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Borrowing and Its Impact on the African Economy in the First Three Decades of Independence: The Nigerian Experience

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Abstract: The paper examines the impact of external borrowing on the African economy, using the Nigerian experience as a case study. Available records show that external borrowing by African States started in earnest in the 1960s when most of them became independent, and rose to a crisis point in the 1980s. Heavy external indebtedness and the inability to develop the economy constitute the main impact of external borrowing on a country's economy. This is the problem facing Africa today. Besides, indebtedness detracts from the sovereign rights of debtor countries as they become subservient to the creditor nations and lending agencies. Financial recklessness, corruption, and planlessness on the part of African leaders are largely responsible for the economic woes of African states. A number of recommendations are proffered in the paper. Among them the most salient is that external borrowing should come as a last resort and should be invested in the productive sectors of the economy that can contribute to the overall growth and development of the economy.

Keywords: External borrowing, Debt, Growth and Development, Economy.

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I. INTRODUCTION

The main objective of economic policies in the developing countries has been the promotion of economic growth and development. The pursuit of this objective through budgetary provisions has meant an expansionary fiscal policy orientation of increasing the size of available resources for development through deficit financing. One major source of financing the deficit is for government to engage in borrowing from internal and/or external sources.

Africa in general and in particular Nigeria may be a good reference point for analyzing the impact of borrowing on an economy. One of the greatest problems facing many African countries today is the weight of their internal and external indebtedness. The debt problem is becoming more acute for a number of reasons. First, the size of the debt relative to the strength of the economy, and hence, the prospects of repayment is enormous and can lead to economic dislocation and low capital flight. It can also discourage private investment in a country.

Second, debt-service payments gulp a substantial proportion of the annual export earnings of a debtor country. Debt servicing therefore has far-reaching implications for the economic development of debtor countries. Third, the burden of debt for a large number of African countries threatens not only the execution but also the prospects of success of economic reforms being embarked upon. According to the World Bank (1989), the external indebtedness of African countries is an obstacle to the restoration of the necessary conditions needed for growth. Fourth, the system of debt management adopted by a country has a direct impact on the country's economic performance and status.

The main thrust and focus of this paper is to critically analyze the impact and consequences of external borrowing on the African economy with particular reference to Nigeria as a case study.

II. DEBT AND ECONOMIC GROWTH: THEORETICAL AND CONCEPTUAL ISSUES

The need for a developing country to pursue accelerated growth in order to reduce its debt problem and, more importantly, to break out of its vicious cycle of poverty makes it worthwhile to investigate how far external indebtedness could affect future growth. This section attempts to discuss some theoretical issues on the effect of debt on socio-economic growth and development profile of developing countries generally.

As is well known among economists and analysts generally, since the Lewisian (1963:420) theory of the existence of the zero marginal productivity of labour in the Less Developed Countries (LDCs) gained currency, labour and, by an unfortunate extension, the entire human factor have been identified as a major constraint to development in LDCs. This has given rise to the two-gap model (Chenery and Strout, 1966;

Easterly, 1999; Schmitz and Nadvi, 1999) which suggests the dearth of capital resources as the main constraint to development in LDCs. The model suggests that a massive importation of foreign capital is necessary if the LDCs are to break the vicious cycle of poverty and underdevelopment. It sees the paucity of domestic resources and foreign resources as the main constraint on both capital formation and growth rate of GDP in the LDCs.

The a *priori* salvaging role assigned to foreign capital by the two-gap model (Vijay 1988) notwithstanding, its contribution to economic development in LDCs has been, *a posteriori,* found questionable by some studies on a number of grounds viz: foreign capital inflow generates huge debt servicing charges on the recipient's economy; there are poor rates of return on loan-financed investments; and such inflow leads to reduction in domestic savings (Wesskopt 1972; Griffin and Enos, 1974; and Rahman, 1968). In other studies carried out by Dowling and Hiemenz (1983), Krashe and Toira (1974), and Papanek (1972), it was found out that there is a positive correlation between foreign capital inflow and growth.

For long it has been recognized that borrowing is a catalyst for development. Scholars such as Areskoug, Wellons and Wionczek have alluded to this view. Areskoug (1969), for example, asserts that external borrowing relaxes domestic resource constraints on growth, emphasizing that "borrowing in this situation has the role of inducing output through an expansion of domestic investment". Similarly, Wellons (1977), is of the view that external borrowing.

> *can be useful to finance the transfer of resources, the faster exploitation of local resources, and the development of major investment programmes that local savings cannot support. As a temporary expedient to bridge short-run dislocations in a country's balance of payments, debt can be essential.*

Foreign capital has the effect of transferring real resources to the developing countries, thereby helping to bridge gaps such as savings, foreign exchange and technology that constrain development in these countries. In this way, borrowing plays a crucial role in the development process. On the whole, external borrowing facilitates a country's development, increases local savings, and actually reduces its relative dependence on the vagaries of foreign capital flows. Thus, external borrowing is not only necessary but essential to generate and sustain development momentum in the LDCs. Arguing from this perspective, a number of economists have called for more assistance to the developing countries to speed up their development process. Higgins (1995), Pearson (1969), and Symonds (1970), have posited that LDCs indebtedness through external borrowing would help transform their economies from low or zero growth rates into fast-growing economies.

However, a critical examination of external debt indicates that debt is a mixed bag of blessings and cause. As a result of domestic resource constraints, developing countries such as Nigeria require credit to augment available resources in order to achieve their development objectives. However, external borrowings have to be carefully managed to ensure that maximum benefits are derived from them. There is no doubt now that foreign finance is a catalyst for development. The reality of this has been brought to the fore in the transmission and transformation of some hitherto debt-ridden economies into self-sustaining economies after wiping out, or at least shaking off, part of the debt bondage. Most of the Latin American countries, especially Brazil and Argentina, fall into this category of countries. This transmission mechanism is, to some extent, also applicable to Nigeria. The on-going Reform Agenda which came on the heels of the debt forgiveness by the Paris Club represents the desire of the Nigerian government to build a rescilient economy with money that would have been used merely to service debt. Today economic indicators which portend growth of the Nigerian Economy were as reflected in president's Olusegun speech on 1st October, 2006. The visible growth of the economy has been made possible by the bold economic initiatives of president Obasanjo.

III. THE IMPACT AND CONSEQUENCES OF BORROWING ON THE AFRICAN ECONOMY

The debt burden of a country inevitably imposes a number of constraints on the prospects of her economic growth. The burden of principal and interest repayments, for instance, drains the nation's resources and therefore limits the resources that can be utilized in the productive sectors of the economy. This is really pathetic considering that the GNP from which debts are to be serviced is very little. This gives rise to three macroeconomic problems:(1) the macroeconomics of earning foreign exchange;(2) finding extra budgetary resources for debt servicing; and(3) adjusting to a reduction in spendable resources.

The severity of African countries' debt problem is best appreciated by undertaking a comprehensive analysis of debt indicators. Debt indicators or debt ratios are measures of debt burden. They can be used as analytical tools or for policy purposes; they may also be used for descriptive or predictive purposes (Nowzad and Williams et al 1981). As a descriptive measure, external debt indicators provide, in an understandable and functional way, a history of the terms, structure and scale of post borrowing. They may therefore be used in inter-temporal analysis to examine the level and rate of change in debt capacity and debt service capability. Some of the debt ratios popularly used to assess the debt problem of developing countries are as follows:

* Total debt service payments to export of goods and services.
* Interest payments to exports of goods and services.
* Debt outstanding and disbursed to the exports of goods and services
* Debt outstanding and disbursed to Gross National Product (GNP)
* Total debt service to GNP
* Interest payments to GNP
* Total external debt to exports of goods and services.
* Total external debt to GNP.

It should be noted that for Nigeria and other African countries, there has been deterioration in all the debt indicators from about 1990 to the present time. For these countries, the debt burden increased while the debt service capacity deteriorated. African countries are heterogeneous in size, income, total external debt owed, and by implication differ in debt service obligations and debt burden. Thus, the impact of debt on different African economies is varied. While some countries have managed to stay afloat, many others are on the brink of collapse.

The fiscal dimension of the debt burden also needs to be highlighted. Given that the composition of debt is heavily tilted to the public domain, responsibility for debt service payments has inevitably put great pressure on budgets, leading to rising fiscal deficit in the highly indebted countries. As a result of these fiscal deficits, several problems occur and the first is the need for taxes to be increased in order to raise adequate resources to service the debt. One of the consequences of the anticipated tax burden is to depress investment. This is known as “debt overhang effect”.

Second, it is necessary to transform the domestic resources to foreign currency in which debt service must be paid. The desperate demand for foreign exchange to service debt often results in aid resources being routinely diverted to finance debt service obligations. Third, stiff demands of high debt service payments on the budget results in forced deductions in public investment and also reduce spending on education, health and other socio and economic responsibilities of government. The intense pressure of debt service payments on the budget explains not only the escalating budget deficits, but also the increasingly large discrepancy between actual and scheduled debt service payments in many African countries.

So far, Nigeria and most other African countries are constrained to use approximately more than 30 percent of their export earnings for debt servicing. Since the foreign exchange earnings of many of these countries are inadequate, reducing the already insufficient amount by that much (30%) would weigh heavily on resources that are already grossly inadequately for development purposes.

In trying to overcome her liquidity problem, Nigeria and other African countries have had to resort to the rescheduling of their external debts. Since creditor nations and institutions perceive debt servicing problem as arising from poor debt management (McDonald 1982), the negotiations preceding the rescheduling agreement are usually long and cumbersome, ending in most cases in the imposition of certain economic policy reforms on the debtor nations. These policy reforms would assure the creditors that enough foreign exchange would either be generated or saved to facilitate the servicing of the debts under the new terms of the rescheduling agreement.

Although refinancing and rescheduling of debt payment postpones the burden and eases the problem for the time being, it is only at the expense of added costs in the form of additional interest payments. Refinancing and rescheduling of debts not only increase the cost of debt servicing but also make the debtor nation vulnerable to disruption in capital earnings. All these erode confidence in the credit worthiness of the nation. Thus, the velocity with which the size of repayment grows, resulting from increasing variable interest rates and the additional cost of extending repayment periods, render an accurate estimation of the amount and the size of the loan difficult at any given point in time. In this case, the traditional measures of evaluating repayment capacity of the country are difficult to apply. Refinancing schemes, therefore, merely postpone already developing crises and constitute a threat to the future external liquidity position of the country.

New loan facilities have the implications of providing short-term finance for imports or for servicing outstanding debts but they will also go a long way in compounding the debt service problem of the debtor nation. The nation’s debt service ratio may increase astronomically due to continuous acquisition of new loans, and this may result in unmanageable debt crisis. And since parts of the new loans are devoted to servicing old loans, only a small part of the new debts is available for investment.

When the net profitability of debt-financed projects is not quickly restored to positive and healthy levels, indebtedness becomes a self-feeding process, which, after a certain point, cannot be reversed but gains momentum at a compounding rate. In addition, the new loans could constitute a great burden on successive generations in the form of an uncompensated distortion of their preferred pattern of consumption, just as it will lead to increased unemployment due to reduced investment resulting from higher interest payments (Anyanwu 1986).

The inability of some governments to pay back some of the domestic debts they owe can have destabilizing effect on the economy. Their inability to redeem their obligations to the banks partly caused the failed bank syndrome in the country. In Nigeria, for example, the failure of government to pay their contractors who had obtained substantial loans from banks contributed immensely to the failed bank problem in the country.

Causes of Debt Problem: the Nigerian Experience

Literature abounds on causes of debt crises in the Third World countries. The underlying issues emphasized by Dornbusch and Fischer (1985) as well as Greene and Khan (1990) relate to the fundamental aim of borrowing: that the addition to the stock of external debt over time must contribute to growth and development and, in particular, to the country's ability to make payments to creditors. The argument is that a debtor country will face repayment difficulties if it is unable to generate sufficient increase in output and earning. Many factors, domestic and external, are responsible for this outcome.

The external factors often cited are oil shocks, rising interest rates, and declining terms of trade. For instance, Nigeria benefited immensely when the price of oil increased substantially between 1973 and 1974, and during the Gulf War period. Her public expenditures expanded rapidly. When the price of oil fell, expenditures were not reduced commensurately, and the buoyant nature of the economy, arising from previous periods, gave a high credit rating to Nigeria allowing her to borrow heavily in the period between 1978 and 1979. Borrowing at this period was necessitated by both declining export earnings and increasing import requirements.

Interest rates rose in the 1980s, and this affected Nigeria seriously since she made significant use of commercial borrowing. For Nigeria, the percentage share of private borrowing rose to 85% in the 1980-1982 period and the interest rates on new commitments also rose by about 11% between 1981 and 1983. The domestic factors often cited include wrong macro-economic policies such as fiscal irresponsibility, corruption and exchange rate misalignment. Other domestic factors include policies that deter savings such as negative real interest rates, which in turn reduce investment and encourage capital flight. Also, when long-term projects are financed with short-term credits, debt problems do occur.

The problems posed by the external factors were exacerbated in most cases by the adoption of wrong macro-economic policies. These often lead to large deficits, excessive monetary expansion, inflation, and excessive reliance on external sources of funding, over-valued exchange rates, and poor project profiles. Nigeria opted for many projects because of her access to international capital market. She used this access to the capital market to support projects with doubtful viability, often referred to as white elephant projects. These are projects, which either have no income streams to guarantee repayment of loans or those with serious mismatch of loan maturities and expected profitability. Above all, Nigeria also borrowed funds to maintain consumption in the face of deteriorating export earnings.

Nigeria and Africa's Debt Profile

Nigeria

For Nigeria, the stock of outstanding public debt, comprising domestic and external debt increased significantly from NI 18.0 million or 4.9% of gross domestic product (GDP) in 1960 to ₦382,739.0 million or 146.8% of GDP in 1990. By the end of 1998, it assumed a level of ₦1,170,507.9 million representing 41.2% of GDP.

Prior to 1970, domestic debt constituted 57.9% of total public debt but increased to 78.7% between 1970 and 1985. The composition further changed in favour of external debt from the second half of 1980s. As a result of the revaluation of the external debt stock at market-related exchange rate, the share of external debt became dominant and accounted for an average of 69.5% between 1986 and 1998 while domestic debt accounted for 30.5%.

Table 1: Nigeria's Public Debt Outstanding: 1960-1998

YEAR	DOMESTIC DEBT (IN MILLION)	EXTERNAL DEBT (IN MILLION)	TOTAL DEBT (IN MILLION)	DOMESTIC DEBT AS % OF TOTAL	EXTERNAL DEBT AS % OF TOTAL	DOMESTIC DEBT % OF GDP	EXTERNAL DEBT AS % OF GDP	TOTAL DEBT AS % OF GDP
1960	23.5	94.5	118.0	19.9	80.1	1.0	3.9	4.9
1965	216.2	141.8	368.0	60.4	39.6	6.4	4.2	10.7
1970	1,111.9	175.0	1,286.9	86.4	13.6	19.8	3.1	22.9
1975	1,678.9	349.9	2,028.8	82.8	17.2	7.8	1.6	9.4
1980	9,231.5	1,866.8	10,098.3	81.5	18.5	16.2	3.7	19.9
1985	27,925	17,300.6	45,252.6	61.8	38.2	38.6	23.9	62.9

1990	84,124.6	298,614.4	382,739.0	22.0	78.0	32.3	114.6	146.8
1995	341,082.3	716,865.6	1,057,947.9	32.2	67.8	17.2	36.2	53.5
1998	537,490.0	633,017.0	1,170,507.9	45.9	54.1	18.9	22.3	41.3

Source: Central Bank of Nigeria Annual Reports.

As shown in Table 1, at ₦23.5 million or 1.0% of GDP in 1960, domestic debt outstanding increased rapidly to ₦8,231.5 million or 16.2% of GDP in 1980. The upward trend continued as the Federal Government increasingly sourced funds from the domestic financial markets to finance its budget deficits. By 1990, the debt stock of domestic debt outstanding had grown to ₦84,124.6 million, representing 32.3% of GDP. This trend continued till 1998 when the stock of domestic debt rose to ₦537,490.9 million and accounted for 18.8% of the GDP.

Regarding Nigeria's external debt stock, it increased from N94.5 million or 3.9% of GDP in 1960 to ₦175.0 million or 3.4% of GDP in 1970 and ₦1,866.8 million or 3.7% of GDP in 1980. It increased phenomenally to N20,393.7 million or 106.9% of GDP in 1989, resulting from the revaluation of the debts. In 1998, external debt outstanding stood at ₦633,017.0 million, representing 22.3% of GDP. On the other hand, the stock of external debt to total exports decreased from an average of 32.7% between 1960 and 1969 to 12.3 between 1970 and 1980 and rose significantly to 225.2% between 1981 and 1990. As shown in Table 2, between 1991 and 1998, external debt as a ratio of exports stood at 260.2%.

Table 2: Nigeria's External Debt Outstanding: 1960-1998

YEAR	MULTI-LATERAL	PARIS CLUB	LONDON CLUB	PROMISSORY NOTE	OTHERS	TOTAL	% OF GDP	% OF EXPORTS
1960	66.2	28.4	-	-	-	94.5	3.9	28.3
1965	99.3	42.5	-	-	-	141.8	4.2	26.4
1970	37.9	136.0	-	-	1.1	175.0	3.4	19.8
1975	126.0	200.7	-	-	23.2	349.9	1.6	7.1
1980	179.1	1,576.5	-	-	111.2	1,866.8	3.7	13.3
1985	34,606.3	7,726.4	6,164.3	1,273.9	842.5	17,300.6	23.9	154.3
1990	34,606.3	154,550.6	53,431.8	40,950.5	15,075.2	298,614.4	114.6	271.7
1995	97,042.0	476,731.2	44,990.0	69,256.0	28,846.4	716,865.0	74.6	278.3
1998	93,214.0	458,257.8	44,946.0	35,151.6	1,447.6	633,017.0	87.2	320.7

Source: Central Bank of Nigeria Annual Reports.

The country experienced considerable difficulties in meeting its scheduled external debt service obligations during the review period. Consequently, accumulated arrears of debt service payments were rescheduled and added to the external debt stock. Actual external debt service payments which stood at ₦31million in 1970 rose to ₦278.3 million in 1980, ₦30,855.8 million in 1990 and declined ₦27,995.0 million in 1998. The debt service/export ratio rose from an average of 1.5% between 1991 and 1998.

Table 3: Nigeria's External Debt Outstanding: 1960-1998

YEAR	INTEREST PAYMENTS	CAPITAL PAYMENTS	TOTAL	AS % OF GDP	AS% OF EXPORTS
1960	-	-	-	-	-
1965	16.2	0.0	15.2	0.5	2.8
1970	31.0	0.0	31.0	0.6	3.5
1975	32.7	0.0	32.7	0.2	0.7
1980	278.3	0.0	278.3	0.5	2.0
1985	980.5	2,737.5	3,718.0	5.1	33.3
1990	15,361.0	15,494.8	30,855.8	11.8	28.1
1995	17,252.4	18,398.6	35,651.0	1.8	13.8
1998	11,704.0	16,291.0	27,995.0	1.0	14.2

Source: Central Bank of Nigeria Annual Reports.

The scheduled debt service payments to exports however averaged 44.6% between 1991 and 1998. The lower actual debt service ratio reflected the decision by the Federal Government to limit external debt service payments to 30.0% of the official foreign exchange earnings in a fiscal year as well as the denomination of export earnings at AFEM rates while external debt was converted at the official exchange rate.

In fact, it appears that from 1978, caution was thrown to the winds as the nation went into an external borrowing spree. For instance, between 1978 and 1983, the Federal Government contracted a total of 37 loans and provided many state governments with guarantees for external loans. In addition, the bulk of the external loans consisted of high-cost medium-term international capital market loans at floating interest rates with fixed margins above London Interbank Offer Rate (LIBOR) and with high agency fees, commitment, placement, management and legal fees.

However, it is interesting to note that since 1999 when the Obasanjo government came to power the situation has changed for the better. Economic indicators since then depict an upward trend in all aspects of the economy - a remarkable growth of the Gross Domestic Product (GDP); an unprecedented forgiveness of a quantum of the debt overhang by the Paris Club; and the payment of a substantial part of the debt by the Federal Government. The Head of State, President Olusegun Obasanjo in his speech on the occasion of the country's 46th Independence Anniversary, articulated this welcome development with facts and figures:

> *Our GDP Growth at 1990 constant prices whish was a mere 1.19% in 1999 rose to 6.23 in 2005 with the non-oil sector increasing from 4.37% in 1999 to 8.21% in 2005. The growth rate in agriculture which was 5.28% in 1999 stood at 7% in 2006; solid minerals rose from 3.79% to 9.50%; telecommunication from 5.39% to 28.96%; manufacturing from 3.44% to 9.4%; while wholesale and retail trade increased from 2.50% in 1999 to 12.32%.*

The president further revealed that:

> *Inflation which was as high as 14.5% in 2000 has been reduced to 10.7%; our foreign debt which was US $28.3 billion in 1999 has been reduced to US $85.3 billion through an US $18 billion debt relief from the Paris Club and repayments by Government. Our external reserve was a mere US $3.7 billion in 1999. Today we are almost US $45 billion (The Guardian Newspaper,* 1st *October, 2006:6).*

After all these, Nigeria is now left with an external debt of less than $5 billion (Vanguard Newspaper, 2006:13). The debt relief by the Paris Club came on the heels of persistent pressure by president Obasanjo, and the club's conviction that Nigeria, like other African countries which also enjoyed the relief, is a poor country that requires such magnanimous relief to be able to pursue meaningful economic development programmes at home. It has a salutary effect on the country's economy in three fundamental ways:

1. The huge amount that was being used by government to service the unpaid debt is now being pumped into the economy to achieve sustainable growth and development;
2. It has increased the country's credit worthiness in the international financial system; and
3. The sovereignty of the country that had been mortgaged to the creditor nations and financial institutions has been restored.

Africa

The general position of Africa is also analysed here. The socioeconomic conditions in African countries deteriorated sharply during the 1 980s, a decade that is widely regarded as Africa's "lost decade" of development opportunities. Available empirical evidence shows that African countries' per capita income (measured by gross national product per person) declined at an average annual rate of (2.2%). Per capita private consumption fell by 14.8%; export volume was stagnant while import volume plummeted at an average annual rate of 4.3%; and the terms of trade fell by 9.1%. Using data on gross domestic production (GDP) instead of gross national product (GNP) improves the picture marginally but the situation is still catastrophic. It is confirmed that between 1981 and 1990 the average annual growth rate of real GDP in Africa was 1.7%. Given the region's high population growth rate, however, the average annual growth rate of real GDP in Africa was 1.7%. Given the region's high population growth rate, however, the average annual growth rate of real GDP per capita between 1981 and 1990 was 0.9%.

Indeed, Africa's negative growth rate (-0.9%) contrasts sharply with East Asia's impressive real per capita GDP growth rate of 6.3% and China's fantastic growth rate of 8.2% during the decade. From table 3, it is confirmed that between 1991 and 1993, Africa's growth rate of real per capita GDP was negative, averaging -2.3 annually. In 1994, real per capita GDP remained negative at -0.7%. Only in 1995 did the growth rate become positive, reaching 1.1%. This, of course, still fell short of the 8.0% growth rate posted by East Asia and the 9.2% growth rate of real GDP per capita achieved by China.

With the rapid build-up of external debt and the poor economic performance of the domestic economies, Africa's debt crisis had deepened and the debt burden has become even more crushing. Indeed, relative to exports and economic activity (measured by the GDP), Africa's debt is the highest of any region in the world (Klein 1987), lyoha and lyare (1994), llo (1995). According to llo (1995:3):

> *Africa's external debt is the highest in the world as a proportion of GDP; some countries in the region are spending more than half of their export earnings to service foreign debts. The debts of many African countries are so large in relation to their foreign exchange earnings potential that it would be impossible to pay them off even if growth resumed and was sustained at unrealistically high level. Largely as a consequence of debt servicing, flow of capital from Africa is significantly more than flow of new capital to the region.*

As a result of deterioration in the terms and conditions of Africa's debt in the 1980s, Africa's debt-export ratio (measured as the ratio of debt outstanding and disbursed to exports of goods and services) doubled between 1980 and 1985, when it rose from 78.6% to 173.3%, and doubled again between 1985 and 1991 when it further increased to 329.4%. The ratio of actual to scheduled debt service payments of African countries deteriorated during the 1980s falling from 66% in 1983 to 47% in 1989. Between 1989 and 1995, the average ratio of actual debt service due was 58.9%. Further evidence of debt distress is found in the fact that in 1986, 27 of the 44 countries in Africa had payments arrears. Also, between 1986 and 1987, 23 African countries renegotiated their official bilateral debt through the Paris Club. In the mid 1980s, 30 African countries were classified heavily indebted poor countries (World Bank, 1996). Finally, the huge burden of Africa's debt constitutes a serious obstacle to employment creation and growth as "investment resources for productive pursuits are consistently used to meet external debt service obligations" (110, 1995:3).

These two issues - debt and lack of growth - are clearly interrelated. Indeed, all indications are that excessive stock of external debt is retarding the growth and hampering the socio-economic development of African countries. The large debt stock and crushing debt service burden have now introduced a new "vicious cycle" to the development problem of Africa. In many African countries, debt servicing in the face of inadequate foreign exchange earnings leads to severe import strangulation. Import strangulation holds back export growth, thus perpetuating import shortages. The debt overhang and other uncertainties created by the debt situation further depress investment. Falling investment combined with shortages of essential imports results in declining output. Declining output and escalating current account deficits lead to increasing debt and rising debt service obligations.

It seems incontestable that given the structural weakness of most African economies, their low income and low savings militate against rapid economic growth and development. Indeed, analysts and international policy makers appear to have reached a consensus to the effect that a satisfactory recovery of investment and output growth in the indebted African countries will remain difficult, perhaps unattainable, as long as they are saddled with a burden of debt servicing that requires a sizeable net transfer of resources abroad. Put simply, there is no way in which many African countries can service their debt and still have adequate resources left for development financing. Thus, many now believe that debt relief is the only panacea for economic growth and development in Africa. This must go beyond debt rescheduling and it could be a policy package that combines debt reduction with a significant amount of debt forgiveness (write-off of official debt and perhaps write-down of commercial debt) for low-income African countries. Nigeria has recently benefited from the former.

IV. CONCLUSION AND RECOMMENDATIONS

The main conclusion that is derived from the analysis in the paper is that while borrowing may have some desirable effects on the economy, what happens most of the time in many developing countries is that the undesirable consequences constitute a serious constraint on the economic development process of the developing countries who are largely the borrowing nations.

Debt albatross continues to pose the greatest impediment to progress and development and also constitute a harbinger of economic woes to African countries. Given the experiences of Nigeria and many other African countries, it can be clearly said that debt (both internal and external) represents a major constraint to their economic performance.

Nigeria is not alone in the finding that high debt service payments divert a significant proportion of resources away from financing development projects and severely constrain domestic investment. Indebtedness is one of the greatest problems facing African countries, particularly those, like Nigeria, whose economies are structurally weak and dependent on a few primary commodities for foreign exchange earnings. In the light of all the facts and figures laid bare in the paper, the following recommendations are pertinent.

1. African countries should realize clearly that all forms of borrowing have their merits and demerits. In essence, they are double-edged swords that cut both ways. Consequently, a proper cost-benefit analysis of borrowing should be carried out before it is incurred or resorted to. Efficient management of not only the borrowing process but also of the debt - financed projects is also necessary to enhance the benefits derivable from this type of development financing.
2. The current debt situation requires that Nigeria and other African countries take steps to increase their ability to service foreign debt by vigorously pursuing export expansion. This draws attention to the long-standing dependence of the economy on a few traditional export commodities. African countries could encourage more non-debt foreign exchange earnings as well as take steps to widen and sustain the base of their non-traditional exports.
3. Steps must also be taken to attract more direct investments, which not only bring in the external finance, but also the skills and technology so essential for the rapid expansion of the economy. Nigeria and other African countries should also pursue further internal reforms to increase government revenue so as to minimize its dependence on types of financing that are detrimental to the economy’s health.
4. All external borrowing should be thoroughly assessed by the needy country to ensure that only assistance that is in conformity with national objectives and priorities and which promises potential benefits for the economy is accepted. To this end, government should endeavour to operationalize the United Nations concept of government-led need assessment process. All donors should be encouraged to support and draw up projects and programmes approved by a government-led need assessment process.
5. The substantial need for external assistance in the prosecution of the economic recovery programme should not be allowed to undermine the country’s new development orientation of economic self-reliance. An intensive mobilization of domestic resources should be promoted, while prudent economic management based on cost effectiveness and accountability should be emphasized at all levels of government.
6. An appropriately articulated national policy on development cooperation, providing appropriate guidelines for the effective mobilization and utilization of borrowed resources is a crucial aspect of socio-economic management. Therefore, the government should endeavour to speed up the process of putting in place a well-articulated national policy on development cooperation. Such a policy should be subjected to considerable discussion at all levels of government before it becomes a national policy document.

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