

External Debt Burden and Management in the Third World: a Cross-Country Analysis of Nigeria and Indonesia

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Abstract

The post independence experience of Third World countries in pervasive external debt crises arising from the unsustainable debt burden which ravaged their economies and stunted their development process and debt relief management form the central problem of this study. From the content analysis, it can be argued that poor debt management is one of the major problems that exacerbated the economic or financial crises of the countries. Thus, improving the management of Third World economies, particularly external debt management, remains important. To strengthen the debt management capacity of these countries therefore, it is recommended that Third World countries should carefully and continually conduct a holistic reassessment of the existing institutional framework traversing the structure, organization, function, human resource, laws and strategy for debt sustainability.

Keywords:

External debt crisis,
Debt burden, Debt
management,
Debt sustainability

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Background to the Study

Classical economists led by Adam Smith identified production as essential for growth. Among the four factors of production, namely, land, labour capital and entrepreneurship, economists agree that nations with robust capital accumulation are more strategically positioned to accomplish faster growth and development than nations with low accumulation, since capital is the most essential catalyst of production (Hey, 1972).

The colonisation of Less Developed Countries (LDCs) by Developed Countries (DCs) provided the platform for the foreign domination which has sustained the undeserved but preserved economic neo-colonialism. Through overt and covert structural economic deformation of LDCs, DCs incapacitated the economies of LDCs and deployed tactical strategies that militated against LDCs' efforts at generating independent financial resources required to prosecute development. Implicitly therefore, DCs overtly or covertly planted the seeds of economic backwardness of LDCs through a well planned process of 'peripherization'. This disadvantaged position of LDCs in the international capitalist division of labour is exhibited in the mono-cultural nature of their economies and the resultant underdevelopment of the productive resources. Given the low domestic capital formation, the option readily available for financing was external borrowing. Upon the attainment of independence in the 1960s, LDCs, including Nigeria, were confronted with the stark realities of underdevelopment. Given the available scarce resources, the challenges of economic development through the formation of various National Development Plans were enormous.

External debt is the financial obligation that ties one party (debtor country) to another (lender country). It usually refers to incurred debt that is repayable in currencies other than that of the debtor country. In principles, external debt excludes short term debts, such as trade debts, which mature between one and two years, or whose repayment would be settled during the fiscal year in which the transaction is conducted (Adebayo, 1993). This paper, with core objective to analyse external debt burden of the Third World, focuses on Nigeria and Indonesia. It is divided into four parts. Part I examines the origin and nature of external debt, while Part II examines the debt crisis. Part III takes a look at the implications, while Part IV presents the conclusion and policy options.

Origin, Nature and Challenges of External Debts

Nigeria's external debts dated back to 1958 when \$28 million was contracted for railway construction. Between 1958 and 1977, the level of foreign debt was minimal, as debts contracted during the period were the concessional debts from bilateral and multilateral sources, with longer repayment periods and lower interest rates constituting about 78.5 per cent of the total debt stock (Fosu, 2007). From 1978, following the collapse of oil prices, which exerted considerable pressure on Government finances, it became necessary to borrow for balance of payments support and project financing. This led to the promulgation of Decree No 30 of 1978 which limited the external loans the Federal Government could raise to N5 billion. The first major borrowing of \$1 billion, referred to as 'Jumbo Loan', was contracted from the International Capital Market (ICM) in 1978, and this increased the total debt stock

to \$2.2 billion (Anyanwu, 1997). Thereafter, the spate of borrowing increased with the resort by State Governments to external loans. While the share of loans from bilateral and multilateral sources declined substantially, borrowing from private sources increased considerably. Thus, by 1982, the total external debt stock was \$13.1 billion.

Nigeria's inability to settle her import bills resulted in the accumulation of trade debt arrears amounting to \$9.8 billion by 1988, with the insured and uninsured components at \$2.4 and \$7.4 billion respectively. A reconciliation exercise which took place between 1983 and 1988 with the London and Paris Clubs reduced the principal amount to \$3.8 billion with an accrued interest of \$1.0 billion, bringing the total to \$4.8 billion and \$28 billion in 1998 and 1999 respectively, with the Paris Club constituting the highest source at a share of (73.2%), while 75% of the debt was owed to Official Creditors (Anyanwu, 2001).

Contrary to the image of an "oil-rich" country, Nigeria became a heavily indebted (poor) country. Its total external debt stock, as at December 2000 stood at \$29.7 billion, including arrears of \$14.7 billion and interest overhang of over \$5 billion. As at December 31, 2001, the debt stock declined slightly to \$28.35 billion, about 59 per cent of Nigeria's GDP and 154 per cent of her export earnings. By 2012, following the forbearance by the creditors, the external debt figure dropped to \$10.076 billion.

An interesting observation about Government borrowing decisions in Nigeria was what seemed to be a considerable disregard for economic or financial imperatives. Whereas classical Economics requires that a project is undertaken when the returns exceed the cost, available literature in Nigeria's experience is replete with a contradistinction from this standard. This is why critics of the various Development and Rolling Plans in Nigeria often ascribe the root of the poor performance to the seeming disregard for established project procedures. Against the backdrop of the fact that often, the financial decisions were at the whims and caprices of the incumbent political authorities, be they civilian or military, nothing short of the experience was probable.

In defence of their actions, successive Administrations offered justifications for the borrowing. Such justifications would have been acceptable if they were germane to the explanations in the observed gaps between the high level of public debt and the proceeds (projects). Unfortunately however, available evidence of economic development, particularly in the realms of basic infrastructure, leave much to be desired, when compared to the reported financial commitments. In Indonesia, the nature of the external debt crisis was not a major departure from Nigeria's. In the early 1960's, as a new independent country, Indonesia's Government required funds to finance rapid development, but only limited domestic funds were available, given the undeveloped domestic capital market. To fill the domestic saving-investment gap, external funds became the only option. The primary goal of funding was to accelerate urgently needed economic growth, where external debt would convert to Government's spending, generate investment and accelerate growth. As the economy developed, it was expected that Government would earn adequate foreign exchange to service the foreign obligations, accelerate the development process, and gradually lessen the country's dependence on external resources.

Up to the 1990's, external debt issues were not addressed, to enable Government fill financing gaps; rather, the attempt was to meet budget deficits, in order to foster economic growth, although the growing external debt did not always significantly match the level of economic growth. While growth attained only 7 per cent in the mid 1990's, debt service increased more significantly. Debt burden indicators suggested that debt level grew almost at par with total GDP, amounting to 91% in 2001 which decreased to 66 per cent in 2003 (Omoruyi, 2005). The major reason for the slow growth was that external loans obtained were deployed to finance imports, or exports that were dependent on high import contents. Besides, Government's efficiency in controlling the utilization of foreign loans was questionable, because the industries financed were not export oriented.

Another reason for the excessive external borrowing was that the domestic bond market had not been established. The financial crisis in the mid 1997 led to massive capital flight from Indonesia following a sharp fall in the value of the Rupiah against the US dollar. As the Rupiah lost its confidence, the deterioration of economic fundamentals was compounded by export slow down, rising domestic interest rates, decline domestic and foreign direct investments in all sectors, all of which resulted in enormous contraction of the entire economy. Other social and political tensions emanating from massive unemployment and widespread poverty heightened the economic problems that resulted in a quagmire.

Theoretical Considerations

Many theoretical contributions have been advanced in the subject matter of external debt, economic growth and welfare. While the Marxian contributions focus largely on the welfare of the labourer, the contributions of the range of dependency theories are more on the inhibitions to the economic development of the poor countries arising from their peripheral economic relationships. Although the Marxian and dependency theories offer considerable analytical foundations, this review is limited to the latter theory because of its relevance in explaining the observed underdevelopment of the Third World by the capitalist DCs, through the instrumentality of external debt 'peonage'. The results of previous studies indicate that on a comparative basis, external debts in LDCs lack in terms of sustainability, vis-a-vis DCs, due to the differences in economic environment and debt management. This study takes the view that the crisis of external debt in LDCs is, essentially, a product of the historical development of the capitalist system which penetrated all sectors of LDCs over the past centuries, and through which disadvantaged relationship, the capitalist nations firmly established a long-run dependent relationship with LDCs.

The attractiveness of the dependency approach stems from its obvious representation of advance over the earlier models in four major ways: one, unlike the evolutionary model, dependency theory does not assume the society or "nation" to be a self-contained unit; two, dependency theory attempts to be holistic; three, while evolutionary theory was idealist in its attempts to explain social change (Parsons, 1966), dependency theory closely considers the material bases of organised social life, in particular, at the growth and extension of the world capitalist system; and four, at its best, dependency theory has been historically specific, replacing the earlier evolutionary stages (which have clearly never been

experienced by most of the social formations in the world) with concrete analyses of historical material (Harriet, Friedman and Jack-Wayne, 1977).

These characteristics of analysis are found in the work of Andre Gunder Frank, the most influential of the dependency theorists. Frank argued that there has been a development of underdevelopment outside of Western Europe, North America, and Japan as a consequence of emerging relationships among political-economic formations which were brought into being as capitalism expanded. Thus, to Frank;

...the expansion of the capitalist system over the past centuries effectively and entirely penetrated even the apparently most isolated sectors of the underdeveloped world. Therefore the economic, political, social, and cultural institutions and relations we now observe there are the products of the historical development of the capitalist system no less than are the seemingly more modern or capitalist features of the national metropolis of these underdeveloped countries. In other words, for the period of time that capitalism has formed the dominant mode of production and distribution in the world, the most important fact about any nation has been its relations with other nations.

The value of the dependency approach, therefore, lies in its recognition that development and underdevelopment have taken place in the context of the growth of capitalism as a world system. The approach usefully analyses relationships between nations and sees both development and underdevelopment as historically observable consequences of those relationships; and it attempts to be holistic in its perspective. The particular success of the approach lies in its view of underdevelopment as a product of the domination of one national economy by another. In its applicability therefore, Frank's dependency theoretical proposition exposes the historical development of capitalism and its covert holistic domination of the Third World actualized through strangulating economic, social and allied ties, including external debt 'peonage'.

The principal critics of the dependency theory have focused on the failure of this school in providing exhaustive empirical evidence to support its conclusions. Furthermore, this theoretical position uses highly abstract levels of analysis. Another point of criticism is that the dependency movement considers ties with translational corporations as being only detrimental to countries, when actually these links can be used as a means of transference of technology.

Methodology

Given the historical nature of this study, the approach is largely descriptive. The method seeks to provide a critical content analysis of the external debt crisis in the referenced countries, on the basis of which appropriate policy options are articulated and advocated

External Debt Crisis and Debt Burden

Two factors led to the sharp increases in Nigeria's external debt: one, the entrance of State Governments into external loan market; and two, the substantial decline in the share of the loans from bilateral and multilateral creditors, and the consequent increase in borrowing from private sources at stiffer rates.

Nigeria's debt crisis started at a soft and tolerable level in 1958. By 2003 when the Paris Club demanded \$3 billion annual debt service payment, trouble began. Dr Ngozi Okonjo-Iweala, then Minister of Finance, considered the payment economically unsustainable (Iyoha, 1996). Nigeria therefore commenced negotiation with the Club. The \$18 billion debt cancellation for Nigeria in 2005 by the Paris Club and the subsequent settlement of some outstanding debt reduced the total external debt substantially.

Available evidence, particularly from Africa, Asia and Latin America, show that most developing countries resort to external borrowing because of low domestic private savings arising from low per capital income and Government fiscal deficits. Consequently, the burden of external debt often aggravates the problems of underdevelopment and further discourages foreign direct investment without which the desired level and rate of growth and development may be difficult to achieve.

In Indonesia, the adverse impact of the deterioration in the economy on the external sector became clear. Repayment obligation in Rupiah increased due to the weakening of the currency and this in turn reduced Government's and the private sector's ability to meet repayment responsibilities. The depreciation of the Rupiah against the US dollar meant that more of Indonesia's export earnings must be returned as debt pay back, rather than spent on productive social expenditures.

Poor management of business entities was also a major factor in the recession of the economy into crisis. The poor management was reflected in the mismatch in the balance sheets of the banks and corporations. This mismatch was classified into two components, viz maturity and currency. Maturity mismatch referred to the use of short-term debt to finance long-term projects; while currency mismatch referred to the use of foreign currency denominated loans to fund Rupiah-generating projects that did not earn foreign exchange.

In the pre-crisis era, these mismatches did not engender large difficulties for Indonesia's economy because of the exchange rate stability and because smooth rollover of short-term external debts was common. But when the Rupiah suddenly plummeted, within a short period, corporate and financial institutions were confronted with a massive increase in the Rupiah value of indebtedness. As most of their liabilities had short-term maturities, domestic debtors did not have adequate time to restructure their debts. Consequently, many corporations fell into various states of bankruptcy. Even if they managed to survive, their room for manoeuvre, particularly for investment, had been substantially narrowed because of their growing operating costs. Indeed, the mismatch resulted in a dramatic deterioration in the performance of not only the business companies but also of the banks and of the overall economy.

Government's finances were by no means immune to this effect. Thus, Government tax-based revenue from businesses and the banking sector shrank. Oil and gas revenue also declined. On the side of the budget, Government expenditure ballooned. The increase in Government expenditure was primarily driven by the need to ease the burden of the poor who were hard hit by the crisis, through social safety net and subsidy allocation. As a result, the budget of 1998/99 ran into a large deficit, which eventually resulted in Government's inability to service its debt. As the economy was dramatically hit by the crisis, external debt became a serious problem. Indonesia's external debt problem was considered burdensome because the debt put considerable pressure on the balance of payments and on Government's finances. During the period of the economic crisis, the debt stock increased significantly. Despite the external debt to GDP ratio for the last three years decreasing to 91 per cent (2001), 76 per cent (2002) and 66 per cent (2003) respectively, the ratio rose sharply by 48 per cent of the GDP in 1996.

Indonesia's heavy debt burden was a major source of macroeconomic vulnerability, and therefore a significant constraint on the country's credit worthiness. While from different perspectives the scale of the debt problem did not only generate social and political tension, the high debt repayments reduced the budgetary and fiscal stability required by Government for growth, for increased productive investment, and for financing the cost of social safety. The debt burden reduced budgetary flexibility because a large portion of revenue was given up for debt repayment. It was estimated that debt service obligations would be retained at over 40 per cent of Government revenue for long. This left the economy vulnerable to external shocks such as changes in exchange rate, interest rate and inflation.

Implications of Debt Burden and Strategies for Debt Management

It is believed that the growing national debt against the background of declining and/or unstable foreign exchange earnings has serious consequences for Nigeria's economy. But the crucial issues to resolve, writes (Anyanwu, 1999), are how to determine the extent of Nigeria's debt burden; and how the burden will affect the capacity of the economy to achieve substantial economic growth and development.

Answers to these questions are preferably based on some principal indices. These standard indicators for measuring the burden of external debt, among others, include the ratios of the stock of debt to exports and to Gross Domestic Product; and the ratios of debt service to exports and to Government revenue. It has been observed that debtor-countries have too much burden to bear. Thus expending as much as 70 – 90 per cent of export earnings on debt servicing connotes that little is left virtually for the countries to perform their constitutional obligations to the citizenry.

Greene (1989) suggested that public debt had no significant effect on the growth of Nigeria's economy because the funds borrowed were not channeled into productive ventures, but were diverted for private uses. He suggested further that for the gains of debt forgiveness to be realized, the war against corruption should be fought totally. Another side effect of the debt crisis is the external control and manipulation of the domestic economy. In furtherance of the execution of the conditionality in the host country, officials of IMF and other Western capital

institutions often invade and take over the economic policies and administration of debtor-nations' banking and financial systems. Import earnings are strictly monitored, and this is capable of significantly increasing the plight of the domestic populace. The overall effect of the above on the development of the debtor country is that the economy often plunges from bad to worse conditions. Debt burden, generally, increases African's dependence on the outside world, slows her prospects of economic recovery and growth, jeopardizes the stability of the Government and increases the poverty of the Continent and her peoples (Hardy, 1986).

The foregoing, put together therefore, raises another question of whether what Nigeria actually needs is debt relief. As it operates, debt relief is made to appear as if the West is doing Nigeria a special favour. This ought not to be so, for one reason, the deepening crisis and contradictions in Nigeria are largely attributable to decades of exploitation of Africa through the slave trade and colonialism; and for another reason, the years of marginalization and continuing exploitation of African resources through the neo-colonial enterprise plagued Nigeria and other Third World countries. It is in this light that the conception of debt relief, or debt forgiveness, offends (Ake, 2000; Ochonu, 2005).

In the 1980's, the management of external debt was the major responsibility of the Central Bank of Nigeria, where a department, in collaboration with the Federal Ministry of Finance, for the management of external debt, was established. The management strategy and measures employed varied with the time and complexity of the problem. Measures adopted by Government as guidelines for further external borrowing included, among others:

1. Borrowing to achieve a positive Internal Rate of Return (IRR);
2. External loans for private and public sector projects to be sourced from the international capital market; while loans for social services or infrastructure to be sourced from the concessional financial institutions; and
3. Projects to be financed with external loans to be supported with feasibility studies which should include loan acquisition, deployment and retirements schedules; among others

Over the years, Government adopted some measures, including the under listed, to deal with the debt problem:

1. embargo on new loans;
2. limits on debt service payments that involved retaining a portion of export earnings, to allow for internal development;
3. debt restructuring; and
4. the establishment, in 2001, by the Federal Government of the semi – autonomous Debt Management Office (DMO) in the Presidency.

Overall, the operation reduced London Club bank debt from \$5.8 billion to \$2.0 billion, including payments by Nigeria of \$2.2 billion, and reduced significantly Nigeria's total debt stock. Nigeria also agreed to several non-concessional rescheduling with Paris Club creditors, beginning in 1989. Rescheduling took place in 1986, 1989, and 1991 during stand-by arrangements with the Fund; while rescheduling in total of \$14 billion of arrears and eligible

medium-and long-term debts was achieved. In the context of continued weak oil prices and Government's payment priorities, rescheduling were followed by renewed arrear accumulation, while the overall debt stock continued to rise as late/penalty interest were capitalized.

From 1992, Nigeria's external debt stock stabilized as debt-service payments were broadly equivalent to the total interest due. Government limited actual debt-service payments to a ratio of net oil revenues. Consequently, arrears increased sharply in years when oil revenues declined, as in 1994-95. Government also remained current on debt service to the largest commercial creditors (par bonds and promissory notes) and to multilateral creditors (principally the World Bank and the African Development Bank Group) and ignored the official bilateral creditors. This prioritization led to a gradual increase in the share of bilateral debt in total external debt to almost 80 percent by 2002. Almost entirely on commercial terms, debt indicators improved over the past decade, as the average oil price (and, in parallel, Government revenue and GDP), rose from its low level in the second half of the 1980s.

In the light of its continued debt-servicing difficulties, Nigeria's access to new credit remained extremely limited over the past decade. Access to bilateral credit was denied and lending from commercial creditors became minor, very sporadic and at market interest rates. Beginning from 1993-94 however, the African Development Bank and the World Bank lent to Nigeria on concessional terms, with total disbursement of about US\$850 million over the period to 2001 and with about 3 percent of the total outstanding at the end of 2002.

Government relied extensively on the rescheduling alternative, particularly under the Paris Club framework, to resolve the external debt burden. Under this arrangement, Government and creditor countries agreed to reschedule the amount of \$4.5 billion in Paris Club I with maturity of over 11 to 20 years. Similarly, \$5.8 billion in Paris Club II with maturity over 15 to 20 years and \$5.4 billion in Paris Club III with maturity over 18 to 20 years were rescheduled. Unlike the previous Paris Club rescheduling, in the latter arrangements, Government was granted rescheduling from the official bilateral creditors not only for the principal repayment but also for the interest payment obligations.

Government also rescheduled its bilateral external debt with non members of Paris Club countries and its commercial external debt to commercial banks under the London Club Agreement. In accordance with Paris Club I, as much as \$210 million of syndicated loans signed in 1994 were restructured; while in line with Paris Club II, as much as \$340 millions of syndicated loans signed in 1994 and 1995 were restructured. For the Paris Club III, as much as \$1.3 billion of the syndicated loans signed in 1995, 1996 and 1997 were successfully restructured. Indonesia was successful at debt rescheduling. Nevertheless, the country still owed a large amount of its external debt obligation to multilateral agencies which constituted the largest proportion of the debt owed. At the end of April 2004, the multilateral portion of the debts was 29 billion, or approximately 36.8% of total public external debt. Nevertheless, it is clear that rescheduling was one of the most effective, albeit, temporary ways of resolving the serious threat of liquidity problem in State budget deficit.

To also solve the problem of corporate sector debt, Government signed the Frankfurt Agreement in June 1998. The negotiation team which was raised by Indonesia Government struck an agreement with the external creditors who were represented by the Bank Steering Committee. The Frankfurt Agreement covers interbank debt settlement, trade finance and private corporate debt. The interbank debt settlement programme proceeded with an exchange offer programme that rescheduled bank debts. The trade finance programme attempted to revive credit lines after Bank Indonesia had addressed the overhang of trade arrears. To effectively resolve the corporate debt overhang, Government established the Indonesia Debt Restructuring Agency (INDRA), and also provided facilities to accelerate the negotiation process between debtors and creditors through the Jakarta Initiative Task Force (JITF).

Despite the slow progress of corporate debt restructuring under JITF, the effect was positive. In general, the corporate debt restructuring process was relatively slow, a situation that became a major handicap of the corporate sector in its effort at returning to normal business activity. Experiencing such economic crisis encouraged Government to take some curative and preventive measures and actions related to external debt problems. In the short term, resolving debt burden was the priority of Government in a way as to ease the pressure over budget deficit. Government in this regard adopted the strategy of re-managing the debt profile in a way to meet the target of short term fiscal sustainability. The most feasible way of easing the pressure of the budget deficit at the time was to obtain another facility from Paris Club creditors.

Because the options to ease the funding deficit were limited, Government needed to explore other sources of financing the deficits. On the domestic scene, to save the banking industry from collapse, Government issued domestic bonds to recapitalize the banking industry, a decision that required developing the domestic bond market. In this regard, Government in March 2004, having regard to the funding potentials of the domestic bond market, issued 1 billion 10-year global bonds. Other objectives of the bond issue were to establish Indonesian benchmark in the international financial market, provide diversified sources of funding and broaden the investor base.

The role of debt management was collectively played by various Government agencies including the Ministry of Finance, Central Bank, The National Development Planning Agency, etc. Two objectives were targeted in conducting such a debt management, viz the ultimate objective and the operational objective. The ultimate objective was to maintain Indonesia's creditworthiness and capability for servicing external debt; while the operational objective focused on: (i) the utilization of external debt directed at the productive sector that generated the foreign exchange allocated to areas of development priority; (ii) maintaining access to the market; and (iii) keeping the cost and risk low and favourable.

Critics of the foregoing management questioned the effectiveness of the system. The critics argued that such a scattered arrangement in conducting debt management could easily be trapped by bureaucratic problems arising from lack of coordination among institutions,

diffused responsibilities and policy direction toward the major objective and could result in weak control of funds utilisation. Consequently, the critics questioned whether the conduct of public debt management, particularly public external debt management, was ever effective.

It was thus argued that the non-integrated debt system adopted by the Government of Indonesia brought serious handicaps in managing the country's external debt, particularly in the areas of objective and strategy, implementation, the conduct of risk management, and in role definition. In effect, the external debt which was procured to fill the gaps in order to foster economic growth left a serious burden on the economy over time. From the foregoing, it is highly probable that poor debt management is one of the major problems that exacerbated the financial crisis of Indonesia. Improving the overall management capacity, particularly in external debt management, was important and urgent. To reinforce its debt management capacity, Indonesia needed to carefully reassess aspects of the existing system, including the legal framework, human resources, organizational structure and management.

External Debt Management is a multi-dimensional task involving the formulation of transparent strategy for managing the level of debt, and establishing an appropriate institutional framework. Indonesia's priority was in the area of establishing the necessary framework, coordinated by an institution such as the Debt Management Office (DMO) or Debt Management Authority. Establishing an independent, effective and efficient DMO in Indonesia was not an easy task. It involved many parties and institutions with different backgrounds of corporate culture, experience, capacity building, vision and interest. Despite the challenges, building efficient DMO in Indonesia was given a priority because of the nature of the crisis and its consequences for the economy. An efficient DMO was considered a veritable vehicle for Government's breakthrough in the onerous debt crisis.

Under the existing framework, uncoordinated institutions, buck passing and red tape retarded the battle effort at achieving an integrated body of the different institutions into an independent DMO, although such a body was necessary. Furthermore, deciding the location of the DMO, manning the organisation with the right persons based on competence, selecting a current and user-friendly information technology, operational budgeting issues, and building a new corporate culture to support the organizational dynamics toward a clear vision and objectives of the institutional framework, were challenges equally faced by Government. In the context of human resource for example, debt management requires staff with diverse range of financial and analytical skills and competencies in Macroeconomics. Since these requirements were also demanded by other Government agencies and the private sector, it was essential for the Management of DMO to attract and retain highly skilled staff with appropriate remuneration, a clear career path, mandate and responsibilities. Access to relevant training in a way as to improve experience and strategic management was also essential.

For Indonesia to improve its external debt situation, an effective debt management mechanism was key. Such mechanism was to reinforce the country's strategy for achieving a

long term exit from the unsustainable debt burdens, forestering economic growth and development, without creating external payment difficulties or overhang.

Discussion, Conclusion and Policy Options

Analysis of the debt crises and debt relief management in Nigeria and Indonesia is better conducted under a framework incorporating three key variables focusing on (1) institutional arrangements; (2) management; and (3) the complementary, but all-important, political will of leadership at the apex level, as presented below.

1. Institutional Framework

The immediate reaction of the various Governments to the realities of the enormous challenges posed by the scarcity of resources needed to prosecute the developmental objectives upon attainment of independence was massive to resort to external borrowing. No clear evidence of Governments' efforts at developing the fundamental institutions for mobilising the domestic savings for development financing was available. The existence of a strong and efficient capital market, for example, was lacking until in the 1980's. Although semblance of stock exchanges and associated capital market activities existed, their depth and width were insignificant, relative to the sizes of the economies. Besides the shallowness and narrowness of the capital markets, reflected in the paucity and volumes of traded securities, the markets lacked internationalization. Such market limitations exacerbated the problem of capital formation and slowed economic development.

2. Weak Debt Management Framework

External borrowing commenced shortly upon attaining independence by Nigeria and Indonesia, in the early 1960's. By the 1980's and 1990's, when the external debt crises raged, none of the countries had established a good framework for debt management.

In Nigeria, external debt management was conducted in a rather haphazard manner, with no clear institutional responsibility and direction. Until in 2001, when the 'autonomous' DMO was established, the conduct of external debt management was undertaken disjointedly by an inconsequential department in the CBN and an over-bearing and meddlesome Federal Ministry of Finance.

The arrangement in Indonesia was even weaker and more diffused: three mutually exclusive government agencies, namely, the Federal Ministry of Finance, Bank of Indonesia and the National Development Planning Agency, competed with the Indonesia Debt Restructuring Agency (INDRA) over the debt management mandate purportedly assigned to INDRA, as the official debt management agency. Under such unclear arrangement, cooperation and synergy gave way to confusion and diffusion. When matters arose therefore, the onerous task of debt management process, involving records management, reconciliation, negotiation and debt relief (rescheduling, restructuring, buy back, interest forbearance, cancellation, etc) was Herculean. As a corollary, neither country articulated the requisite complementary legal and policy frameworks necessary to support the existing, albeit weak, institutional arrangement. In the heat of the debt crises therefore, Governments in panic situations,

experimented with inefficacious laws and policies, to halt the drifts triggered by the debt quagmire.

3. Political Will

On the political perspective, Governments exhibited a lack of the will to deal with the fundamental issues in external debt. Either for political patronage, exigencies, or lack of sheer will, Governments remained confused and aloof, while the pressure over debt servicing mounted.

Conclusion

External borrowing is inevitable in the life of a nations, be it advanced, or emerging. When skilfully contracted and judiciously deployed, external debt can be a catalyst to economic development. When however, external debt is improperly conducted, it can be injurious, and can degenerate to an instrument of perpetrating underdevelopment, via the mechanism capitalist of dependency. The respective country experience of Nigeria and Indonesia reflect undesirable external debt situations, typical of emerging countries, particularly in Africa and Asia. The crises and burdens of external debt in the referenced countries are deeply integrated in and ascribable to the weak institutional arrangements, poor management and lack of political will by the leadership, reinforced by the original disadvantage relationship with Dcs

Recommendations

Arising from the foregoing analysis, the following policy options are available to the countries:

1. Nigeria and Indonesia should progressively and consistently accelerate the development of their domestic capital markets, to attain increased depth, width and internationalisation, in line with global bench marks. In this regard, regional stock exchanges should be established across the countries. As a corollary, the efforts at developing the domestic capital markets should be supported with the complementary legal framework that will remove growth impediments.
2. The Governments of the countries should, in practice, grant total autonomy to the debt management agencies, by removing their supervision from the Executive to the Legislature arms, since, in the first instance, authorisation of external borrowing is the prerogative of the Legislature. This way The debt management agencies can be protected from the undue control of the Executive.
3. Since public external debt is a charge on the future of the citizens, the utilization of loan proceeds should be strictly controlled. In this regard, the legislations establishing the respective debt management authorities should require the agencies to obtain the dual approvals of the Executive (Ministry of Finance) and the Legislature (the appropriate Committee on External Debt) for any disbursement of part or all of the funds available to the credit of external loan procured, to avoid or minimize loan diversion or misappropriation.

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