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EXTERNAL DEBT ACCUMULATIONS AND MANAGEMENT IN DEVELOPING ECONOMIES: A COMPARATIVE STUDY OF SELECTED SUB-SAHARAN AFRICA AND LATIN AMERICA COUNTRIES.

Onyekwelu, Uche Lucy; ACA, IFRS Cert.
Department of Accountancy,
Faculty of Management Sciences,
Enugu State University of Science and Technology, Enugu.

Ugwuanyi Uche Boniface Ph.D, CNA
Department of Accountancy,
Faculty of Management Sciences,
Enugu State University of Science and Technology, Enugu.

ABSTRACT: *The issue of debt crisis and management have constituted major challenges to the developing economies of the world. This paper has x-rayed issues of external debt accumulations and management strategies adopted by developing countries using Nigeria, Ghana and Brazil economies. The study covers 2002-2011 and reviews the issues that led to the debt accumulations countries and how they have managed the crisis via policy formulation and implementations. This work is both conceptual and empirical. Data were gathered through of the economic statistics releases of relevant agencies and reveiw records sourced via the internet and other scholarly publications relevant to the topic. The study attributed the debt crisis in these nations primarily to mismanagement of credit facilities, weak economic base, overdependence on foreign aids, weak debts contractual agreements and ineffective debt managements strategies. The paper recommends among other things that developing economies should place less emphasis on external borrowings as most of the credits are given under very harsh conditions, emphasis should be placed on prudent resource management. The government should rather pursue deliberate policies that will ensure the diversification of their economy by developing other productive sectors of the economies, while external debts should be seen as a last resort and must be contracted to finance only self- sustaining projects that will stimulate real sector and other factors of production needed to guarantee enduring economic development.*

KEYWORDS: External Debt, Debt Crisis, Debt Management Strategies, Developing economies.

INTRODUCTION

Background to the Study:

Suffice to say that many economies will find it extremely difficult to thrive without depending on one form of credit or the other. This is because countries which are tagged developing still have very grave infrastructure deficit which are yearning for attention. These countries resort to external borrowing to supplement most often the meager internal resources.

The authorities are usually faced with mapping out strategic programmes which these credits can be used to execute in order to achieve the set out purpose that could engender true economic transformation. Many debtor economies who have obtained credits on concessional terms from governments and multilateral development institutions and have set up units in their central banks and ministries of finance to manage such debts, Soludo (2008) and Anyanwu (1997). These unit they noted have developed strategies to negotiate and administer such debts. Duru and Anang (2006) supported this view when they posited that many countries have borrowed extensively on commercial terms from international banks and capital markets.

The above scenarior brings to the fore some of the attendant complexities debt crisis and management burden /responsibilities such countries will have to contend with. Other developing economies have deviced policies to guide them during loan negotiations as well as strategies towards loan repayment. This has become necessary as a loan will turn out to be good or bad depending on its negotiation terms and utilization. In the light of the foregoing, it is of utmost importance to continue to review external debt crisis and management strategies of developing economies particularly in the context of a rapidly changing international economic environment. It is therefore against this backdrop that this study is set to investigate on the debt crisis and management strategies in developing economies using Nigeria, Ghana and Brazil economies.

Statement of Problem

External debt burden has for decades remained a recurrent and discordant note in the discourse on the crisis and contradictions of the development of such countries. This is, however, not entirely surprising given its magnitude and consequences for developing countries like Nigeria, Ghana and Brazil that fall under this case study. The collective debt of Africa represents a massive non-judicious utilization of Africa's huge resource base and the failure of policy measures targeted at the management of those resources, Omotola and Saliu (2009).

Arikawe (2003) argues that sovereign debt problems have been a major public policy issue since World War II including the treatment of debt related to that of war as the cost of paying interest on the government's debt is very high. Iyoha (1997) noted that Nigeria's debt stock rose at an average rate of 17% per annum between 1982 and 1994, which implies that Nigeria's stock of external debt increased by a factor of 33% in 22 years aside from domestic debt. Soludo (2004) argued that Nigeria when compared with other African countries like Ghana and Latin American especially Brazil, which are comparable to Nigeria in most respects, the pace of economic development in Nigeria has been very slow. While, there have been series of debates on the justification for the huge debt profile of developing countries, this paper appraises external debt accumulations and management strategies the in developing economies using Nigeria, Ghana and Brazil.

Objectives of the Study

The primary objective of this study is to assess debt crisis and management strategies of developing economies using Nigeria, Ghana and Brazil. The study will also address the following specific objectives:

i. Determine the evolution/ key causes of the external debt crisis faced by these countries.
ii. Review the various strategies employed by the three countries in the management of their debts crisis.
iii. Examine the challenges confronting effective debt management in the coutries.

Research Question

The following research questions forms the basis for this study:

i. What is the evolution and key causes of external debt faced by these countries?
ii. What are the strategies employed by the above named countries in the management of their external debts and how effective are they?
iii. What are the major challenges confronting the strategies employed in the management of external debt of these countries?

Significance of the Study:

The study is very important as it will further enrich the knowledge on debts crisis and management in developing economies like Nigeria and other developing economies. It will be of immense benefit to relevant government agencies charged with debt management as they will appreciate the nature of their debts and make better policies that would ensure effective debt management. The study would also provide sound basis for future researchers in related fields.

Scope and Limitations of the Study:

This study focuses on the debt crisis and management strategies in developing economies using Nigeria, Ghana and Brazil. This study has made extensive use of secondary data. Data for the research for want of time will be based on years 2002 through 2011, however some of the data could not be obtained especially as it concerned Brazil and in very few cases Ghana.
The study was self-sponsored. Despite, all the limitations encountered, the researcher strongly believe that the findings are reliable since the constraints did not in any way affect the objective of carrying out this research because the researcher was able to overcome them.

REVIEW OF RELATED LITERATURE

Debt Crisis and Management Strategies: Conceptual Framework

Evolution/Nature of External Debt Crisis:

The issue of developing economies external debt has been a great issue of discuss. Nigeria which is rated the 6th highest producer of oil however has continued to export most of its oil in its crude form while resorting to importation of refined oil. In the 1960s and 1970s agriculture used to be the stay of the economy but has been grossly neglected since the discovery of oil. This situation has worsened its external debt stand leading it to having unfavourable balance of payment with almost all its trade partners. The Nigeria economy has shown an overdependence on the capital-intensive oil sector, which provides 95% of foreign exchange earnings and about 80% of budgetary revenues.

Following the signing of an IMF stand-by agreement in August 2000, Nigeria received a debt-restructuring deal from the Paris Club and a $1 billion credit from the IMF, both contingent on economic reforms. Nigeria pulled out of its IMF program in April 2002, after failing to meet

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spending and exchange rate targets, making it ineligible for additional debt forgiveness from the Paris Club. In November 2005, the Federal Government of Nigeria won Paris Club approval for a debt-relief deal that eliminated $18 billion of debt in exchange for $12 billion in payments - a total package worth $30 billion of Nigeria's total $37 billion external debt, (**Index Mundi, 2012**).

Ghana: The situation that led to external debt accumulation in Ghana could be traced to economic crunch that greeted its economy in the three decaded of its post independence(Osei 1995). In the 1960s and 1970s Ghana GDP which was 2.2% declined drastically to about 0.5%. Ghana’s economy which was predominantly based on Gold and Agriculture could not sustain the economy. He noted that the population of ghana exploded with it recording a geometric increase while the economy grew in arithmetic progression. Ghana became in dire need of industrial growth and therefore borrowed heavily to finance the plant and equipment and even materials needed for its economic transformation.

Brazil: The Brazilian federal debt as a ratio to GDP assumed an unprecedented upward trend after 1981, as borrowings from the international financial markets became increasingly more difficult and the government was unable to control its finances.From 1995 through 1998, the net public debt of the consolidated public sector in Brazil increased from 28.5 percent of 42.6 percent of GDP. This dramatic growth raised many doubts about the sustainability of the current economic policy in the country.These concerns have been further increased by the exchange rate devaluation of January of 1999, which raised even more the stock of the domestic public debt, due to the existence of dollar-linked indexation clauses on part of the debt, as well as the stock of the foreign debt Pattillo and Poirson (2002).Brazil’s Debt management strategies: Brazil applied strategies on the management of its external anchored expected to last for eight years and actually anchored on two pillars namely : fiscal surplus targets and reduction of public external indebtedness.

1.The adoption of fiscal surplus targets was the key element of the refinancing risk management strategy**.** The primary surplus leaves room for the government deficit (after interest payments) to be small enough so that it can be financed with low net bond issuance. This greater control over the funding needs indeed led to some reduction in domestic interest rates, as primary surpluses cemented the transition to a regime in which deficit financing did not depend on printing money and thus reduced inflationary risks. The primary surplus is expected to reach 3% of GDP in 2011,
down from 4% in 2008.

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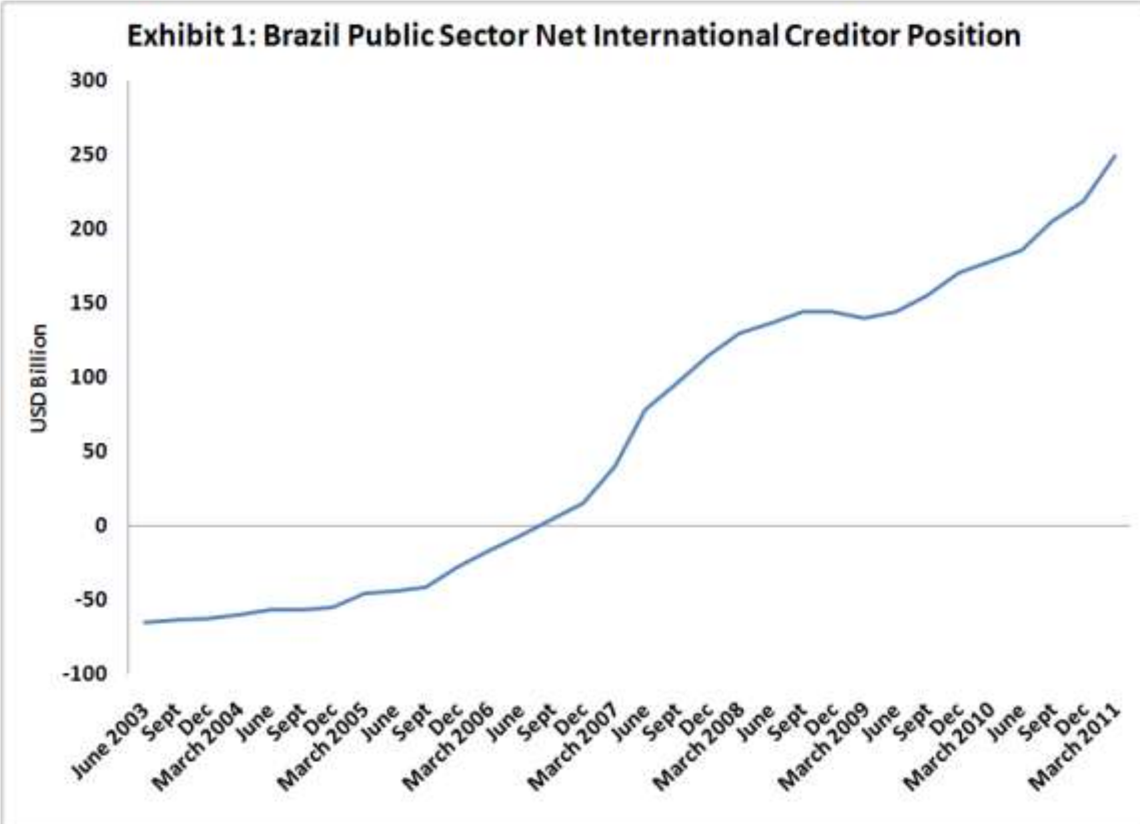

Source: Central Bank of Brazil

The second pillar of the public debt management approach– **Reduction of foreign liabilities**, that in practice resulted in the transition to a net international creditor position: This approach is also known as currency risk management strategy. It addressed the risk of currency mismatch between revenues generated in Brazilian *Reais* and foreign liabilities in US Dollars. The changes on this front were significant, as shown in **Exhibit 1**. The government substantially reduced the stock of external debt, virtually eliminated the external debts linked to U.S. dollars and amassed a very high volume of international reserve. The accumulation of net international assets caused macroeconomic stability,declining external vulnerability which led to a sharp reduction in Brazil's external debt yielded spread to US Treasuries.

Since 2009, however, this credit risk spread has shown very little correlation with the domestic and foreign interest rate differential, which is high and rising (Exhibit 2).

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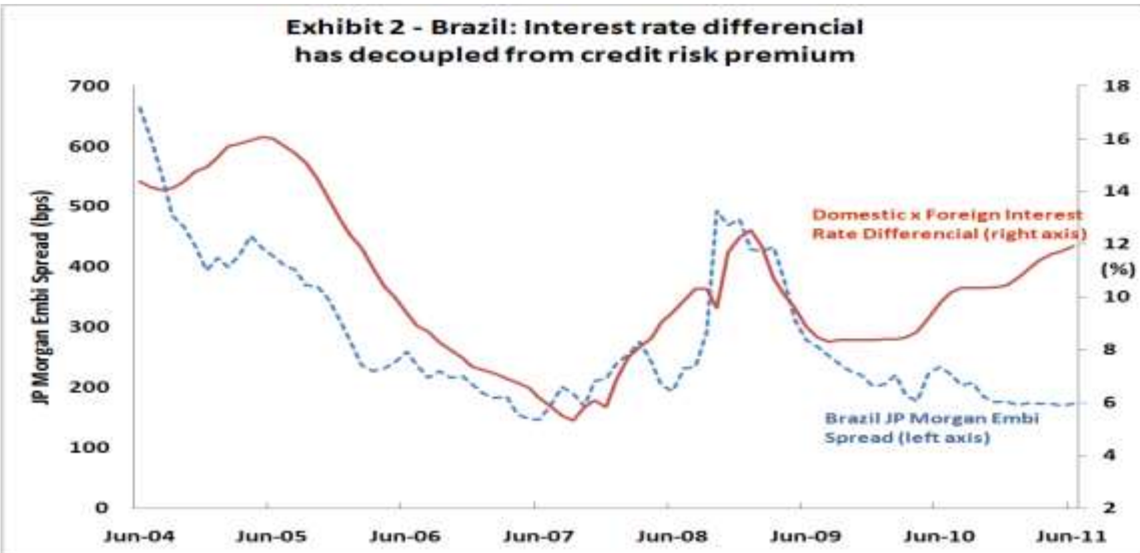
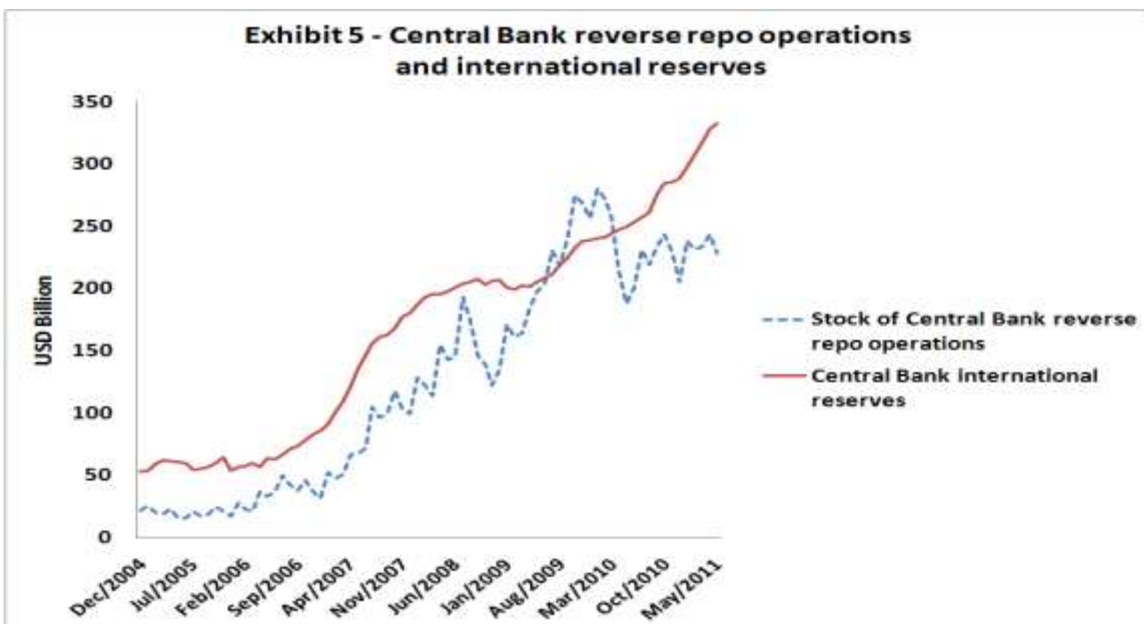


Source; Meirrelles,2011

Market estimates of default risk in protection against a default by the Brazilian government on a one year horizon became cheaper than the same insurance against a default by the U.S. government. Nevertheless, the U.S. government currently borrows funds for a period of one year at rates of about 0.20percent while the Brazilian government pays rates of almost 13% to borrow domestically in its own currency over the same horizon.



Source: Central Bank of Brazil website

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Major Causes of External Debt Crisis:
The key causes of external debt accumulation of these countries is presented thus:

Nigeria : Omoruyi (2007) attributed debt crisis in Nigeria to factors such as:

i. **Weak Resource Mobilization Vis-À-Vis Heavy Debt Stock To Exports Ratio:** Most of Third World Countries experience poor export performance because of weak terms of trade, low tax effort and savings arising largely from inefficient revenue collection machinery. At the same time there has been unbridled growth of government expenditure and insignificant foreign exchange inflow in focus of direct investment.

ii. **Sources of Credit (Issues of Concessionality and Seniority of Loans):** Considering the economic, social and environmental decline in most Third World countries especially those of Sub-Saharans Africa, the need to source foreign borrowings on concessional terms. This has often formed an attraction for these debtor countries who in turn find it difficult to make repayments as contracted.

iii. **Currency Composition of External Borrowing:** The currency in which foreign borrowing is drawn-down is important for a debtor country seeking external financing. This follows the fact that, for a borrower, in a weak currency has tended to be more expensive than borrowing in a strong currency.

iv. **Problem of bunching of maturities:** The important borrowings stratify is to diversify markets and instruments so as to prolong maturities while narrowing down the spreads. Third World debtor countries have had difficulties achieving this strategy with the result that most of the loans fall due for repayment about the same time, exerting cash flow pressure far beyond the debt servicing capabilities of debtor countries.

v. **Issue of Debt Monitoring:** The common symptoms of difficulties are the total of government debt is not known or is believed to be incomplete; the amount of undisturbed balances (the pipeline) is imperfectly known, the government incurs late charges on debt service obligations even when there is no foreign exchange shortage, reflecting disorderly payments system; the country is not able to service its debts fully because of foreign exchange shortages, but the debt office has great difficulty in assembling information arrears. Much of all these debt monitoring problems could, however, be solved with computerized debt recording systems and periodic reconciliation exercises

vi. **Inefficient Management of Proceeds of External Borrowing:** This often leads to the emergence of debt overhang. The overhand leads to monetary and economic instability as reflected in undue expansion of monetary and credit aggregates, inflationary pressures and depreciation of the exchange rate. These are macro-economic responses to government efforts to cope with the debt problem, especially where it has not first adjusted the economy.

vii. **Need for Multi-year rescheduling:** Multi-year rescheduling is often referred to as block rescheduling, that is, consolidating debt falling due in several years into a single sum. Creditor country governments favour year-by-year rescheduling while debtor governments appreciate the flexibility of annual rescheduling but worry that short consolidation periods also mean short planning horizons and the need for virtually continuous negotiations.

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viii. **Symmetrical adjustment on all sides:** There is need, not only for the debt-distressed Third World counties to undertake structural economic adjustment particularly of the term horizon, but also the creditor countries need to adjust as well.

ix. **Problem of market interest rates:** Under the Paris Club rescheduling, the debtor country has to negotiate bilaterally with each creditor country the interest rate to be charged on the rescheduling debt. The rate varies from country to country.

Ghana: The causes of debt crisis in Ghana are:

i. The economic crunch that greeted the economy in three decades of its post independence with a decline of its output growth rate from about 2.2% to a rate as low as 0.5%.
ii. Unprecedented population explosion with a sporadic decline in income which saw ghana being classified from medium income country in the 1960's to low income country in 1970's.
iii. Massive importation of plants and machineries and other forms of external borrowings with an aim to transform ghana from agro based economy to industrial based economy. This however led to a persistent balance of trade and payment deficit with trade partners.
iv. Ghana pursued import substitution but neglected its agriculture. This made its agriculture to contribute proportionately just partry 8% to GDP.
v. Foreign credits characterised by quick maturing terms with its attending foreign exchange constraints.
vi. Poor domestic policies, deteriorating terms of trade and a high debt burden. The severe crisis was partly due to high debt service requirements that affected the budget of the government and impacted negatively on the balance of payments. Ghana has had a history of debt servicing problems during which it had difficulties in honoring its external debt servicing obligations. This was evidence by the fact that: Ghana was on several occasions in arrears in servicing its debt; or it requested the Paris Club of bilateral creditors to reschedule its debts; or it had to resort repeatedly to borrowing from the non-concessionary Windom of the IMF such as the standby facility.
vii. The Government decided in 2001 to opt for the enhanced debt relief in order to stabilize the economy. The economy in 2001 was characterized by rapid exchange rate depreciation, high inflation and very low external reserves, which resulted from imprudent policies as well as high debt service payments, Osei , 1995.

Brazil: The debt crisis experienced by Brazil principally to:

i. Lending to some developed countries such as United States at an interest rate that is lower that what it pays on its domestic credits.
ii. Exchange/currency risk as the county's experienced series of fluctuation/depreciation of its local currency against trade partner's currencies.
iii. Market default estimates of default risk in protection against a default risk protection against a default by the Brazilian government on a one year horizon that became cheaper than the same insurance against a default by US government.
iv. Accumulation of net international assets that saw accumulation of assets needed for industrialization, Meirrelles(2011).

Debt Management Strategies Employed by Developing Economies: Nigeria's Experience:

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Nigeria has employed various strategies through the Central Bank of Nigeria and the Debt Management Office often cordinated by the Ministry of Finance aimed at managing its debt. The key objectives of Nigeria strategies has basically revolved at determining the debt profile of the country and making sure that it stays within the debt sustainability range. Nwankwo(2012), the DG of Debt Management Office of Nigeria had disclosed plans for effective management of the country's debt portfolio, by issuing the National Debt Management Plan (2008-2012) aimed at guiding against excessive and uncoordinated borrowing by government, conducted Debt Sustainability Analysis (DSA) as part of measures towards tracking the dynamics of the country's debt sustainability. Some of the stategies employed by Nigeria in the management of its external debt are:

i. **Placing outright embargo on new loans**: the imposition was to check the escalation of the level of total debt stock and minimize the problems of additional debt burden.The policy was applied by intermettently fixing a ceiling to what the government both state and federal government can borrow at any given period. For instance in 1984 state governments were banned outrightly from contracting external debts.
ii. Occassionally too, the federal government has fixed the maximum level of debt commitment for both the tiers of government. 1978 witnessed a limit of N5.0b for federal government while N200m in 1982 for state government.
iii. **Limit on Debt Service Payments:** This measure involves setting aside a proportion of export earnings to meet debt service obligation to allow for internal development. In 1980 for instance the state government were directed limit its debt servicing to a maximum of 10% of its total revenue and the federal government 30%.
iv. **Debt Restructuring**: the practice entails conversion of an existing debt into another category of debt done through refinancing, buy back, issuance of collaterized bonds and the provision of new money.
v. **Debt Conversion:** Debt conversion as a mechanism was introduced in July.1988 and entails the exchange of monetary instruments like promisory notes for tangible assets and other financial instruments. It is a mechanism for reducing a country's debt burden by changing the character of the debt. It can be in the form of debt for equity or debt for cash.

Ghana Experience:

Ghana's external debt management strategies has a policy thrust aimed at ensuring the management of its public debt effectively by assisting to raise adequate levels of funding at the least possible cost and at an acceptable levels of risk with the view to maintaining debt sustainability.

Some of the specific external debt management strategies employed by ghana are-

i. Ghana sources for non-concessional funding for infrastructure projects which were self-financing and reduced the refinancing risk of domestic debt by extending the maturity profile.
ii. Ghana has ensured concessional borrowings **(**with not be less 35% grant element**)** and limited recourse to commercial facilities for economically viable and self–financing projects.
iii. Trades on innovative products that employ liability sharing between government and private sector.
iv. Prudent levels of creating contigent liabilities and on-lending facilities and debt management which focus on reducing the eminent risk associated with the portfolio. They also ensured that the country had credits whose repayment schedule is either bullet staggered disbursement in accordance with projeect milestone.

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v. Managed repayment by amortization, bullet or customized profile and the country also had a clear cut medium term strategic benchmark in December, spanning 2011-13 and the second to cover 2012-2014 through which it it aims of achieve:
vi. Foreign currency risk benchmark: Ghana has an external debt portfolio a strategic bench mark of 80% +/-5% exposure to USD was pursued.
vii. Interest rate risk benchmark: By this benchmark the country's debt portfolio is contracted at an acceptable interest rate is contracted at between 15- 20% .
viii. Re-Financing Risk(repayment profile) : The refinancing risk management is pursued to avoid bunching of debt service obligation and/or rollover risk which may lead to liquidity crisis and/or excessive increase in cost of debt servicing. By this policy bullet repayment structure and accumulation of debt servicing in one period will be smoothened to ensure that it is aligned with flows on revenue structure to avoid liquidity crisis and high re-financing cost (Ghana's MOFEP , 1995).

Brazil's Experience:

Brazil's Treasury focus of minimizing the cost of the debt under prudent risk levels with an aim at reducing the debt maturing in the short term and reaching a better debt composition with lower exposure to adverse shocks in interests and or/exchange rates.

Some of the key strategies employed by Brazil in the management of its external Debts are:

i. Pursues a policy of reducing the risk of currency mismatches through the reduction of external debt has morphed over the years into a policy of limiting pace and scope of Real appreciation.
ii. The accumulation of reserves has reduced the volatility of Real x USD dollar exchange rate and has rendered much more attractive the volatility- weighted return of bets against the USD.
iii. Imposition of restriction through its Central Bank in which there is an imposition of tax on every foreign loans with maturities of less than 2years.
iv. Brazil has also managed its external credits by the creation of non-remunerated compulsory deposit on banks.
v. Embarked on policies decision towards a strong stance and strict control cover inflationary pressure. It also vigorously pursues a swap cashflow and swap stock.
vi. Establishment of sound macroeconomic environment and developed debt market, adopted measures that forsters liquidity and diversification of the investors base.
vii. Increased the average maturity of the outstanding debts, smooth the maturity profile with special attention given to short term maturities, and gradual replacement of floating- rate securities by fixed rate and inflation-linked instruments.
viii. Improvement of the External Federal Public Debt profile through issuance of benchmark securities, buyback program and structured operations.
ix. Development of the yield curve on both domestic and external markets and growth in the liquidity and broadening of the investor base.

Challenges facing Debt Management in the Developing Economies:

Various proponents holds of the challenges faced the strategies employed by the developing countries in the management of its debt crisis according to Bafour(1995) attributes it to primarily to the country's inability to generate sufficient foreign exchange through export earnings.

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- Debt crisis management strategies is also challenged by issues like wrong macroeconomic policies that encouraged fiscal irresponsibility and exchange rate misalignment (Muns,1984;Khan and Knight,1983).
- Illiquidity problem is also a major impediment to effective debt crisis management. Lack of liquidity occurs when a country does not have enough cash on hand to pay current obligations (Eaton and Taylor, 1986). The solvency issue relates to whether the value of a country's liabilities exceeds the ability to pay at any time; a country is insolvent when it is incapable ofservicing its debt in the long run (Ajayi, 1991).
- Another fundamental issue is the lack of accurate data base depicting the actual external debt balances (Nwankwo, 2012). Some of the developing economies lack accurate data base to show the outstanding debts and other information on repayment shedules on the loans with substantive amount of the debt being accumulation from outstanding loans uncaptured.
- Other factors include policies that deter savings, such as negative real interest rates, which in turn reduce investment and encourage capital flight.
  Tanzi and Blejer (1984) noted that often long-term projects are financed with short-term credits leading to a situation where repayments get due before projects are completed.
- Volatility of petroleum produce and other commodities that form the main base of foreign exchange leading to a deterioriation, shocks ,terms of trade (Greene and Khan, 1990) and rising foreign interest rates (Krumm, 1985).
- Mismanagement and misappropriation of funds:Most of the developing countries especially Nigeria have a huge chunk of their revenue fizelled away through mismanagement and mismanagement. These funds would have been employed in its debt repayments. The various anti-corruption agencies have not succeeded in curbing this trend as a slow pace of geting justice against perpetrators.

RESEARCH METHODOLOGY

Research Design

The research design used in this study was conceptual and empirical. The choice of countries was because the countries were all classified as third world countries in the 1980’s, embarked on the structural adjustment programme as recommended by IMF and enjoyed debt forgiveness from their creditors. The study is based on content analysis of the annual reports and official performance releases of the countries under study, Guthrie, Petty, Yongvanich and Ricerri (2004)..

Population and Determination of Sample Size:

The population of the study constitutes all the developing counties in the world. However, Nigeria, Ghana and Brazil (3) are the sample size for this study.

Sources of Data

The data collected for this study were basically secondary data. They included textbooks, journals, magazines, Newspapers, Government press releases/documents and materials from the internet.

Method/Tools for Data Analysis: Data will be analysed using simple percentages.

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PRESENTATION AND ANALYSIS OF DATA

This chapter presents, analysis and interpretes data the extracted from the countrys' economic profile as provided by Debt Management Offices, Central Bank and Ministry of Finance as the case may be.

Table 4.1: Nigeria External Debt Outstanding by Creditors: 2002 –2011 US$ Million

Creditor Category/ Year	Multilateral	Paris Club	London Club	Promissory Notes	Others	Total
2011	4,568.92	0.00	0.00	0.00	1,097.66	5,666.58
2010	635,454.90	0.00	0.00	0.00	54,390.41	689,845.30
2009	524,208.11	0.00	0.00	0.00	66,232.97	590,441.08
2008	420,603.58	0.00	0.00	0.00	72,576.64	493,180.22
2007	363,448.79	0.00	0.00	0.00	67,631.05	431,079.85
2006	332,219.20	0.00	0.00	64,832.60	54,409.90	451,461.70
2005	330,654.40	2,028,580.10	189,768.40	85,526.70	60,542.60	2,695,072.20
2004	384,248.70	4,196,844.60	196,155.50	106,558.40	6,462.40	4,890,269.60
2003	413,877.70	3,737,279.90	196,156.90	123,994.60	7,020.20	4,478,329.30
2002	375,700.10	3,220,823.50	182,964.50	146,341.10	7,055.60	3,932,884.80

Source: Debt Management Office, Central Bank of Nigeria and Office of the Accountant General of the Federation.

Table 4.1 shows that the bulk of Nigeria's debt is owed to the Multilateral with the International development agencies accounting for N3,936.92 which is 69.48% of its total debt as at 2011. This means that Nigeria debt originated from private organization

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Table 4.2: Ghana's External Debt Outstanding categorised by creditors: 2007– 2011 US$ Million

Category of creditors	2007	2008	2009	2010	2011
Multilateral:					
IMF	NA	NA	270	388	481
IDA			1,536	1,845	2,483
	NA	NA			
AFDB			271	467	536
	NA	NA			
			385	382	393
Other Bilateral:					
	NA	NA	1,687	2,112	2,712
Non-Concessional					
	NA	NA	859	1,028	985
Unclassified					
Total	3,586	4,035	---------	------------	----------
	3,586	**4,035**	**5,008**	**6,222**	**7,590**

Source: Ghana's Debt Management Office. **NA = Not Available

Tables 4. 3: Ghana External Debt Stock, December 2005– 2011 denominated in US$ million

Year	Amount
2002	**NA**
2003	**NA**
2004	**NA**
2005	**6,348**
2006	**2,177**
2007	**3,586**
2008	**4,035**
2009	**5,008**
2010	**6,234**

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2011	**7,103**

Source: Debt Management Dept, Ghana Ministry of Finance and Economic Planning; **NA = Not Available

Table 4.4 Some Nigeria, Ghana And Brazil Key Economic Indicators

			Nigeria	**Ghana**	**Brazil**
GDP		2010	8.4	5.7	7.5
		2009	7.0	4.7	-0.6
		2008	6.0	8.4	5.2
Population below poverty line		2008	NA	NA	26-est.
		2007	70	28.5	NA
Investment		2010	13.6% of GDP	18.7 % of GDP	18.4% of GDP
Budget-	Revenue	2010	$ 20.55b	$ 5.381b	$ 822.6b
	Expenditure	2010	$ 27.9b	$ 7.757	$ 762.1b
Budget surplus or deficit		2010	-3.4% of GDP	-7.6% of GDP	+2.95 % of GDP
Public Debts		2010	17.8% of GDP	34 % of GDP	54.7 % of GDP
		2009	15.3 % of GDP	33.3 % of GDP	62% of GDP
External Debts			$	$	$
		2011	5.67b	6.795b	396.26b
		2010	9.16b		
External Debts		2009	$ 7.84b	$5.72b	$ 346.5b

Source:Central Intelligent Agency ,World Fact Book, 2012; **NA = Not Available

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Some of the key findings of this study include:

i. **The causes of external debt crisis:** This study shows that the debts were predominantly credits obtained to finance developmental project as in the case of Nigeria, that secured for industrialization as in the case of Ghana and Brazil. Some of the debt were also contracted were

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denominated in very strong currency like USD and Pounds sterlings often appreciated against the local currency.

ii. **Nature of Creditors:** Majority of the debts of the developing countries had their creditors comprising mainly of Multilateral organisations like the world bank, the IMF and even the African Development Bank. Other creditors are that raised from the International Capital Market and others.

iii. **Debt Management Strategies Employed:** The developing countries like Nigeria has employed tools namely debt cancellation/forgiveness,as in the case of Paris and London Club.It also places embargo on certain borrowings, debt refinancing and resheduling. Ghana debt management is focused on reducing the eminent risk associated with the portfolio at the least possible cost and tried to lenghten the maturity profile of its debts. Ghana also ensured that its debt achieved the right mix of concessional and non-concessional funds. Ghana at a time chose to be classified as a highly poor country to enable it obtain debt forgiveness from IMF. It also ensured that all its debts are obtained at concessional terms with not less than 13% grant element while also reducing the degree of foreign exchange exposure associated with external debt portfolio.

iv. **Debts were contracted to finance projects which are not self–sustaining and lacks ability to stimulate economic development:** The **s**tudy reveals that some of the debts were actually contracted on projects which could not yield enough returns that could ensure their timely repayments. contracted but were more often than not mismanaged especially as is the case in Nigeria and these has led to persistent dearth of infrastructure in the country . However, for a countries like Ghana and Brazil have deployed the debts to the intended projects have set their economies on the part of recovery and boom as is evidenced on the positive indices of their public infrastructures.

v. **Short term loans were contracted and used in embarking on long term projects:** Some of the loans which hitherto were short credits were used in financing short term projects. This led to a situation where repayments get due before the completion of projects.

vi. **On the issue of debt crisis caused by irregular servicing of the debts:** The study reveals that bulk of debts which the countries had to repay was accumulated debts and compounded sums part of which were accumulated interests. This was typical of a country like Nigeriea which had to pay accumulated interests that were far and above the the actual principal contracted.

vii. **Problem of debts that were contracted in foreign currencies:** The debt crisis faced by developing countries the study has largely attributed to the fact these debts were contracted in currencies different from their domestic currencies. It was also found out that the foreign currencies appreciates in value as against that of the debtor countries.This has made the debts owed to increase at an astronomical rate that the projected funds for repayment could hardly service the debts.

viii. **Weak borrowing/servicing policies that characterised those debts:** Some of the debts were hitherto contracted on very weak. According to some of loan were contracted with very short moratorium without due regard that most of them are for capital projects which will take quite long time to complete let alone when the expenditure will be recouped.

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ix. **Misappropriation and mismanagement of loan facility-** some of the loans contracted especially in Nigeria were found to have been fizzled away through misappropriation and outright embezzlement.

x. **Lack of accurate database of outstanding debts-** some of the countries like Nigeria lack accurate data of its outstanding external debts with the Debt Management Office, Central Bank of Nigeria and Office of Accountant General produce divergent figures of the country's external debt profile.

CONCLUSION

The study has reviewed the effect of debt crisis and management strategies employed by the developing economies using Nigeria, Ghana and Brazil. The study examined variables like the nature of debt crisis, the effectiveness of the strategies of debt management and the factors that that have militated against these strategies in the management. The result of the study shows that Ghana and Brazil have tremendously transformed their economies through some sincere and concerted policies and implementation they had pursued while Nigeria policies and strategies have not yielded the much desired transformation in terms of real economic growth and development as evidenced in the dearth of infrastructure in the country.

RECOMMENDATIONS

The following recommendation are made for the economic managers of the countries under study especially Nigeria:

(i) Debt when contracted should be tied to projects that are self-sustaining/liquidating. Debts must be contracted to finance projects that can stimulate production and not consumption. This is important so that debts are deplored to projects that could service itself.

(ii) Terms of debt contracts should be well spelt out, gazzetted and allowed for public debate before execution. Debts negotiations also should eschew policies that could lead to stern conditions like compounding of interests. Nigeria should seek multi-year rescheduling rather than year by year basis.

(iii) The countries must urgently diversify its economy from a mono- economy dependent on oil to encourage other sectors growth in other to achieve favourable balance of trade and payment.

(iv) Debtor countries must seek better terms of repayment which include longer period of moratorium ranging from 10 or more years before the maturity of the debts.

(v) To achieve a long term solution to the external debt problem there must be vigorous promotion of the nation's export trade and drastic reduction in her merchandize imports.

(vi) The principle vulnerability of Nigeria is to an open-ended burden of higher interest payment in the event of an increase in international interest rate. Nigeria should therefore seek fixed interest rate.

(vii) Nigeria should devote a tangible proportion of her annual foreign exchange earnings for debt servicing. This would enable the country to accommodate the creditors' requirements.

(viii) Spending of external debt on productive self-liquidating investment must be strictly adhered to while projects to be financed with external to loan must be properly appraised.

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(ix) The federal government and its federating bodies should have a well spelt out guideline for external and domestic debts. The instrument must define the purpose,possible source of repayment,duration, moratorium requirements and commitments, negotiation fees etc including the conditions under which the government can approve and guarantee external loans and domestic loans.

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