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EXTERNAL DEBT AND NIGERIAN ECONOMIC DEVELOPMENT UNDER DEMOCRATIC GOVERNMENT (1999 TO 2012): AN EMPIRICAL INVESTIGATION

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ABSTRACT

The impact of external debt on economic development is a debatable issue between scholars since the onset of the debt crisis in 1980's. This paper examines whether external debt affects the infrastructural development in Nigeria between 1999 and 2012.

This is carried out by using data for 12 years of civilian administration between 1999 to 2012.The result from estimation shows that external debt affects economic growth by the debt crowding out effect rather than debt overhang. In all the results shows that external debt has significant impact (relationship) on the economic development rate of the nation (Nigeria) in the period under review, this shown on the general model with the R value of 0.951 and adjusted coefficient of determination (R2) value of 0.791, implying that the economic level of Nigeria between 1999 and 2012 is explained by the eternal debt at a rate of 79%. The relationship is a direct relationship.

KEYWORDS: External Debt, infrastructural development, economic growth, debt servicing and Gross Domestic Product.

INTRODUCTION

Since 1980's debt crisis comes as a major macroeconomic problem for many developing countries. Following this, different studies are carried out to find out the cause, consequence and as a possible solution to the way out from the crisis.

For Krumm (1985) the likely cause of the crisis rooted back to the economical and political conditions of many poor countries in 1970's.During that period, many developing countries got an expanded access to private financial and other trade credits and spend more on public expenditure. Beside this many of the countries were not in a good position to hold out the second oil shock which happened in the late 1970's.During the early 1980's (1980 - 1983) the overall world recession following the oil shock and a response from lender countries (high interest rate, a decline in official lending and a delayed adjustment program…) makes the situation very difficult for many developing countries. As a result the economic condition of many sub-Saharan countries declines adversely.

As per Iyoha,M.A.(1999) empirical analysis: during 1980's, the average annual growth rate of real GDP in sub-Saharan Africa countries(SSA) was 1.7%, The annual per capita income declined at an average rate of 2.2% and terms of trade knock down by 9.1%. In line with the above fact a high population growth rate in the region resulted with -0.9 % annual average growth rate of real GDP per capita. Due to this the decade of 1980's is considered as "lost decade" for Africa in terms of development opportunities.

The World Bank report in 1994 generalized the possible factors for the poor economic performance in to domestic factors and external factors. As per the report: high population growth rate(which leads to a decline in per capita welfare),insignificant human capital development, poor infrastructure; which in turn affects private sector development and improper policies were categorized as domestic factors along with ethnic conflicts and political instability. In the other side, the successive oil price shock (1973 -1974 and 1978-
1979), an alarming decrease in terms of trade and a recession in the industrialized countries which increased the interest rate categorized as external factors by the report.(World bank report 1994)

For Agenor and Montel(1996), the original cause for the debt crisis was the excessive borrowing by the public sector to service their existing debt. This happened due to the reverse relationship between the safe real interest rate in the international market and the overall real GDP growth rate in the heavily indebted poor African countries (HIPCs). During most of the years in the decade of 1970's, the real long –term rate of interest in the developed world fell well short of the real growth rate of GDP by HIPCs. This opened a viable option for the public sector to service their

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existing debt through new borrowing, rather than generating their own resource for the same action (servicing debt).As a result many of the countries experienced a large fiscal deficit.
Krumma, 1985 argued that, if the available external loan improves the productive capacity of the borrowing country. It is unnecessary to take extra external loan to service the original debt.
According to Cline (1985), if marginal productivity of each available external debt is greater than or equal with the principal and the interest payment , external debt will have a positive impact on the economy of the borrowing country.
This in turn will require the foreign debt to be used in productive sectors and in basic infrastructures which can enhance the productivity of other sectors. Under this condition external debt servicing doesn't affect economic growth. But, if the borrowing country failed to service its debt, it will lose its' credit worthiness; and this in turn might affect the economic performance of the borrowing country by reducing the availability of foreign debt.
(Mjema and musonda, 1994).
In general this thesis will try to empirically investigate the relationship between external debts and economic development of Nigeria under three civilian presidents.

CASE FOR EXTERNA DEBTS

One of the economic problems in developing countries is the debt problem. It is clear that, the remainder of revenue after consumption is named as savings and these residuals are canalized to the investment. Consequently, more revenues and employments are created by canalizing more savings to the investments. On the other hand, because of insufficient domestic economic resources and less tendency of saving, countries have difficulties to finance economic development especially in the less developed and developing countries. Hence, investments not provided by domestic sources sufficiently are necessary to accelerate economic growth in developing countries.
The more need of investment is quite increasing the need for external debts also (Bilginoglu & Aysu, 2008, p. 2).
Even domestic saving rates are high enough; requirement of foreign exchange is still inevitable because of necessity of importing investment goods. In this context for the lack of savings and foreign exchange, the needs for external sources come into being so this event makes the external debts inevitable.
Before starting to borrow from foreign world, the benefits of borrowing are examined. Especially the countries where marginal productivity is relatively high, which means the capital is scare production factors in those countries, are stressed with benefits of external debt. There are two conflicting views for borrowing; while one of these views argues that countries can increase their economic potential by borrowing, the other one states that borrowing cannot increase the countries' economic potential (Ogunmuyiwa, 2011, p. 29). If the cost of borrowings is greater than its benefits and the gap between costs and benefits of borrowings makes pressure on debt payment, the authorities of the debtor countries may restrict new borrowings. The optimum amount of borrowing to keep sustainable growth depends on suction capacity of economy, balance of payment, term of debts and cost of borrowing. At this point, according to the suction capacity of economies, countries should borrow as they increase their real production (Kozali, 2007, p. 62).
If a country exceeds the debt limit possibly, it will be categorized as a HIPC (Heavily Indebted Poor
Countries) and in this case there occur three problems (Presbitero, 2005, pp. 6-8). These are:
(1) Debt overhang problem: As Krugman (1988) and Sachs (1989) stated, if high debt ratios damage economic performance of the countries, it is called as debt overhang problem. High debt ratio can be understood as a tax on created revenue in domestic that is issued by foreigners;
(2) Crowding out effect: As stated before, debt flows can ruin economic performance of debtors. In the study of Chowdhury (2004), Clements, Bhattacharya and Nguyen (2003), and Elbadawi, Benno, and Njuguna Ndung'u (1997), it is specified that in the HIPC countries, the high level of debt ratios can crowd out economic growth because of net assets outflow. So, high levels of debt ratios have deterrent effect on investors;
(3) Uncertainty: The high level of debt ratio indicates high level of risk in debtor countries and the high level of risk discourages foreign and local investors to invest. And also, the high level of debt ratio ruins macroeconomic stability of debtor countries. High level of inflation and interest rate can be experienced in debtors.

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In this study, we are trying to analyze the relationships between indebtedness and the openness on the growth rates of transitions countries. There are 29 transitions countries listed by IMF in 2000. These are
Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Cambodia, China, Croatia, Check Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Kazakhstan, Kyrgyz Republic, Laos, Republic of Macedonia, Moldova, Poland, Romania, Russia, Slovak Republic, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, and Vietnam.
The transition countries are the countries who transform their economic structure from social economic structure to liberal one. Transitions economies need high level of external resources to build up market oriented institutions and organizations while transforming. Especially, after the structure of internal demand, supported and pressured by government, was released in 1990s, a demand boom was experienced in transition countries.
Imported goods and services demand increased enormously. Here, the need for foreign liquidity was also increased in huge amount. In fact, the transition countries under SSR (Soviet Socialist Republic) directorship had zero percent indebtedness until 1991, the year they declared independency from SSR. After 1991, the level of debt ratio started to increase. Generally, the structural reformist economical politics in Soviet countries and the other transition countries aimed to keep sustainable growth and to increase life standards by borrowing outside (Presbitero, 2005, p. 5).
While insufficiency in production comes into existence because of the problems on the link among input-output-market in transition countries, the boosts of import occur because of low production and import rates. This event reflects itself to the current account with gradually increased gaps. When current account deficits start to increase year by year, sustainable needed capital inflows and applicable stabilization programs have been questionized (Wachtel, 1998, pp. 2-3).
In the study, firstly, we checked the literature then we applied regression models. The data for transition economies are provided from World Bank data base. Our dependent variable is GDP per capita growth rates of transition countries. We analyzed 19 transition countries. These countries are Armenia, Azerbaijan, Belarus, Bulgaria, Cambodia, China, Georgia, Lithuania, Kazakhstan, Kyrgyz, Lao, Macedonia, Moldova, Romania, Russia, Tajikistan, Turkmenistan, Ukraine, and Vietnam. We excluded 10 transition countries from the analysis because of insufficient data. As explanatory variables, external debt to GNI and openness are used. Before regression analysis, we checked the stationary properties of the variables with first and second generation unit root tests. Then, panel autoregressive distributed lag (ARDL) models were applied. The data set are collected between 1991 and 2009 yearly. At last, we discussed the estimation outputs.

THEORETICAL FRAMEWORK

External debt is widely believed to enhance economic growth and development (Osinubi & Olaleru, 2006; Hirschman, 1958). That is the basic reason why the debt is usually borrowed in the first place. Both developed and developing nations seek for external debt to boost their economic performance (Kletzer & Wright, 1999; Eaton & Gersovitz, 1981). Available statistics have shown that the United States of America is the biggest debtor country in the world but yet the country enjoyed significant economic growth and development taken the global financial meltdown aside (Blakely & Leigh, 2009). Nigeria has been utilizing the external debt to the extent that the debt becomes so huge to water down substantial part of the country's revenue. Despite the increasing nature of the debt stock, until the recent decline due to debt cancellation and relief, the economic development of Nigeria is not encouraging especially looking at the economic development in terms of its basic components such as employment creation and poverty reduction (Ayadi, 2008).

Studies on external debt revelled divergent views on the implication of external debt to the debtor country. Audu (2004) studied the impact of external debt on economic growth and public investment in Nigeria. His study concluded that debt servicing pressure in Nigeria has had a significant adverse effect on the growth process of the country. He added that Nigeria frequently diverts resources to take care of pressing debt service obligations instead of being allocated to the development of infrastructures that would improve the well being of the citizenry. Osinubi & Olaleru (2006) examined how the use of budget deficits as an instrument of stabilization leads to the accumulation of external debt with the attending effects on growth in Nigeria between 1970 and 2003. Their study

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concluded that if debt-financed budget deficits are operated in order to stabilize the debt ratio at the optimum sustainable level debt overhang problems would be avoided and the benefits of external borrowing would be maximized.

Adepoju, Salau & Obayelu (2007) studied t*he effects of external debt management on sustainable economic growth and development in Nigeria. Their study concluded that though* debt is an important resource needed to support sustainable economic growth; a huge external debt without servicing as it is the case *for Nigeria before year 2000 constituted a major impediment to the revitalization of her shattered economy as well as the alleviation of debilitating poverty*. Their study concentrated only on the management aspect of the external debt. However, according to the study carried out by Ayadi (2008), external debt has more positive impact on South African economy than Nigeria. His study concluded that external debt performs better in South Africa than Nigeria as it contributed positively to the growth of the South African economy. His study, however, did not bring out the impact on the component of economic growth and neglected the long run impact on the economic development.

Economic development began to appear in economic literature after the Second World War (Todaro & Smith, 2009). Emergence of economic development as major issue in the subject of economics was influenced mainly by the reconstruction of Europe after the war. According to Blakely & Leigh (2009), Cypher & Dietz (2008), and Hunt (1989), economic development encompasses a wide range of concerns including: an issue of more economic growth; involving the wise application of public policy that will increase a country's competitiveness; a code phrase for industrial policy; sustainable development that harmonizes natural and social systems; a vehicle for increasing wages, benefits, basic education, and worker training; a way to strengthen inner city and rural economies in order to reduce poverty and inequality; and lastly it embodies the range of job creation programs in response to the decline of federal domestic assistance.

Theories of economic development are plentiful. The theories vary in basic, fundamental ways, they make different behavioral assumptions, use different concepts and categories, explain the development process differently, and suggest different policies (Mookherjee & Ray, 2001). The Economic Base Theory is one of economic development theories, which viewed economic development as equivalent to the rate of local economic growth measured in terms of changes in the local levels of output, income, or employment. The essential dynamic of the theory is the response of the basic sector to external demand for local exports, which, in turn, stimulates local growth. The theory's major strengths are its popularity as a basis for understanding economic development in North America; and its simplicity as a theory or tool for prediction (Malizia & Feser, 1999). Its major weakness is its in-adequacy as a theory for understanding economic development, especially in the long term. Economic base theory strongly supports attracting industry through recruitment and place marketing.

Another theory under economic development is called Staple Theory. This theory identifies industrial sectors as its basic categories. It defines economic development as sustained growth over the long term (Ray, 1998). The theory's major strengths are its historical relevance to North American economic development and its emphasis on understanding the region's economic history. Its major weakness is that it describes, more than explains, the development process (Hoff & Stiglitz, 1999). Sector Theory was developed as another theory under economic development. The theory uses three aggregate sectors as basic categories namely: the primary, secondary, and tertiary categories (Aghion & Bolton, 1997). The level of development depends on sectoral diversity, emphasizing a prominent tertiary sector, and labor productivity. Although Sector Theory is attractive because it can be applied and tested empirically, the primary, secondary, and tertiary categories are too crude to be useful in practice (Todaro & Smith, 2009). The overriding application is the need to attend to industries producing income-elastic commodities in order to achieve sustained growth.

Under the Classical Liberal theory, economic development is understood as economic growth and capital-formation. The key to economic growth under this theory was capital formation. This led to an emphasis on large-scale

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infrastructure projects and on foreign aid loans (Fields, 1981). Social Theories of economic development emphasized the importance of human capital in development. The key to economic growth include education, health, and fertility. They shifted concerns from the overall rate of economic growth to considerations of poverty, inequality, urbanization and other social ills (Ferreira, Leite & Ravallion, 2010).

Structural Theories of economic development emphasized the conditions unique to Third World countries. The key to economic growth was recognizing that the experience of Europe could be duplicated in the context of former colonies (Ray, 1998). The theory shifted concerns to "import substitution," high tariffs and government protectionism. The Neo-classical Theories of economic development emphasized the negative role often played in development. The key to economic growth is free markets. They shifted concerns from the role of government, which is often considerable in structural theories, to private investment and market efficiency. This set of theories is currently the most widely practiced (Mookherjee & Ray, 2001; Malizia & Feser, 1999). Other theories of economic development include growth pole theory, interregional theory, product-cycle theory, entrepreneurship theory, and flexible production theory.

In this study, the Classical Liberal and Social theories are adopted because they recognize and incorporate human capital into the definition and measurement of economic development. The study used Human Development Index (HDI) variables to measure the economic development of Nigeria viz-a-viz the country's external debt. This is because since 1990, HDI is adopted especially by the UN agencies and other international bodies to measure both economic and human development. HDI has become very popular among development economists (Nagel, 2007).

IMPACTS OF EXTERNAL DEBT ON ECONOMIC GROWTH

One of the studies in literature is Presbitero's (2005, pp. 9-23) study in which 152 developing countries' data between 1977 and 2002 analyzed. He checked the relationship between external debt and GDP per capita growth rate. As control variables, he used lagged term of revenue and other macroeconomic, social and political variables. Negative relationship between external debt and GDP per capita growth rate were found as a result of the study. In addition, growth of the economies is interrupted by crowding out effect which is created by debt service. Growth of the economies declines 0.1% if there is 10% increase in debt ratio. In HPIC countries, as one percent increase in the debt service, it will cause 0.1% decline in the growth rate.

One of the other articles of Presbitero (2008, pp. 5-20) checked the relationships between external debt to GDP and growth of GDP per capita; and external debt to export and growth of GDP per capita. In the article, population growth rate, openness, inflation rate, term of trade and primary school enrolment were used as control variables. He collected the data between 1980 and 2004 for 114 countries. He found reverse relationship between external debt and growth and he also stated that the countries (in HIPC) who disciplined their debt management can create new external sources.

The article of Uysal, Hüseyin, and Mehmet (2009, pp. 166-176) focused on Turkish economy between 1965 and 2007. They used time series analysis for their study and they tried to analyzed relationship between external debt and growth rate of Turkish economy. As a result of their study, they found negative effect of external debt on the growth rate. The transferred resources from outside is not used in productive field of Turkish economy. It is stated in the article that unproductive consumptions of the country are financed by external debt on the other aspect.

Another study about Turkish economy is Kozali's (2007, pp. 92-116) article that encloses the years between 1970 and 2005. The variables used in the article are GDP, external debt, debt service, public and private investments. In the empirical analysis of the study, cointegration tests that include structural break tests have been applied. Both of external debt and debt service having negative effect on GDP has been reached.

Foreign debts used by Turkey are not allocated efficiently and have privative impact on real economy while Turkish economy have excessive external debt problem. Kozali stated that the basic reason of excessive external debt problem of Turkish economy is less domestic saving rate. He suggests that the economical policies enhancing savings should be applied by Turkish governors.

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A study about Nigeria's economy was put down on the paper by Ogunmuyiwa (2011, pp. 31-33). He tested the hypothesis of "external debt encourages growth". He collected the data between 1970 and 2007 and he used time series data in the article. Ogunmuyiwa does not accept the hypothesis and as a result it is found that there is reverse but weak relationship between external debt and growth found. He asserted in the study that less growth rate in Nigeria is because of fiscal instability and wastefulness of the government. He suggests to Nigeria's authorities to apply hard fiscal policies and to diverse the government funds to the productive field of Nigerian economy.

The impact of indebtedness on GDP per capita between 1976 and 2003 was examined in 24 countries in Safia's study (2008, pp. 10-16). The explanatory variables used in the model are debt service to export, openness, and domestic investments. Negative coefficient was found for debt service to export in the study.

According to the estimation output of the study, openness effects growth positively and as commonly known investment has positive effect on growth.

In Partillo, Hélène, and Luca (2002, pp. 7-20) 92 countries' data were studied between 1969 and 1998. In the article, non-linear effects of indebtedness on growth have been analyzed. As a result, it is concluded that when indebtedness ratio increases hundred percent, GDP per capita growth rate will decrease between 0.5% and 1% in those countries. Also, the decreased GDP per capita growth rate difference is 2% between the countries having external debt less than their export rate and the countries are having external debt ratio more than 300% of their export.

External Debt and concepts in external debt

External debt is that part of the total debt in a country that is owed to creditors outside the country. The debtors can be governments, corporations or private households.

According to the World Bank definition:-

"Total external debt is a debt owed to non residents
Repayable in foreign currency, goods or services"

When we trace back countries debt crisis history, we found Mexico as a pioneering country.

In 1982 the Mexican government announced it's in ability to service its forthcoming debt from the total 80 billion US dollar owed to international lenders. This taken as the first debt crisis in history; and many scholars regarded it as the first sign of the international debt crisis.

In October 1983; 27 countries, 16 from Latin America including Brazil, Mexico, Argentina and Venezuela rescheduled their debt. Subsequently many less developed countries (LDCs) announced their in ability to fulfill their debt obligation. This created major loan defaults and failure on the world largest banks.

The origin of this debt crisis can be attributed to Different factors, and can be seen best by categorizing and studying in a chronological order with the following time periods.

- First period, 1973 -1978 and
- Second period 1979 -1982.

First period (1973 -1978)

The quadrupling of crude-oil price following the Egypt -Israel war of the October 1973, created many dis-order in the international market.

To absorb the effect, producers in the industrialized world increased market price both in the domestic and international market. This created inflationary pressure around the industrialized world; and leaves many of the developing countries on a serious balance of payment problem.

(As they were not in a position to with stand the increase in crude oil price and imported goods). Current account deficit in LDCs increased from 8.7 billion US$ in 1973 to US$ 42.9 billion in 1974 and US$ 51.3 billion in 1975.

As a result many of them started to borrow from banks on the international capital market.

This produced a room for major banks to re-channel the fund that they collected from a dollar based oil exporting countries to budget deficit oil importing countries.

Indebtedness rose significantly from US$ 130 billion in 1973 to US$ 336billion in 1978.even in that condition, most countries experienced healthy economic growth and didn't face difficulties in servicing their debt.

Second period (1979 -1982)

The major event on this period was the decision made by the Organization of Petroleum
Exporting Countries (OPEC), which made a more than double rise in the price of crude oil.

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From US$ 13 per barrel to US$ 32 per barrel, this termed as the second oil shock.
The response from the industrial world for the second oil shock was much more similar; at the end of 1979 a tight monetary policy adopted by US is followed by other industrialized countries: UK, Germany, France, Italy and Japan. This further worsens the condition of LDC that continued on their intense borrowing from the developed world at a higher interest rate.
For instance LIBOR, London Inter Bank Offered Rate rise from 9.5 in the mid 1978 to 16.6 until mid – 1981. The corresponding outstanding debt increased from 336 billion US$ in 1978 to 662 billion US dollar in 1982.
The increase in interest rate along with other factors contributed to the severe world recession of the 1981 to 1983. This posed another problem for LDCs as the price and volume of their export fall and reduced their export earnings.
Furthermore the recession forced the industrialized world to adopt a more protectionist approach on imported goods which reduced LDCs export earnings.
Due to a high US interest Rate and borrowing, bankers are more willing to lend money to US than LDCs and more a rapid appreciation of US Dollar also make the situation worse for
LDCs as their real debt- service repayment increase because of this. When we see the fraction of GNP dedicated to interest payment on loans: we found sub-Saharan African countries next to Latin America. i.e. 3.5 in 1980 to 5.6 in 1983 on Latin America countries followed by sub - Saharan African countries as this fraction increased from 1.7 to 2.2 between 1980 and 1983.
In general the debt crisis is highly related with the inability of most developing countries, to service their debt. For instance, in this period (1979-1982) Latin America countries debt increased more than double from $159billon to $327billon. This makes Latin American countries the most affected by the crisis.
Francisco L. Rivera-Batiz and Lvis A. R ivera-Batiz, mentioned three possible reasons why
Latin America countries are seriously affected by the debt crisis.
First, loan to Latin America countries was mostly offered by private creditors, as those countries are high income countries relative to other developing countries. Due to this, Latin
America countries were more affected by the increase in market interest rate in the late 1970's and early 1980's. As a result, compared with other developing countries that took loan from official lenders, Latin America countries faced a higher interest payment.
The second reason mentioned by Francisco L. Rivera-Batiz and Lvis A. R ivera-Batiz was countries policy towards international trade. Most developing countries mostly follow either of the following three trade policies: Inward-oriented (Import substitution), natural resource oriented and industrial export –oriented.
Inward –oriented or import substitution trade regimes are countries that encouraged production of goods and services that can compete and substitute imported goods with the aim of discouraging import. The ultimate objective of this trade policy is to stabilize the current account balance (CAB) by reducing import expenditure. But with the aim of discouraging imports and encouraging import substitute goods domestically, countries that follow this trade policy mostly weaken the export side.
In the other hand Natural –resource export oriented countries tried to increase the export side
of the countries by exploiting natural resource like Gold, cooper, natural gas and crude oil.
But this can't guarantee the increase in overall export as in many of the cases the export of manufactured goods is discouraged in this kind of trade regimes.
The third, manufactured (industrialized) –export oriented countries adopt trade policy that promote the production of export centered manufactured goods by liberalizing the manufacturing sector.
From the above mentioned trade policies manufactured –export oriented are able to create source of income which helps heavily indebted countries to service their interest burden payment.
The third reason which can explain why Latin America countries are more affected by the debt crisis is the use of the fund. As per some economists, in most of the heavily indebted poor countries the debt are wasted with corruption, excessive hiring of human resource and to build up military power and the like.
Due to the above mentioned reasons most LDCs in general and Latin America countries in particular found themselves with record level of indebtedness and debt service repayments, with a poor performance in overall economic activities to create income domestically.

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The effect of External Debt on Investment and Economic growth

The effect of external debt on investment and economic growth can studied best by having a better understanding on the issue of debt overhang, a term which is directly related with investment and economic growth. Different economists define debt overhang in different ways.

For Krugman (1988) debt overhang is:- "*A situation in which the expected repayment on foreign debt falls short of the contractual value of the debt*"

Eduardo Borensztein (1990) defines debt overhang as:-

"*A situation in which the debtor country benefits very little from the return to any additional investment because of the debt service obligations* "

In line with issue of debt overhang, policy makers that focused on debt crisis tried to find out whether the problem is a solvency or a liquidity problem. (Agenor and montiel,1996)

As per Ajayi(1991), a liquidity problem is a short term problem faced by countries to service the forthcoming debt based on the initial contract. i.e. when countries failed to service current obligation. In the other hand a solvency problem is a long run problem faced by countries when their total liabilities are beyond their ability to pay at anytime.

For Kletzer(1988) most developing countries were solvent. For him the present value of their respective resources (calculated based on discounted value of their real outflows) are much lower than their total debt obligations.

Kletzer(1988) findings might be a bit old to judge the present status of the heavily indebted poor countries in general and the countries under this study in particular. As an alternative measurement, if we take External debt as a percentage of GNI (External Debt %of GNI) as a measure of ability to pay and see the situation for the countries under this study, ability to pay are improved, as a high ratio means that a particular country would face difficulties in generating enough income to service its external obligations. And the reverse is true for a low External Debt %of GNI.

As per the result from the above table and the presumption we made to take the external debt

GNI ratio as a test for ability to pay, it is hard to accept Kletzer (1988) findings (liquidity vs solvency). But, at the same time, we don't have any reason that we infer from the table to reject the result as well. Therefore, it is hard to determine the present status of the selected countries debt situation prior, whether it is a liquidity or solvency problem. But as we can infer from the table ability to pay are improved significantly in the year 2010 compared with year 1991.

Moreover, when we move back and compare the Investment GDP ratio of 15 heavily indebted countries in the period 1971-81(investment GDP ratio of 24 percent) with the period

1982-87 (investment GDP ratio of 18 percent); the latter period decreases by 6 in terms of percentage. For researchers like Eduardo Borenszetin (1990), this is mainly due to foreign debt. This in turn negatively affected economic growth followed by a decline in domestic investment and significant capital outflows. It has been hypothesized also foreign debt as the disincentive to invest.

In the other way for Savvides (1992), if a debtor country failed to pay its foreign debt, the condition can be linked to the country economic condition. This kind of countries benefit little from the increase in output or export income; as part of the income is used to pay forthcoming debt. This way the debt overhang can be treated like a marginal tax rate on the country, which lowers return on investment and a hindrance to domestic capital formation.

Even in the condition all external debts are owned by government, debt overhang has a negative effect on private saving and investment. In the other side government become preventative; to formulate policies that promote domestic capital formation or to decrease domestic consumption for a higher future economic growth, as the benefit goes to creditors in the form of debt payments.

In an attempt to found the effect of foreign debt on Investment; Eduardo Borensztien(1990) classified the effect of foreign debt on investment in two. i.e "Debt overhang" and "credit rationing" effect.

For him, Debt overhang is a condition when the debtor country failed to service its foreign debt obligation fully with the existing resources, and undertake a negotiation with creditors to determine actual debt payment; this time the payment linked to the economic condition of the debtor country. As a result, part of the increase in output will be used to pay the forthcoming debt. This in turn creates a disincentive on private investment and poses a hindrance on

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the government to pursue the right policies. For Borensztein, debt overhang create an adverse effect on private investment and become strong when private debt used as measure of debt overhang.
According to Borensztein, the second way that foreign debt affects investment is through the credit rationing effect. This is a condition faced by countries that failed to get a new loan because of their inability or willingness to pay.
Classens and Diwan(1990) also categorized the effect of external debt on investment and economic growth in to two. First, debt servicing might put away (take) the limited resource of poor countries that could be used in public spending. More specifically, resources used to service the accumulated debt may crowd out public investment and also private investment
Due to complementarities between private and public investment.
Second, external debt might affect economic growth through the debt overhang effect; this is the case when debt servicing discourages current as well as future investment plans.
For Ajiya (1997), the disincentive effect on investment comes when indebted countries failed to service their debt based on the contractual obligation. Therefore it is not vital to measure debt overhang based on the amount of accumulated debt. He also suggested that, to maintain a stable and unaffected trend in production and investment, a high debt service export ratio should be serviced regularly. Heavy debt servicing put many countries on a fiscal deficit, which will lead to numerous problems:
First, servicing a debt may demand an increase in tax to raise resources. The expectation of a higher tax may discourage investment; this is the case for debt overhang.
Second, as payments are made using foreign exchange; most indebted countries transfer domestic resources to foreign exchange. To raise large sum of foreign exchange, countries might used aid income. And this will in turn affect overall economic performance.
Third, when Poor countries faced a high debt service payment request, they might be forced to reduce spending on public investment. This in turn related to the crowding out effect of foreign debt.
In general due to a heavy debt service payment and a reduction in government expenditures growth will be retarded.
As a general conclusion on the issue of foreign debt, investment and economic growth; Osei (2000) suggested the ratio of total external debt to income (GNP) and the ratio of total debt service to exports of goods and services as a good measure of debt burden, as they help to counter debt overhang and debt crowding out effects respectively. The higher the ratio, the greater the burden.

SOURCES OF NIGERIA'S EXTERNAL DEBT The sources of Nigeria's external debt include:
a) The Paris club of creditors
b) The London club of creditors
c) Multilateral creditors
d) Bilateral and private sector creditors
e) Promissory Note creditors

(a) Paris Club Is a cartel of creditor countries that came into existence in 1956. It does have a fixed number of members. Current members of the Paris club are United Kingdom, Germany, France, Italy, Netherland, Spain, Switzerland, Japan, United States American, Australia, Belgium, Denmark, Finland, Ireland, Australia, Canada, Norway, and Russia.
(b) The London Club of Creditors These creditors mainly grant uninsured and unguaranteed loans. Members of the club were crowned in 1976. They hold meetings concerning issues or problems of repayment.
(c) Multilateral Creditors They are International Institutions. They include: ADB-African Development Bank IBRD-International bank for Reconstruction and Development IFC-International Finance Corporation IDA-International Development Association ECC-European Economic Community
(d) Bilateral and Private Sector Creditors These creditors usually grant loans for development purposes. Members are ECC (now European Union), The United States of America, The East European countries and Japan. White private sector creditors issue short-term loans and they are extended by commercial banks and individual foreign suppliers.

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(e) **Promissory Note Creditors** These creditors grant uninsured trade loans, resulting mainly from trade arrears. In 1982 and 1983, Nigeria had trade arrears, these arrears were financed by promissory notes.

The Debt Relief For Nigeria

With progress made from the reduction of resources directed to debt servicing in 2004, the implementation of a home-gown economic reform programme, the National Economic Empowerment and Development Strategy (NEEDS), coupled with improvements in economic governance and the anti corruption drive of the Obasanjo administration, added incentives to the quest for debt relief for Nigeria among creditor nations. Also, it was argued that a debt relief was necessary if Nigeria was to achieve the objectives under NEEDS, as well as meet the Millennium Development Goals (MDGs) by 2015. Consequently, on June 27 2005, the country secured a major breakthrough in her quest for debt relief, with the Paris club agreement to grant Nigeria an International Development Asstiance (IDA) which was supportive of the debt relief struggle. To give a practical effect to this, a delegation from the country met with the Paris club creditors on October 20, 2005 and a final agreement was reached to cancel 60% (US$ 18 billion) of Nigeria's debt with Paris club. The breakdown of the debt owed to Paris club was; Principal balance – US$ 25,199,180.0, Arrears -US$5,684,634.53, Total - US$30,883,814.53

The agreement involved a debt reduction under the Naples terms, on eligible debt after reduction. This was to be implemented in two phases, conditional on the implementation of a comprehensive economic reform programme under the Policy Support Instrument (PSI) as approved by the executive board of the International Monetary Fund (IMF) on October 17, 2005. The Naples terms are a more generous debt relief package reserved only for lower income countries d good performance on their reform programme. In the fist phase, Nigeria undertook to pay arrears of US$6.3 billion due on all categories of debts, while the Paris club creditors would grant a 33.0%. The second phase would become due after the approval of the first review of the PSI by the Executive Board of the International Monetary Fund during the first half of 2006. Then, Nigeria would pay US$ 6.1billion, the amount due under the post cut off date debt. The Paris club creditors grant a further cancellation of 34.0% on eligible debts and then buyback the remaining eligible debts. The execution of the fifth bilateral agreement with the Paris club creditors would facilitate the resumption of normal bilateral economic relationship with the member countries. The total amount to be paid under the debt relief to complete the exist strategy from Paris club debt overhand amounted to US$ 12.4 billion. According to Debt Management Office (DMO), Nigeria's total debt as at June ending 2006 stood at $16.9 billion. With the completion of the Paris club debt, the DMO stated that the priorities of the government would be to review and update earlier projections of the first workshop; ensure regular conduct of the DSA and build national capacity for Debt Strategy Analysis. Nigeria's debt stock was reduced to a low percent of the country's GDP; achievable when the Paris club of creditor nation granted the country debt relief, after rigorous technical negotiation and tremendous level of diplomatic initiative geared towards gathering the support of the international community.

Table 1:

Year	External debt (US$ Million)	Real GDP	Interest Rate	Inflation Rate (consumer price) %	Exchange rate	Unemployment rate	Purchasing power parities (PPP)	Gross capital formation (GCF) rate %
1999	28039.21	2.7	21.32	12.5	92.34	17.5	970	27.698
2000	29000	3.5	17.98	6.5	101.7	18.1	950	20.19
2001	32000	3.5	18.29	14.9	111.23	13.7	840	24.035
2002	32000	3	24.85	14.2	120.58	12.2	875	30.474
2003	29700	7.1	20.71	13.8	129.22	14.8	900	25.43

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2004	31070	6.2	19.18	16.5	132.89	11.8	1000	23.315
2005	30550	6.9	17.95	13.5	131.27	11.9	1400	22.998
2006	32450	5.3	17.26	10.5	128.65	12.3	1500	22.583
2007	6280	6.4	16.94	5.4	125.81	12.7	2100	22.773
2008	8010	5.3	15.14	11.6	118.55	14.7	2300	24.041
2009	8320	5.6	18.36	11.5	148.9	19.7	2300	27.006
2010	10110	8.4	17.59	13.9	150.3	21.1	2500	24.138
2011	11020	7.2	16.75	10.8	154.74	21.1	2600	25
2012	10430	6.3	12	6.58	156.81	23.9	2112	30

Source:

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.479[a]	.230	.165	10227.25817

a. Predictors: (Constant), Real GDP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.741E8	1	3.741E8	3.577	.083[a]
	Residual	1.255E9	12	1.046E8		
	Total	1.629E9	13			

a. Predictors: (Constant), Real GDP

b. Dependent Variable: External debt (US$ Million)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	38278.988	9356.254		4.091	.001
	Real GDP	-3061.067	1618.517	-.479	-1.891	.083

a. Dependent Variable: External debt (US$ Million)

The Table shows that real GDP does not have any significant level of relationship between them and they external debt rate with a P-value of 0.083 being greater than 0.005.

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Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.594[a]	.352	.299	9376.26184

a. Predictors: (Constant), Interest Rate

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.743E8	1	574326348.892	6.533	.025[a]
	Residual	1.055E9	12	87914286.114		
	Total	1.629E9	13			

a. Predictors: (Constant), Interest Rate

b. Dependent Variable: External debt (US$ Million)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-19401.008	16141.601		-1.202	.253
	Interest Rate	2243.604	877.802	.594	2.556	.025

a. Dependent Variable: External debt (US$ Million)

The variable IR had an R value of 0.594 and adjusted coefficient of determination (R^2) under it was 0.299 meaning that IR is about 30% explained by the Nigerian's external debt. But the beta coefficient of 0.594, it indicates a positive (direct) relationship between the interest rate and external debt.

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.475[a]	.226	.161	10253.18882

a. Predictors: (Constant), Inflation Rate (consumer price) %

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.678E8	1	3.678E8	3.498	.086[a]
	Residual	1.262E9	12	1.051E8		
	Total	1.629E9	13			

a. Predictors: (Constant), Inflation Rate (consumer price) %

b. Dependent Variable: External debt (US$ Million)

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Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3077.255	10149.588		.303	.767
	Inflation Rate (consumer price) %	1577.862	843.614	.475	1.870	.086

a. Dependent Variable: External debt (US$ Million)

The Table shows that inflation rate does not have any significant level of relationship between them and they external debt rate with a P-value of 0.086 being greater than 0.005.

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.551[a]	.304	.246	9723.41415

a. Predictors: (Constant), Exchange rate

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.948E8	1	494760388.798	5.233	.041[a]
	Residual	1.135E9	12	94544782.789		
	Total	1.629E9	13			

a. Predictors: (Constant), Exchange rate

b. Dependent Variable: External debt (US$ Million)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	62275.283	18075.419		3.445	.005
	Exchange rate	-317.736	138.895	-.551	-2.288	.041

a. Dependent Variable: External debt (US$ Million)

Also the Exchange rate has an R value of 0.551 and adjusted coefficient of determination (R^2) of 0.246, this implies that the external debt of the nation between these period explains the exchange rate by about 25%. Its beta coefficient of 0f -0.55 indicates a negative (inverse) relationship between the ER and external debt.

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Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.582[a]	.339	.284	9471.93697

a. Predictors: (Constant), Unemployment rate

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.527E8	1	5.527E8	6.160	.029[a]
	Residual	1.077E9	12	8.972E7		
	Total	1.629E9	13			

a. Predictors: (Constant), Unemployment rate

b. Dependent Variable: External debt (US$ Million)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	47090.396	10673.131		4.412	.001
	Unemployment rate	-1597.722	643.725	-.582	-2.482	.029

a. Dependent Variable: External debt (US$ Million)

The unemployment rate (UR) on the table shows that the R value was 0.582 and adjusted coefficient of determination (R^2) under it was 0.284,this means that the rate of unemployment in Nigeria between this period is explained by external debt by 28%. Moreover, the beta coefficient of -0.582 indicate a negative (inverse) relationship between the unemployment rate and external debts.

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918[a]	.842	.829	4632.56381

a. Predictors: (Constant), Purchasing power parities (PPP)

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.372E9	1	1.372E9	63.920	.000[a]
	Residual	2.575E8	12	2.146E7		
	Total	1.629E9	13			

a. Predictors: (Constant), Purchasing power parities (PPP)

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Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918[a]	.842	.829	4632.56381

b. Dependent Variable: External debt (US$ Million)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	45244.445	3234.318		13.989	.000
	Purchasing power parities (PPP)	-14.966	1.872	-.918	-7.995	.000

a. Dependent Variable: External debt (US$ Million)

The Purchasing power parities (PPP) had an R value of 0.918 and adjusted coefficient of determination (R^2) value of 0.829, which implies that the PPP of the nation (Nigeria) is explained by the external debt at a rate of 83%. Moreover, the beta coefficient of -0.918 indicate a negative (inverse) relationship between the PPP and external debts.

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.126[a]	.016	-.066	11558.82795

a. Predictors: (Constant), Gross capital formation (GCF) rate %

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.602E7	1	2.602E7	.195	.667[a]
	Residual	1.603E9	12	1.336E8		
	Total	1.629E9	13			

a. Predictors: (Constant), Gross capital formation (GCF) rate %

b. Dependent Variable: External debt (US$ Million)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	33513.216	27721.845		1.209	.250
	Gross capital formation (GCF) rate %	-486.746	1102.973	-.126	-.441	.667

a. Dependent Variable: External debt (US$ Million)

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The Table shows that GCF does not have any significant level of relationship between them and they external debt rate with a P-value of 0.667 being greater than 0.005.

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.951[a]	.904	.791	5117.77869

a. Predictors: (Constant), Gross capital formation (GCF) rate %, Purchasing power parities (PPP), Inflation Rate (consumer price) %, Unemployment rate, Real GDP, Interest Rate, Exchange rate

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.472E9	7	210306832.831	8.030	.011[a]
	Residual	1.571E8	6	26191658.742		
	Total	1.629E9	13			

a. Predictors: (Constant), Gross capital formation (GCF) rate %, Purchasing power parities (PPP), Inflation Rate (consumer price) %, Unemployment rate, Real GDP, Interest Rate, Exchange rate

b. Dependent Variable: External debt (US$ Million)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	42927.101	19130.228		2.244	.066
	Real GDP	-1286.074	1755.996	-.201	-.732	.492
	Interest Rate	35.096	765.020	.009	.046	.965
	Inflation Rate (consumer price) %	537.085	562.030	.162	.956	.376
	Exchange rate	206.542	174.423	.358	1.184	.281
	Unemployment rate	-75.071	490.303	-.027	-.153	.883
	Purchasing power parities (PPP)	-15.599	3.578	-.956	-4.360	.005
	Gross capital formation (GCF) rate %	-873.287	728.836	-.227	-1.198	.276

a. Dependent Variable: External debt (US$ Million)

In all the results shows that external debt has significant impact (relationship) on the economic development rate of the nation (Nigeria) in the period under review, this shown on the general model with the R value of 0.951 and adjusted coefficient of determination (R^2) value of 0.791, implying that the economic level of Nigeria between 1999 and 2012 is explained by the eternal debt at a rate of 79%. The relationship is a direct relationship.

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The table below is generated from the information contained in table 1 above via the use of SPSS.
Table 2: Statistical Results on the Dependent Variables

Statistical Variables	Dependent Variables							General Model
	RGDP	IR	IFLR	ER	UR	PPP	GCF	
R	0.48	0.594	0.475	0.551	0.582	0.918	0.126	0.951
R Square	0.23	0.352	0.226	0.304	0.339	0.842	0.016	0.904
Adjusted R Square	0.17	0.299	0.161	0.246	0.284	0.829	-0.066	0.791
A	-3061.067	2243.60	1577.86	-317.736	-1597.72	-14.966	-486.74	+
B	-0.479	0.594	0.475	-0.55	-0.582	-0.918	-0.126	
E	1618.517	877.80	843.614	138.895	643.725	1.872	1102.97	
F Statistics	3.58	6.533	3.498	5.233	6.160	63.920	0.195	8.030
t values	-1.891	2.556	1.870	-2.28	-2.482	-7.995	-0.441	2.244
Significance	0.083	0.025*	0.86	0.041*	0.029*	0.00**	0.667	0.011*

Source: Computational Results using SPSS, $p \leq 0.05$

The statistical results in table 2 above indicate that only IR, ER, UR AND PPP have significant correlation with the Eternal debt (independent variable) at 0.05 significance level.

RECOMMENDATIONS

From the findings and conclusion above, this study provide the following recommendations for policy for policy makers, government agencies and appropriate authority for improvement. Suggestion to be considered includes the following:

1. Government should initiate and develop policies that will address the fundamental causes of external debt. There should be political will from government to ensure proper use of borrowings to develop all sectors within the economy. Proper debt payment plan should be formulated and strictly adhered to. Government need to provide a model for public- private sector cooperation on develop human capital development to enhance development to strengthen the economy.
2. Government should start thinking of using other approaches other than external debts in developing infrastructure in Nigeria; policies like public private partnership which have transformed infrastructural development in countries like South Africa and Canada.
3. We also recommend that for adequate funding of infrastructure in critical sector to succeed, transparency and good governance, population control and physical planning of settlements among others must be pursued vigorously.
4. Nigerian government should declare state of emergency on infrastructural development and muster political will to fight against corruption and clean up corrupt leaders out of public domain.
5. The results of the study further show that government should increase the funding of the development of infrastructure particularly in line with the lessons learnt from the Korean government which has invested in the post-war period on construction of roads, power stations, electricity and communication which created jobs, roused the economy, reduce the production costs indirectly and raise their productivity. The financing options for closing Nigeria's infrastructure gaps should focus on broadening the sources of finance and a better allocation of public resources In this wise, the government should intensify the utilisation of the public-private-partnership (PPP) framework as exemplified by the USD 385million Lekki-Epe toll road in Lagos and as obtained in Morocco where nearly two-thirds of electricity production is by private producers.

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CONCLUSION

The abundant resources in Nigeria can be harnessed to provide adequate infrastructure for the country and indeed entire Africa. However, the Nigerian credentials and qualifications for infrastructural development have been misapplied. Pleasant stories like Nigeria daily two
Million barrels of crude oil remain mere lip service for suffering people of Nigeria.
This paper gives an indication that infrastructural development in Nigeria requires a combination of strategies such as radical shift in political behaviour, good governance and public protection from exploitation by private companies. Learning from the pace of change set by leadership of other African countries can be emulated in rebuilding Nigeria infrastructure.
The Nigeria government should lead in rebuilding first a comprehensive, public and robust infrastructure in order to open non-discriminatory access to infrastructure to all the people in Nigeria.
Also, Nigeria government should partner with appropriate private institutions to devise a viable process of attaining vivid infrastructure development in basic sector that will alleviate poverty, create employment and position the country among prominent nation of the world

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