tables and figures. However, all the methods and techniques adopted were made taking into consideration confirmation of the existence of the Central Bank of Nigeria in the management of the nation’s debts.

3.8 Summary

In describing the methodology in this part of the research work, the researcher brought to focus the external methods open to a researcher which include historical, survey and descriptive method. Due to the nature of the research topic, the researcher made use of specialized form of interviews taking recourse to documents rather than questionnaires. The researcher employed both historical and descriptive research methods. All available sources of data collection techniques adopted and analysis of data in the work re also highlighted

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1. Introduction

Debt relief is a way of reducing debt-servicing obligation. Debt cancellation on the other hand, is when a loan or some part of its retrospectively converted to a grant and no further payment of interest or capital have to be made on it. The Central Bank of Nigeria plays a central and highly significant role in Nigeria's debt relief, which has been a vital financial and economic issue in the country. The activities of CBN together with that of its agencies like DM0 have really contributed a long way in getting Nigeria's debt relieved.

This chapter will deal with the analysis of data gathered from libraries, CBN annual publication/articles as well as relevant information from the internet which has to do with external debt relief. In essence, this chapter is concerned with the analysis of the roles of CBN in Nigeria's external debt relief and how CBN has been acting as a negotiating agency for external debt relief and cancellation.

4.2 Presentation of Data

Table 4.1 Nigeria's External Debt Outstanding ***(₦ Million)***

Years	Multilateral	Pans Club	London Club	Promissory Notes	Others	Total Debts
1970	37.9	136	-	-	1.1	175
1971	37.9	137.8	-	-	2.8	178.5
1972	102.1	158.1	-	-	5.4	265.6
1973	107.1	150.8	-	-	19	279
1974	122	179	-	-	21.4	322.4
1975	126	200.7	-	-	23.2	349.9
1976	130.3	220.1	-	-	24.2	3 74. 6
1977	139.5	218.5	-	-	7.1	365.1
1978	154.3	838	-	-	259.8	1252.1
1979	163.9	1,433.70	-	-	13.9	1611.5
1980	179.1	1,5 76.50	-	-	1 11.2	1 8 66. 8
1981	179.6	1,195.90	-	-	175.7	1551.2
1982	530.4	5,474.40	1,981.70	-	832.9	8819.4
1983	566.4	6,002.20	2,758.80	548.9	701.4	10577.7
1984	1,271.20	6,360.40	5,443.70	1,155.10	578.30	14808.7
1985	1,293.50	7,726.40	6,164.30	1,273.90	842.50	17300.6
1986	4,670.70	21,725.30	8,444.70	4,152.60	2,459.10	41452.4
1987	8,781.50	63,205.60	6,766.50	20,634.90	1,400.80	100789.3
1988	9,991.80	75,445.30	14,986.10	25,742.10	7,791.00	133956.3
1989	21,473.60	121,229.60	42,840.00	35,067.60	19,782.90	240393.7
1990	34,606.30	154,550.60	53,431.80	40,950.50	15,475.20	299014.4
1991	39,458.30	173,051.20	58,238.10	43,561.90	14,144.30	328453.8
1992	89,274.30	324,729.90	41,890.60	64,140.00	24,229.30	544264. 1
1993	81,456.30	400,380.90	45,323.80	69,665.70	36,317.70	633 144.4
1994	97,056.60	404,212.60	45,367.90	70,069.10	32,106.80	648813
1995	97,042.00	476,731.20	44,990.00	69,256.00	28,846.40	716865.6
1996	102,630.00	420,002.00	44,946.00	47,080.00	2,662.00	617320
1997	96,199.00	417,568.80	44,946.00	35,475.90	1,742.20	595931.9
1998	93,214.00	458,257.80	44,946.00	35,151.60	1,447.60	633017
1999	361,194.90	1,885,664.80	187,627.10	136,523.80	6,363.80	2577374.4
2000	379,043.00	2,353,134.00	228,950.20	144,746.20	15,753.30	3121626.7
2001	313,504.70	2,475,509.40	223,834.60	1 58,486.00	1 3,580.50	3184915.2
2002	375,700.10	3,220,823.50	182,964.40	146,341.10	7,055.60	3932884.7
2003	413,877.70	3,737,279.90	196,156.90	123,994.60	7,020.20	4478329.3
2004	384,248.70	4,196,844.60	196,156.50	106,558.40	6,462.40	4890269.6

Source: Debt conversion committee secretariat, CBN, 2004
Note: Debt conversion was stopped at last quarter 2003
1/ Figures Computed From August To December, 1988. 2/ Debt Cancelled Out Of auction are debts processed without auction made to bid for the amount.

Table 4.2 Debts cancelled through debt Conversion Programme

Years	(S Million) Out of Auction	Within Auction	Total
19881/	-	40.0	40.0
1989	84.9	172.2	257.0
1990	65.6	151.4	217.0
1991	9.7	108.6	118.3
1992	25.1	107.8	133.0
1993	10.5	241	34.6
1994	5.6	7.8	13.3
1995	21.3	77.1	98.4
1996	15.2	167.8	183.0
1997	25.5	73.0	98.5
1998	4.6	83.8	88.4
1999	15.8	44.0	59.7
2000	1.2	56.6	57.8
200 1			
1st Quarter	-	8.9	8.9
2 Quarter	-	6.7	6.7
3rd Quarter	-	10.8	10.8
4th Quarter	0.8	0. 1	0.9
2002			
1st Quarter	-	0.7	0.7
2nd Quarter	-	2.9	2.9
3rd Quarter	24.0	5.2	29.2
4th Quarter	-	12.8	12.8
2003			
1st Quarter		5.0	5.0
2nd Quarter	2.7	4.4	7.1
3rd Quarter	-	3.8	3.8
4th Quarter	-	4.9	4.9

Source: Debt Conversion Committee Secretariat, CBN, 2003
Note: Debt conversion was stopped at last quarter 2003

Table 4.3: Category of debts cancelled through debt conversion programme ($Million)

Years	Promissory Notes	Restructure Debts	Refinance Debts	Par Bonds	Paris Club	Other	Total
1988	40.0	-	-	-	-	-	40.0
1989	205.1	9.8	-	-	-	42.2	257.0
1990	54.3	106.7	56.0	-	-	-	217.0
1991	61.2	48.6	8.4	-	-	-	118.3
1992	133.0	-	-	-	-	-	133.0
1993	29.6	-	-	5.0	-	-	34.6
1994	13.3	-	-	-	-	-	13.3
1995	131.2	-	-	2.8	-	-	134.0
1996	134.8	-	-	-	48.2	-	149.6
1997	99.7	-	-	-	2.4	-	103.4
1998	22.3	-	-	-	-	-	22.3
1999	14.9	-	-	-	10.3	-	23.1
2000	4.3	-	-	-	-	-	4.3
2001							
1^{st} Quarter	8.9	-	-	-	-	-	8.9
2^{nd}	6.7	-	-	-	-	-	6.7
Quarter							
3^{rd} Quarter	10.8	-	-	-	-	-	10.8
4th Quarter	0.1	-	-	-	-	-	0.1
2002							
1^{st} Quarter	0.7	-	-	-	-	-	0.7
2^{nd} Quarter	2.9	-	-	-	-	-	2.9
3^{rd} Quarter	5.2	-	-	-	24.0	-	29.0
4th Quarter	12.8	-	-	-	-	-	12.8
2003							
1^{st} Quarter	5.0	-	-	-	-	-	5.0
2^{nd} Quarter	4.4	-	-	-	-	2.7	7.1
3^{rd} Quarter	3.8	-	-	-	-	-	3.8
4th Quarter		4.4	-	-	-	-	4.4

Source: Debt Conversion Committee Secretariat, CBN,2004
Note: Debt Conversion Was Stopped Last Quarter 2003

The CBN cooperates with the other agencies to manage the country's external debt. Amongst the agencies is the debt management office (DM0) which was set up in 2000 as a semi autonomous unit of the Federal Government.

4.3 Data Analysis

Central Bank has played an active role in debt relief negotiations in the past year, which have begun to yield fruit. Based on the strong progress made in reforming the Nigerian economy, fighting corruption and improving governance, the creditors appear more favourably disposed towards granting debt relief to Nigeria. The year 2005 provides a unique window of opportunity to make further progress in resolving Nigeria's debt issue. The U.K leadership has pledged its commitment to addressing poverty, debt and other developmental challenge of Africa during the year, when it took over the chairmanship of the G — 8 as well as the presidency of the European Union. The global community is also becoming more sensitized to the need for intensified efforts in helping developing countries achieve the millennium development goal targets by 2015, given the lack of progress in this direction. Nigeria must seize the moment and the CBN will continue to play its role.

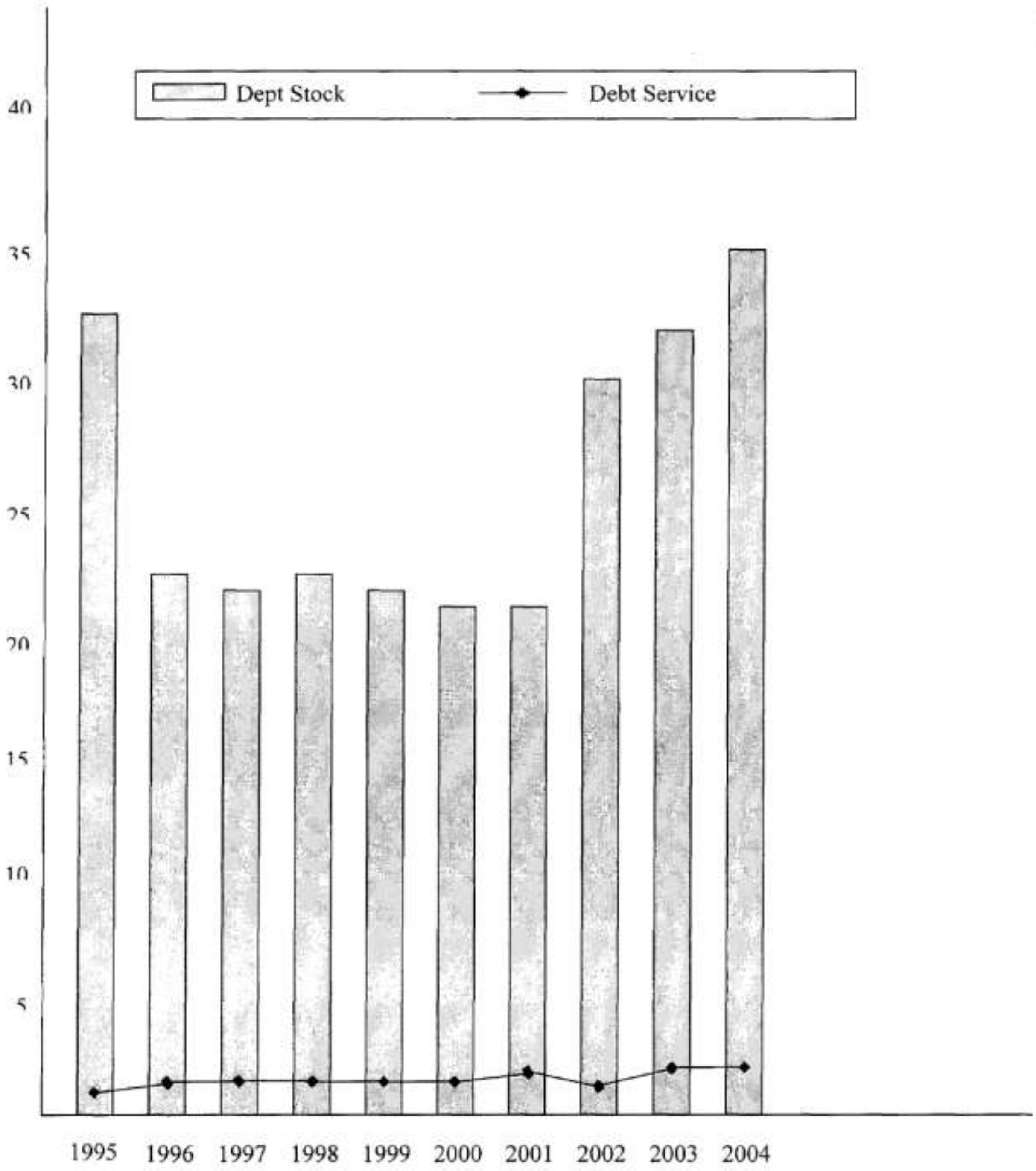
While maintaining a strong focus on the resolution of Nigeria's external debt problem in 2004, the DM0 had taken the Lead, working closely with the Central Bank of Nigeria in the restructuring of the external debt portfolio.

The total external debt outstanding as at 31st December 2004 stood at U.S $35,944.66 million as against U.S $ 32,916.81 million in December 2003, indicating an increase of U.S $3,027.85 million or 9.20 percent. The increase in the debt stock was largely as a result of the interest component of additional payment arrears that accumulated and continued depreciation of the US Dollars against other currencies in which the debts were denominated. The additional interest of U.S $1,536.26 million was made up of contractual interest of U.S $1,302.68 million and late/penalty interest of U.S $233.58 million, while the increase due to the effort of the depreciation of the Us Dollars was approximately Us $1,491.59 million.

A further breakdown of the total debt outstanding showed that the principal balance was Us $30,294.00 million, principal arrears amounted to Us $1,937.42 million, interest arrears and late interest was Us $3,355.63 million respectively. The increase in the external debt stock was due primarily to arrears that were incurred as a result of non-servicing of the non bilateral debt arrears on this debt which accounted to 96.6 percent of total arrears.

Figure 4.3.1 display the trend in Nigeria's external debt stock and debt service payments over the ten years 1995 — 2004.

Fig. 4.3.1: **External Debt Stock and Debt service, 1995-2004**



Source: Debt Management Office, 2004

Since the year 2000, despite the fourth rescheduling agreement with the Paris club creditors which should have helped to alleviate the debt burdens, the external debt stock has in fact continued to rise year by year due to the reasons highlighted above. Debt service payments, which have remained relatively stable over the period, will be discussed in details in table 4.3.1 below

Table 4.3.1 Paris Club Debt Stock by Creditor as At 31st December, 2004

S/N		**Areas As At 31.12.2004**							
	Country	**Principal Balance**	**Principal**	**Interest**	**Penalty**	**Total**	**Debt Stock as at 31.12.2004**	**% Share**	**Interes t Rate**
1.	Austria: Commercial	428,423,557. 23	18,666,206. 00	59,770,869. 41	14,518,135. 02	92,955,210.43	521,378,767. 66	1.69	5.30
2.	Belgium: Commercial	502,883,170. 81	28,054,734. 24	69,692,50.3 7	7,562,146.6 2	105,309,381. 23	608,192,552. 04	1.97	5.30
3.	Denmark: Commercial Oda	440,169,507. 542,223,748. 69	32,585,721. 07 89,809.95	554,953.17	8,955,937.0 8	129,278,815. 55 89,809.95	571,752,881. 73	0.00 1.85	5.30 0.00
4.	Finland	3,409,835.42	24,352.10	554,953.17		579,305.27	3,989,140.69	0.01	5.30
5.	France: Commercial Oda	5,038,711,97 1.32 10,465,958.7 1	431,461,071 .37 10,248,623. 12	693,171,496 .82 1,133,153.9 1	63,883,500. 21 529,3 19.66	1,188,516,06 8.39 11,911,096.6 9	6,249,605,09 5. 12	0.00	5.30
6.	Germany: Commercial Oda	4,201,807,73 9.69 124,511,195. 43	203,716,191 .91 22,854,333.99	645,512,191 .27 6,432,124.05	79,919,478. 39 2,905,364.80	930,141,869. 57 32,191,822.94	5,288,658,62 7.62	0.00 17.14	5.30 2.50
7.	Italy: Commercial Oda	1,754,966,31 8.39 167,636.91	86,734,950. 62 311,022.08	128,718,835 .06 3,427.83	14,027,344. 07 5975.08	229,481,129.75 320,424.99	1,975,935,51 0.05	0.00 6.41	Variabl e 1.50
8.	Japan: Commercial Oda	3,130,065,87 4.77 342,390,621. 39		365,231,438 .61 31,884,372.76	13,972,620.76 10,850,328. 84	835,701,418.05 139,816,873.82	4,447,974,78 8.04	0.00 14.42	2.90 1.80
9.	Netherlands: Commercial Oda	1 ,343,383,40 2.121,323,64 6.30	90,028,1 32.13 3,538,369.06	225,525,477.88 773,544.22	33,134,323.40 275,044.82	348,687,933.41 4,586,958.4	1,707,981,94 0.46	0.00 5.54	5.30 2.50
10.	Spain: Commercial	189,469,640. 22	18,769,564.15	34,727,542. 25	6,571,814.30	60,068,920.70	249,538,560. 93	0.81	5.30
11.	Switzerland: Commercial	171,317,905. 83	5,830,477.65	21,868,693. 20	1,992,308.90	29,691,479.75	201,009,385. 58	0.65	4.70

Table 4.3.1 Continued

12.	Uk: Commercial	6,634,045,146.90	335,151,732.92	939,645,457.96	91,481,087.11	1,366,278,277.99	8,000,323,424.89	25.93	4.61
13.	Usa: Commercial	849,167,861.00	92,756,262.83	36,216,242.37	6,352,338.73	135,324,843.94	984,492,704.84	3.19	Variable
14.	Ressianfed: Commercial	29,277,150.00	1,466,536.00	5,566,484.48	66,3,865.18	7,696885.66	36,974,035.66	0.12	5.30
	Total	25, 1 99, 1 72,8 8.67	1,935,867,622.61	3355,165,971.02	357,600,933.07	5,648,634,526.70	30,847,807,415.39	100.00	

Source: Debt Management Office, 2004

In terms of creditor categorization, the external debt stock in 2004 comprised Us $30,847.81 million or 85.82 percent owed to multilateral institutions the Paris club, Us $2,824.32 million or 7.86 percent owed to multilateral institution Us $1,441.79 million or 4.01 percent owed to the London Club, Us $783.23 million or 2.18 percent owed to the promissory note holders while Us $47.50 million or 0.13 percent was owed to non Paris club creditors. See table 4.3.2

Debt Service Payment

The total external debt service payment for the year 2004 was Us $1,754.75 million compared to Us $1,809.28 million in 2003, reflecting a decrease of Us $54.53 million or 3.01 percent.

See table 4.3.2

Table 4.3.2 External Debt Service payment 1995-2004 US$ Million

Creditor Category	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
A. Official										
1. Plains Club	271.80	359.70	306.10	228.54	644.49	812.67	1,273.62	161.55	1,020.18	994.44
2. Multilateral	826.90	814.40	800.20	680.23	659.17	623.23	491.48	472.12	509.23	487.28
3. Other	109.00	336.40	127.70	19.77	34.80	1.52	33.81	75.86	13.26	11.65
Sub-Total	**1,207.70**	**1,510.50**	**1,234.00**	**928.54**	**1,338.46**	**1,437.42**	**1,798.91**	**709.54**	**1,542.66**	**1,493.37**
B. Private										
1. Promising Notes	251.90	238.40	226.80	216.29	258.70	149.52	195.18	192.12	176.42	171.23
2. Banks (Lond CI)	161.00	127.70	35.80	127.71	127.74	129.07	134.08	266.75	90.21	90.15
Sub-Total	412.90	**366.10**	**262.60**	**344.00**	**386.44**	**278.59**	**329.26**	**458.87**	**266.62**	**261.38**
Grand Total	1,620.60	**1,876.60**	**1,496.60**	**1,272.54**	**1,724.90**	**1,716.01**	**2,128.17**	**1,168.40**	**1,809.28**	**1,754.75**

Source: Debt Management Office, 2004

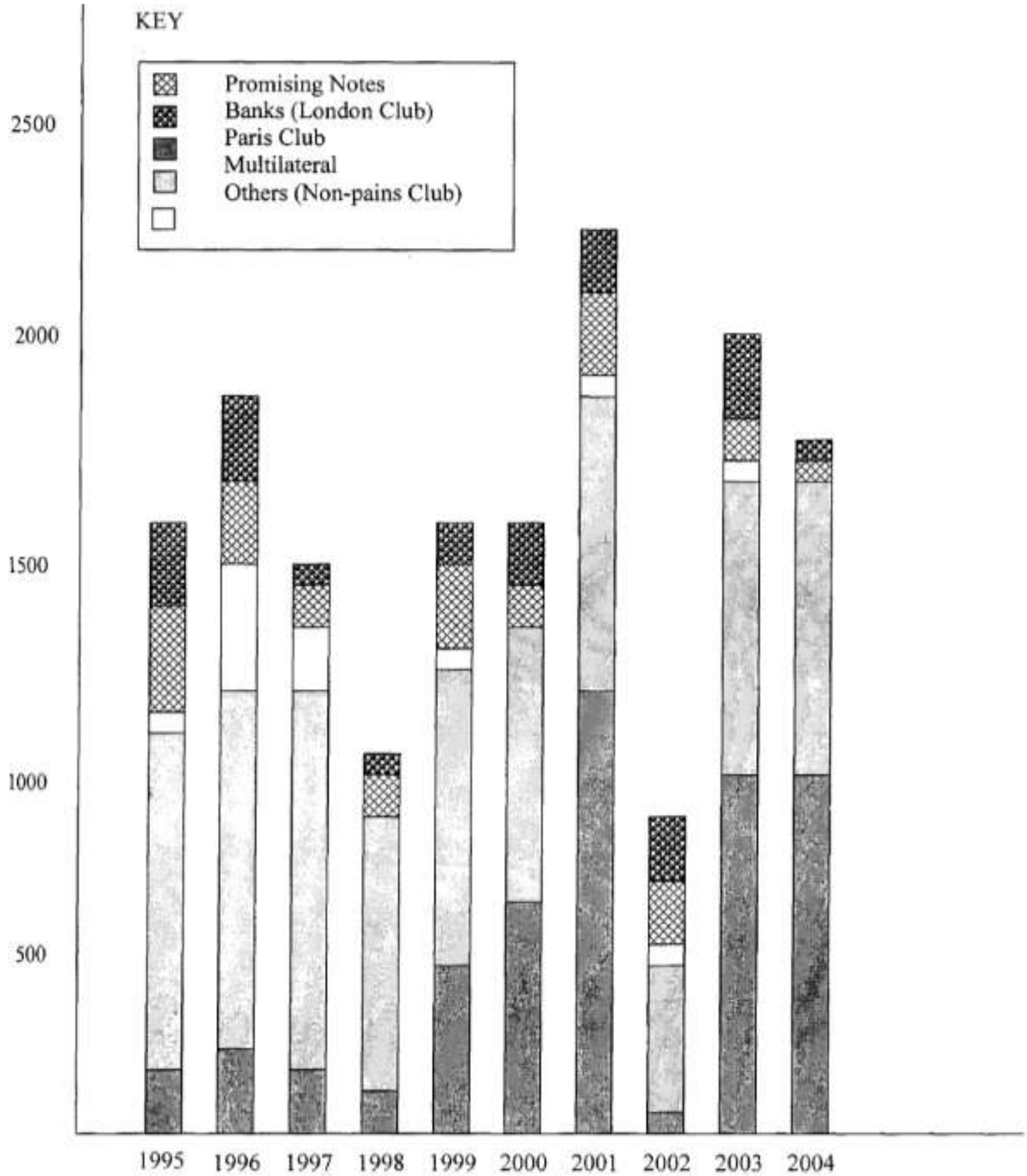
The external debt service payments of US $1,754.75 million comprised of principal repayments of US $1,165.19 million and interest payments and commitment charges of US $589.56 million.

The table above shows that payments to the Paris club creditors took the lions share amounting to Us $994.44 million or 27.77 percent was paid to multilateral institutions, Us $90.15 million or 5.14 percent to London club, Us $171.23 million or 9.76 percent to the promissory note holders and Us $1 1.65 million or 0.66 percent to non Paris club bilateral creditors.

The table also shows that there was a significant decrease in the amount of debt service payments to two categories of external creditors in 2004. Debt services payments to multilateral institutions decreased from US

$509.23 million in 2003 to US $487.28 million in 2004, a decrease of 4.31 percent. Similarly payments to Paris club creditor countries decreased from US $1,020.18 million in 2003 to US $994.44. However, there was also a marginal decrease in the amount paid to promissory note holders from US $176.42 million in 2003 to US $171.23 million in 2004 and to non Paris club and London club creditors. See table 4.3.4

Table 4.3.4 External Debt services Payments, 1995-2004



Source: Debt Management Office, 2004.

Paris Club debt data reconciliation

During the year DM0 carried out financial reconciliation of debt outstanding as at 31 St July 2000 with Italy.

Bilateral negotiations

As in previous years act in accordance with Paris club agreed minute Iv, Nigeria has been negotiating on A bilateral basis with the fifteen creditors Countries on the specific details of each agreement. The negotiations focused on the final reconciliation of eligible debts as well as bilateral negotiation on the specific terms of rescheduling the eligible debts, including the applicable interest rates. The last of such negotiations was concluded with Italy in October 2004, and the details of all the bilateral agreement reached between Nigeria and its Paris club creditors are provided in table 4.3.5: status of Paris club bilateral negotiation/agreements as at 31st December 2004

Table 4.3.5 Paris club bilateral negotiations and agreements

S/N	Countries	Present Status
1.	Austria	Fourth bilateral debt rescheduling agreement signed December 2002.
2.	Belgium	Fourth bilateral debt rescheduling agreement signed August 2002
3.	Denmark	Fourth bilateral debt rescheduling agreement signed September 15 2003
4.	Finland	Fourth bilateral debt rescheduling agreement signed January 2003
5.	France	Fourth bilateral debt rescheduling agreement signed January 2003
6.	Germany	Fourth bilateral debt rescheduling agreement signed September 2002
7.	Italy	Fourth bilateral debt rescheduling agreement and swap agreement signed October 29, 2004
8.	Israel	Fourth bilateral debt rescheduling agreement signed January 13, 2002
9.	Japan	Fourth bilateral debt rescheduling agreement signed September 19, 2003
10.	Netherlands	There are too bilateral debt rescheduling agreement with the Netherlands: The agreement for the commercial loans signed October 17, 2003 and the agreement for oda signed September
11.	Russia	Forth bilateral debt rescheduling agreement with Russia was signed October 22, 2004
12.	Spain	Fourth bilateral debt rescheduling agreement signed April 2003
13.	Switzerland	Fourth bilateral debt rescheduling agreement signed January 24, 2002
14.	U.K.	Fourth bilateral debt rescheduling agreement signed March 27, 2003
15.	U.S.A	Fourth bilateral debt rescheduling agreement signed September 11, 2003

Source: Debt Management Office, 2004

4.4 Discussion of Findings

As we have earlier seen Nigeria's external debt management and policies combined with the huge debt burden is being a course for great concern due to the level Of Nigeria's external earnings used in servicing its debts commitments. Central bank of Nigeria has played a vital role in order to get part of our external debt being relieved and cancelled.

Evidence from the study revealed the following findings**:**

Central bank of Nigeria has played an active role in debt relief negotiations during the year which have begun to yield fruit. Based on the strong progress made in reforming the Nigerian economy, fighting corruption and improving governance, the creditors appear more favourably disposed towards granting debt relief to Nigeria.

However, there are still formidable challenges to overcome before reaching a concrete deal that would ease Nigeria onerous debt burden. The United kingdom has been a strong ally in providing support to help overcome some of these challenges. Thus, the Year 2005 provides a unique window of opportunity to make further progress in resolving Nigerian's debt issue.

While maintaining a strong focus on the resolution of Nigeria's external debt problem in 2004, the DM0 has also taken the lead, working closely with the central bank of Nigeria, in the restructuring of the external debt portfolio.

Finally, one of the roles played by CBN in Nigeria's external debt relief/cancellation known as the debt conversion program was taken over by the DM0 from central bank of Nigeria. However, the resumption of debt conversion activities will open up new possibilities for reducing Nigeria's debt burden while attracting foreign investment flow. (Mukhtar, 2003).

4.5 Summary

So far in this chapter attempt have been made to work at the origin of central bank of Nigeria, the roles CBN plays in debt reduction and stimulation of growth in the economy in terms of the benefits of the debt relief.

Finally, the study attempted also to reveal the amount of external debt stock total debt service payments as well as the bilateral negotiation which focused on the final reconciliation of eligible debt, as well as bilateral negotiations on the specific terms of rescheduling the eligible debt, including the applicable interest rates

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study has discussed the Nigeria's external debt burden. It also observed that the magnitude of the external debt outstanding mirrors the impact of pressure under which the economy has been function especially since the eruption of the oil crisis in 1981. Beside rapid accumulation of trade arrears from 1982 the debt problem had been traced to the fall in the crude oil prices, collapse in commodity prices and the protracted softening of the world market since 1981 with the resultant decline in foreign exchange earnings and pressure on the balance of payment. Nigeria debt crisis can be attributed to both exogenous and endogenous factors such as the nature of the economy, economic policies, depending on oil, swindling foreign exchange receipt, the origin of Nigeria external debt dated back to 1985. The external debt was low until it rose astronomically in 1978 due to Nigerian's involvement in the international capital market. Debt service payments were within management limits unit 1982 by became unmanageable in 1983 because of the relative importance of private lending. All the indicators of the extent of the external debt burden showed the several of the problem. A high proportion of the debt service payment, a reflection of the high and indiscriminate increase interest rate problem worsened. Therefore, there is the need to struggle for the cancellation of the external debts of a country.

The central bank of Nigerian employed debt management tools like import reduction propensity export promotion, debt rescheduling, debt reduction equity swap, privatization and commercialization, refinancing option, refinance of trade arrears, embargo on new loans and most of others.

Central bank worked closely with other agencies i.e. DMO as the lead in order to get part of our external debt relieved and cancelled through debt conversion and restructuring the debt portfolio. The objective of the proposed restructuring is to reduce the country's London Club commercial debt stock by taking advantage of current market opportunities. The restructuring also seeks to reduce debt service payments over the short to medium term

5.2 Conclusion

It can be observed that the nation’s external debt relief of $18 billion has brought benefits to Nigerians and it first represents a direct saucing on debt service payment, interest, surcharges and other fees. it also improves the country’s worthiness in the global community and builds credible financial confidence for transactions. It will provide the federal government and the state enough funds to embark on valuable development projects with direct bearing on the citizens.

However, the vital roles played by the Central Bank Of Nigeria as to the granting of the debt relief and cancellation have not only brought the above benefits but will in addition create jobs and new wealth with new investment thus, translating into improved standard of living.

5.3 Recommendations

From the findings of the research work, the researcher would like to make the following recommendations, highlighted below:

1. There should be an increase in national output when using the debt conversion programme because more money will be created within the economy as a result of debt relief which can lead to inflation.
2. Interest, income, profit dividends, patent license fees and the others invisible connected with the projects under the debt conversion are not to be repatriated for a minimum of five years, from the date of release of redemption proceeds for actual investments.
3. Transaction commission of 2 — 5 percent of the discounted value of the debt converted should be paid to the Central Bank of Nigeria by the redemptory in order to reduce the amount relieved from being mismanaged.
4. To get a further amount being relieved, CBN should adopt another programme that is future oriented than the debt rescheduling which only

provide a temporary breathing space by postponing debt repayment to a future date.

5. CBN should adopt more suitable debt rescheduling program in order to prevent poverty/debt war that may arise as a result of Nigeria not being able to pay for the remaining debts now or in the future.
6. CBN should spice up the debt equity conversion scheme in order to further lighten the nation's debt and debt service burden.
7. There should be a reduction of Nigeria's debt burden through debt securitization, which will result into lowering of the amount of foreign exchange flowing out of the economy which otherwise would be used for debt repayment and servicing.
8. Reclassification to an international development association (IDA) should be encouraged, which is the only status, which allowed to be eligible for consideration for Naples terms i.e. The more generous debt relief package reserved only for lower income countries that show good performance on reforms.
9. An approach known as policy support instrument (PSI) should be introduced in order to allow the Paris club recognizes Nigeria's implementation of its home grown reform program under the IMF intensified surveillance as a legitimate instrument that fulfils the requirements for debt relief.

10. Debt equity conversion should be more emphasized on in order to increase the level of productivity in the economy and embark on a path of renewed growth which is likely to stem the tide of capital flight and at the same time helps invisible capital to be channeled into ventures that will encourage the commencement in earnest of export oriented industrialization in Nigeria’s economy, this will boost the county’s foreign exchange earnings.

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