The Church, Society and Nigeria's Debt Crisis

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Since the early 1980s, Nigeria has been caught in a debt crisis, even though we have been able to service our huge external debts according to terms agreed upon with our creditors. This crisis has been made worse by the bunching of amortisation of these debts and the rapid increase in the short-term loans in the last few years. Consequently, the debt crisis is an issue of crucial importance in current economic discourse. The Structural Adjustment programme (SAP) of the Babangida Administration was instituted to mitigate this crisis and to attract a net inflow of foreign capital.

The Federal Government has put into place four debt management strategies, namely: (1)debt rescheduling, (2) debt refinancing, (3) new loan facilities, (4) debt equity conversion.

Explanation of Basic Terms

A debt is a repayable obligation that can be subject to a variety of maturation schemes. A short-term debt is one that matures within 5 years; a medium-term debt matures within 10 years; a long-term debt is one that stretches out beyond ten years, is owed to foreigners and repayable in foreign currency.

A debt could be private non-guaranteed, privately guaranteed or publicly guaranteed.

External borrowing can be obtained from at least three sources. There are the bilateral loans which are inter-governmental loans and multi-lateral loans drawn from the World Bank or the International Monetary Fund (IMF). Both of these types are usually referred to as soft loans, because they have longer maturity period and attract low interest rates. A third source is the international market, which offers various arrangements, such as Euro-Dollar loans, private bank bonds, contractor finance, or supplier credit. These carry a higher rate of interest and more stringent repayment conditions.

Debt Management

Debt management is the methodology adopted by Government to tackle problems created by debt crisis.

In the recent past, Nigeria has expended up to 30 per cent of her foreign exchange earnings on servicing external debts. Emphasis on debt servicing has serious implications regarding resources available for domestic use. For example, a staggering 61.2% of the recurrent expenditure was devoted to debt servicing in the 1988 and 1989 budgets. These compare unfavourably with 21.2%, 42.2% and 25.5% devoted to debt servicing in 1982, 1984 and 1986 respectively. We can, therefore, see why every Nigerian Government, whether Federal or State, is increasingly finding it difficult to meet important daily requirements of the growing population.

Debt crisis is a global phenomenon. **Universally, the crisis in many countries, including Nigeria, is only the symptom of more serious problems of weak economic structures that resulted from years of inappropriate policies and rash borrowing.**

Again, taking a global perspective, the debt crisis is rooted in the oil crisis of the 70s and 80s and the drastic fall in commodity prices. For non-petroleum producing third-world countries, the astronomical rise in oil prices spelt economic doom, something Nigeria was spared. **However, the huge development plans coupled with reckless and and, sometimes, mindless expenditure of valuable resources in white elephant projects sowed the seeds of our present economic predicament.**

That predicament consists of at least the following features: (1) Increase in foreign investment without a corresponding increase in the thoroughness of project evaluation; (2) Rapid rise in interest rates. (3) Over-valuation of exchange rate of currency leading to excessive external borrowing and to encouraging massive capital flight from such countries like Nigeria that have relatively open domestic capital markets.

The world economic recession of the 1980s further worsened the debt problem. There was a noticeable decline in the export earning of developing countries.

Reasons for the Accumulation of Debts

To understand why debts accumulate, we must realize that there are two classifications of debts: reproductive and unproductive or dead weight debts. When a loan is used to purchase an asset, it is reproductive. Examples are fund borrowed for factories, electricity, or refineries. Debts incurred for wars or for on current expenditure are unproductive and hence called "dead weight debts."

The weight of a public debt depends on whether it is an external or internal debt. When a country obtains an external loan, the country can import goods and services to the value of the loan without at the time exporting anything for exchange.

When the capital and interest have to be repaid, the same borrower's future earnings must cover the interest and principal payment. So debt-financed investments need to be productive and well managed so as to earn a rate of return higher than the cost of debt service.

The Nigerian Debt Situation

The Nigerian situation can be summarized as follows:

(1) The roots of the debt crisis can be traced to 1978, when Nigeria started borrowing from the International Capital Markets. Such loans attracted high interest rates and shorter maturity and grace periods. They were not tied to specific economic projects and therefore gave ample room for financial manipulation and mismanagement.

(2) After 1982, short term trade arrears increased phenomenally because of the much abused import license policy of the Government of the Second Republic.

(3) The real crisis began in 1983, when debt service began to impose serious strains on Nigeria's balance of payments and she could no longer service her debts.

(4) Nigeria suffered from the worldwide economic recession and the steady decline in the price and quantity of Nigerian crude oil. This development contributed immensely to the crisis.

(5) The Nigerian currency was grossly overvalued.

Reasons for Borrowing

Why do countries not try to live within their means? Countries borrow because, because, according to economic theory, progress in the world has been characterized and helped more by inter-dependence of this type, by free flow of ideas and men, goods and capital than by isolation. When the United States of America (USA) was a young, poor and an insecure nation, it benefitted from international mobility as much as the richer and stronger nations of Europe did. As England industrialized in the eighteenth century, it relied heavily on capital provided by the wealthy and experienced Amsterdam Financial

Community.

The USA, during its period of infancy, needed capital to exploit its natural resources and to establish industries. The financial markets in Europe and England responded favourably because of the following factors:

(1) There was a guaranteed political stability.

(2) There existed a labor force capable of adapting quickly to new technology.

(3) The judicial process guaranteed legal protection of property rights and prompt, impartial settlement of disputes and claims.

Conclusion

I regret that I have to end this talk rather abruptly for reasons of time limitation. The subject matter is so serious, important and complicated. There is the need to keep it as simple as practicable so that our target audience can benefit. The danger, however, of over-simplification is that such a technical subject is best understood by those who, unfortunately, are least afflicted by the severity of the problems. So we find ourselves between the devil and the deep blue sea.

It has been said that predicting the future is an occupation for fools. I nevertheless venture to predict the future. It has been suggested that this nation should stop borrowing for unproductive undertakings. Nigerians must learn to manage their national resources efficiently. The question, however, is: who is to determine what is a productive or an unproductive undertaking? I do not think a better option to our economic ills can be found than a good, freely elected, democratic government. The shock experienced by millions of Nigerians and the world at large by the attempted coup of April 22, 1990, cannot be ignored in our economic and social problems. More recently, the planned carnage of the innocent residents of Bauchi State of Nigeria, in which 500 people, comprising mostly of children and women, were massacred in cold blood, some in their sleep, cannot escape the watchful eyes of investors the world over. And why should the World Bank waste its time in carrying out reconstruction or in providing aid to a country that every year takes five steps forward and then suddenly six backwards? I repeat that good Government is 90% of the solution. But Governments, good or bad, are conducted by the citizens of the nation.

Here we have the major reason the Church in Nigeria must rise to the challenge posed by instability, a product of idleness, indolence and sheer hopelessness, both mentally and spiritually.

Finally, I must stress that there is only one solution to the debt problem, our major killer disease. That solution is good Government, purposeful Government.