

CORRUPTION AND EXTERNAL DEBT CRISIS IN NIGERIA

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ABSTRACT

This paper examined corruption and external debt crisis in Nigeria. The source of data for the research is secondary. The paper argues that misappropriation of external debt by the officials shouldered with the management of Nigeria's external debt has contributed to debt crisis. The paper also argues that the debt crisis has affected budgetary allocations for the provision of social services; discouraged foreign investment and contributed to the crisis of development. Therefore, the paper concludes that unless efforts are made towards prompt payments of outstanding debts the country would continue to experience severe debt crisis.

Key words: *External debt, debt crisis, economy, and adjustment programmes*

1.0 INTRODUCTION

External debt is a major challenge to sovereignty. Sovereignty is an important characteristic of a state. The characteristics of a sovereign nation include absoluteness, comprehensiveness and universality, permanence, inalienability, exclusiveness and indivisibility (Chaturvedi, 2006). The features are essentials for a sovereign nation to make choices, decisions and take courses of actions that are independent without external influence, manipulations or control (Sadeeque, 2005). However, external debt, an imperialist agenda is tied to acceptance of neoliberal policies and their implementations. They include adjustment programmes, democracy and good governance as well as adherence to rule of law (IMF and World Bank, 2000). The imposition of devaluation, privatization, deregulation and trade liberalization by the

IMF and the World Bank on Nigeria interferes with domestic policies of the country that undermines its political sovereignty. In addition, there is no doubt that public enterprises in Nigeria are characterized by inefficiency, corruption and nepotism. These problems are responsible for their privatization.

Nigeria's external debt started in 1958 when \$2.8 million was incurred to finance railway construction (Anthony, 2005; and Uniamikogbo, 1994). The external debt of \$1 billion referred to as "jumbo" loan obtained from the International Capital Market (ICM) in 1978 increased Nigeria's external debt to \$2.2 billion. The jumbo loan was the genesis of Nigeria's debt crisis because it came with 4 percent interest charges (Anthony, 2005). Subsequently, in the 1970s and 1980s Nigeria obtained external loans from the World Bank to

finance economic sector and other superstructures in the social formation (Alkali, 1997). Specifically, the loans were obtained to finance trade, support balance of payments and achieve socio-economic development (Uniamikogbo, 1994).

External debt is also an instrument of imperialist exploitation and political control because high debt burden is imposed on the weaker debtor nations (Ojo, 1989). For instance, Nigeria's external debt repayments in 2002 amounted to \$1.8 billion. The repayment of debt infringes on the sovereign power of Nigeria to finance economic sector and other superstructures as well as carry out human rights obligations in the social formation. By 1980s, Nigeria's debt crisis became manifest. The crisis could be attributed to poor lending and inefficient loan utilization, mismanagement of external loans, unequal trade and exchange rate policies, accumulation of arrears and penalties, increase in interest rate, poor debt management; and increase in exchange rate. Others include dependent industrialization, the decline in the prices of oil between 1981 and 1982, lack of effective feasibility studies on project to be financed with external debt, the conspiracy of IFSS/West in assisting the corrupt leaders to misappropriate external loans and the adoption of Structural Adjustment Programmes (SAP), (Ojo, 1989). For instance, in the early 1970s the International Financial Institutions charged 4 percent interest rate but in 1989 it reached 12 percent. The increase in interest rate has increased Nigeria's debt overhang to \$28 billion in 1991 (National Planning Commission, 2003). The devaluation of the Nigerian currency, the Naira has also contributed to Nigeria's

debt crisis because between 2002 and 2003 the country's external debt increased by \$4 billion due to depreciation in the exchange rate of the Naira to Dollar. In fact, debt crisis and debt burden affect the productive forces, distributive capacity and exchange relations of Nigeria because massive resources are allocated in the payment of debts than in investment, provision and maintenance of economic sector and other superstructures. Arguably, it hinders investment and affects growth and development in the Nigerian social formation. Consequently, this affects social relations of production between Nigeria and international financial institutions in particular and its trading partners in general. Therefore, external debt has far reaching impacts on the sovereignty and political economy of any debtor state. Nigeria, has suffered a lot from the impact of its external debts. In fact, the last two decades have been characterized by a severe economic and social crisis in the country. The prevalence of the crises was as a result of neoliberal policies in response to debt predicament. Therefore, this study examines corruption and debt crisis in Nigeria.

1.2 METHODOLOGY

This research adopts secondary source of data in analyzing corruption and external debt crisis in Nigeria. In other words the study attempts to employ content analysis. The method of data analysis for the research is qualitative. This is because it provides explanations of how corruption contributes to Nigeria's debt crisis.

1.3 LITERATURE REVIEW: CORRUPTION AND DEBT CRISIS

Tanzi (1998) defined corruption as “the abuse of public power for private benefit”. This definition of corruption is also adopted by the World Bank and Transparency International (Lambsdorff, 1999). Though, the World Bank employs Tanzi’s definition in its global governance the fact remains that the institutions for global governance have abuse power. This is because it imposes adjustment programmes on the powerless nations against their wishes in order to maximize its profit. The disadvantage of external debt could be attributed to mismanagement of the resources (Chenery and Brando, 1962). In fact, the problem is among the factors that cause debt crisis in the third world nations because resources meant for development projects were diverted to personal usage. Therefore, this study agrees that corruption contributes to the debt crisis of the third world nations. For instance, the condemnation of external debt was based on the ground that it is an avenue for corruption in Africa where local and international actors are involved (Moyo, 2009; Dugó, 2009; Easternly, 2005: 2006). Specifically Moyo (2009:2-3) argued that:

The most obvious criticism of aid is its link to rampant corruption. Aid flows destined to help the average African end up supporting bloated bureaucracies in form of the poor-country governments and donor-funded non-governmental organizations. In a hearing before the US Senate Committee on Foreign Relations in May 2004, Jeffrey Winters, a Professor at Northwestern

University, argued that the World Bank had participated in the corruption of roughly \$100 billion of its loan funds intended for development.

Moyo is right because widespread corruption of loan resources among ruling class shouldered with responsibility of external debt management in the Third world nations has discouraged International Financial Institutions to provide new loan facility to the needy countries. Perhaps, this is the reason why the IMF and the World Bank came out with criteria of ensuring good governance and adherence to rule of law for obtaining fresh loan facility (IMF, 2001). This research agrees with political conditionalities imposed on the third world nations for obtaining fresh loans perhaps it may encourage some to ensure good governance. Indeed, this makes some debtor nations to implement certain reform programmes aimed at ensuring democracy, good governance and rule of law. For instance, in Nigeria during the regime of Obasanjo NEEDS was implemented to normalize capitalist class relations with IMF and World Bank.

The internal dimension of corruption related to debt Moyo (2009:3) averred that:

As recent as 2002, the African Union, an organization of African nations, estimated that corruption was costing the continent \$150 billion a year, as international donors were apparently turning a blind eye to the simple fact that aid money was inadvertently fuelling graft. With few or no strings attached, it has been all

too easy for the funds to be used for anything, save the development purpose for which they were intended.

Corruption of whatever dimension external debt inclusive has serious implications on the economic and other superstructures in the social formation. Economically, it drains the available resources meant for productive purposes thus, leading to crisis of production. In social perspective, it hinders a state to discharge its distributive function. From political dimension, corruption drails democracy and engineers political conflicts or class struggle. In essence, corruption is inimical to development prospects, intensifies abject poverty, conditions infrastructural decay and a general decline in the living standard of the masses. Therefore, misappropriation of external debt by ruling class shouldered with its management has undermined development in the Third world nations. The subversion of development resulted from the diversion of resources meant for development purposes to satisfy class interest. Though, Bangura (1986) and Olukoshi (1989) contended that corruption as identified by the IMF and the World Bank is responsible for the crisis of economic and political development they however, considered the factor as secondary rather than primary. However, the argument presented by both Bangura and Olukoshi in contemporary African societies is not relevant. This is because the pervasiveness of corruption in militating democratic governance and accountability in contemporary Africa can

be ranked as primary causative than secondary.

Debt crisis refers to the inability or unwillingness of debtor nations to pay their external debts (John, 2003). The causes of the crisis may be due to huge external debt, rise in interest rates and economic slumps (Dembele, 1999). Onimode (2000) also attributed the debt crisis of the Third world nations to the extreme disarticulation and distortions of their economies. These are manifested in high export dependence, concentration on a few commodities, low and declining terms of trade and unfavourable balance of payments. Specifically, payment of debt is accompanied with 12 percent interest charges during adjustment period. This compounded the debt crisis of the debtor nations. Debt crisis could also be attributed to the doctrine of odious and illegitimate debt. Adams (1991) argued that:

If a despotic power incurs a debt not for the needs or in the interest of a state, but to strengthen its despotic regime, to repress the population that fights against it etc., this debt is odious for the population of the state. This debt is not an obligation for the nation; it is a regime's debt, a personal debt of the power that has incurred it, consequently it falls with the fall of this power (Adams, 1991).

Despite the caution against odious debt Adams, the Convention of Succession of State in respect of state property has provided an exception to the doctrine of

odious debt through the principle of "Continuity of the State". According to the principle of "Continuity of the State" in international relations, a state has to honour international obligations irrespective of the changes in its regimes. In reaction to the above, argument Sack emphasized that:

[Such] debts do not fulfil one of the conditions that define the regularity of a state debt, namely that state debts must be contracted and funds thus acquired must be used to the end of meeting the needs and interests of the state.

There is no doubt that debts obtained by an illegitimate government is odious or obtained to consolidate its power at the expense of national development. The doctrine of odious debt was employed by the British House of Commons to cancel Rwanda's debt. The House argued that bulk of Rwanda's external debt was incurred by a genocidal regime and utilized only for the purchase of weapons. Therefore, the House pleaded the creditors particularly France to cancel the debt incurred by the despotic regime (British International Development Committee Report, 1998). By granting debt to illegitimate government, it tantamounts to irresponsibility and naked exploitation and the lenders should bear the burden.

Odious and illegitimate debts are sometimes used interchangeable. However, Hanlon (2007) has identified four conditions of illegitimate debt. These include a debt granted to reinforce a dictatorial regime; debt with high interest rate; debt granted to a country when the lenders are aware of its inability to repay; and debt that is

accompanied with conditionality of adjustment programmes (AFRODAD, 2007). The Canadian Ecumenical Jubilee Initiative 2000 presents its arguments on illegitimate debt a moral perspective. The argument goes:

Repayment of debt leads to serious deprivation that threatens the cohesion of the community. In such a situation, the debt is illegitimate. The justice of a contract may not be guaranteed if the relationship between the parties is too unequal. Similarly, a contract may not be legally binding if it endangers the health or the life of one of the parties. Ending a contract, or in this case canceling or repudiating a debt, can be a moral response to what would be an immoral or illegitimate situation, should it continue (Jubilee, 2000).

The Canadian definition of illegitimate debt has gone beyond the moral aspect of the debt. The definition has captured the economic, social and political consequences of debt overhang and debt burden that international financial institutions cause in the third world nations. This informs the emergence of Jubilee 2000 canvassing the support of creditor nations to cancel the debt of impoverished countries in the third world nations. An initiative that was supported by many CSOs across the globe, but only 41 countries 19 in Africa benefited from the exercise. The Latin American Parliament also developed four criteria for illegitimate debt. These are: the fraudulent and criminal nature of the debt

incurred by a despotic ruling class; the unilateral increase in interest rate; the forcing of indebted countries to reschedule their debts; and co-opting of negotiators during the agreements (AFRODAD, 2007). Specifically, the unilateral increase in interest rate and debt reschedulings were responsible for the increase in debt overhang of most of the third world nations because interest charges continue to accumulate during the accounting period. Along this line, Villaroman (2011) proposes three options for addressing debt crisis. These include the printing of money to ensure that there are sufficient resources to finance new debt and refinance maturing debt; the seeking of bailout from the IMF and the World Bank and; restructuring of debt. In extreme debt crisis, the three options could be deployed. Consequently, these options where they stabilize financial markets, build confidence among creditor nations and allow debtor nations to honour their debt obligations, could resolve the debt crisis.

1.4 CORRUPTION AND EXTERNAL DEBT CRISIS IN NIGERIA

With the exception of military administration of General Muhammadu Buhari, Late General Sani Abacha and General Abdulsalam Abubakar all Nigerian leaders had indiscriminately secured external loans without regards to the viability of the projects to be financed by the funds. In the early period of Nigeria's external borrowing there were no effective feasibility studies on the projects to be financed with external debt. A

sizeable proportion of these resources were diverted into unproductive ventures as opposed to being committed to the projects they were intended for, some diverted to private pockets. This contributed to the debt crisis. To buttress the argument Ribadu (2006: 8-9) observed that:

Corruption started during the Shagari period and when the Buhari Idiagbon (administration, 1984-85) came, we saw what they tried to do (putting corruption in public places on check). But the government after them (Babangida, 1985-1993) institutionalized corruption.

A report by a committee from the Federal Ministry of Finance (1986) stated that external debts incurred by both the federal and state governments between 1979 and 1983 were looted by the ruling class. The misappropriation explains the reason for the abandoned projects in the country. In a related development Abacha in his 1997 annual budget broadcast to the nation stated how members of the ruling class misappropriated external loans:

During 1996, an appraisal of project financed with loans from the International Capital Market (ICM) loans was conducted with a view to determining whether the country obtained commensurate value from the borrowings; this produced remarkable results. Field visits to the 145 projects with ICM loans amounting to 13. 157 billion US Dollars revealed that 18 projects with total loan amount of

836 billion US Dollars were never executed. The proceeds of the external loans obtained for their execution were drawn in all cases. These projects were classified as “failed”. The failed loans are being serviced by government. Another 44 projects with loans amount of 4.811 billion US Dollars and classified as “distressed” were either not commissioned or were commissioned and then closed down shortly after. The potential economic and social benefits of these projects cannot be achieved with further injection of funds. The third category classified as “successful” comprised 83 projects with an amount of 7.503 billion US Dollars, were surviving and operating at some capacity during the appraisal (Abacha, 1997).

The 18 projects which amounted to \$836 million that were never executed were awarded to members of the ruling class which included top bureaucrats, military brass retired and serving, renowned pro-government academics, politicians, businessmen and other apologists to the ruling elite (Offiong and Oriakhi, 1998). In essence, the exploited working class, artisans, rural peasants, students, unemployed and other members of the underclass bear the burden of the accumulated interest that grew in geometrical progression.

Similarly, Adams (1991:165) stated that:

Nigeria may top all countries for corruption. With about \$30 billion in debt, it is also most Africa's

indebted nation, thanks to a succession of military and civilian regimes that have governed the country and its enormous oil wealth inefficiently and corruptly managed. Corrupt politicians used a variety of conduits to hijack the proceeds of the national patrimony with invoicing fraud a common method.

In 1996, a survey about the status of the projects financed with external debts was conducted. It showed that only 2 percent of the projects were successful, 25 percent merely functional, 65 failed and 9 percent fraudulent (Oxfam *et al*, 2004). Arguably, the masses did not benefit from the external loans obtained to finance development projects. The high level of misappropriation of external loans makes them to be odious and illegitimate. A good example is the Ajaokuta debt buy-back misappropriation. The misappropriation involved \$6 billion. It was reported by John Fashanu and involved two American citizens Jeffrey Schmidt and Robert Minton. The report showed that the Nigerian ruling class that was given the mandate to conduct the debt buy-back mobilized \$4.4 but it only cost \$2.5 billion. The investigation also indicated that the government did not keep records of the previous debt-back operations between 1988 and 1993. For the two investigations it showed the misappropriation of external loans. The misappropriation was facilitated by the then CBN Governor Adamu Chiroma in collaboration with Nigerian National Petroleum Corporations (NNPC) who provided the resources for the two individuals. The process was carried out

through Morgan Guaranty Bank in New York and the Bank for International Settlement, Switzerland. Green Holding Bank in Panama channeled the resources into the two banks. The services of Growth Management Limited and Shamrock Financial and Triolet also assisted the debt buy-back (NEIC Report, 1997). This problem compounded Nigeria's debt crisis.

The World Bank also contributed to Nigeria's debt crisis because it granted loans to irresponsible, incompetent and corrupt ruling elites. It also granted debt without proper feasibility studies (Halon, 2006). It was against the Bank's Article of Agreement that enjoins it to:

Set some regulations that guarantee that each loan fund is solely used to achieve the objective in accordance with the objectives of the loan itself, by giving considerations over economic and efficiency issues and ignoring political or other non-economic influences or considerations (World Bank Article of Agreement, 1999).

Despite the Article, the World Bank provided loan to the Nigerian ruling class. The Bank also violated the stipulated rule of the doctrine of odious debt. The rule states that a debt is considered unenforceable if its terms are unreasonable. Of course the doctrine becomes operative where the borrower is confronted with shortage of capital to finance development projects (Halon, 2006). However, in situation where a country is not confronted with resource gap and the Bank enforces debt unreasonably the debt becomes odious. For instance, Obasanjo's \$1 billion jumbo

loan obtained in 1978 from the ICM was odious and illegitimate because it was secured when Nigeria was not confronted with shortage of capital (AFRODAD, 2007). Therefore, The International Financial Institutions in collaboration with Western world were accused of contributing to the Nigeria's debt crisis by providing odious and illegitimate loans to the corrupt Nigerian ruling class (Adam, 1991). Adams (1991:165) stated that:

Import license because they provided access to foreign currencies were so valuable in themselves that Nigerian government officials treated them as patronage to reward political service with the recipients then selling them to genuine importers of goods. By 1983, estimates of the foreign exchange out of the country ran as high as \$7.5 billion or about 40% of Nigeria's foreign debts.

It is believed that the IFIS and the West provide opportunity for the corrupt Nigerian ruling class to siphon loan resources and deposit them into their banks. The process was facilitated through the international trade between the IFIS and the West. This process was carried out through the creation of foreign debt. This contributed to Nigeria's debt crisis. In essence, the IFIS and the West have equally contributed to the stolen wealth and foreign debt crisis in Nigeria because they assisted in the transfer of the resources to their banks. The scenario of the stolen wealth made Obasanjo (2003) to argue that half of Nigeria's debts were odious and dubious.

A member of the Senate Public Accounts Committee in Nigeria argued that there was no need for foreign loans and counterpart funding by various government agencies because the IFIS and the West conspired with Nigerian ruling elite to loot the country's resources (Isah, 1999). He cited the Mambilla Tea Integrated Development Programme, a European Union Project that was funded with external debt of \$1,770,000 billion and counterpart funded by Nigeria with the sum of \$200,000 million in 1999 (Isa, 1999). The lawmaker was reported to have asked:

What is the rationale for financing tea production with huge foreign loans backed by counterpart funding when majority of Nigerians are not tea drinkers... Even if our aim is to export tea, it is impossible for us to compete with countries like China and India that have the advantage of cheap labour and required experience.

In essence, Nigeria does not have comparative advantage in the production of tea compare to China and India and securing external debt to finance tea production would only put the country in a comparative disadvantage. The situation provides opportunity for the ruling class to misappropriate loan resources through counterpart funding for personal enrichment at the expense of the economic growth. The lawmaker also cited the case of Oban Hill, Cross River's National Park. It was a German project financed with external debt amounting to \$368,000,000 million and counterpart funded by Nigeria with ₦

96,000,000. He categorized the counterpart funding as unnecessary because there still exist German grant of 22, 000,000 Dutch Marks that was not fully utilized and an outstanding counterpart fund of ₦ 4,000,000. It was therefore an avenue for looting the resources. The foregoing, exhibits odious and illegitimate debts incurred by corrupt and irresponsible Nigerian ruling class through the instrumentality of International Financial Institutions and the Western world. The situation influence civil society organizations' agitations for the cancellations of the debt and rejection of their payments (AFRODAD, 2007).

In Nigeria, projects financed with external debts were either uncompleted or partially completed (Uniamikogbo, 1974). In fact, where they were completed they operated below their capacity utilisation. Forty-three projects catergorized as "Distressed" financed with external loans amounting to \$4,446.0 million were executed but not completed. Examples of these projects included the steel mills, paper mills, automobile, petrochemical etc (Umoren, 2001). The projects did not make meaningful contribution to the development of production in the country. However, the government paid the loans with the little resources. Indeed, ineffective loan utilization contributed to Nigeria's debt crisis. In addition, eighteen projects financed with external debts amounting to \$836.17 million were never executed (Ogbeifun, 2007).

The oil boom of 1970s inspired the government of Yakubu Gowon to establish many manufacturing industries in the country. These included Steel, Rolling Mills, Paper Mills, Flour Mills, Petrochemicals and Automobiles companies. These industries

depended on raw materials imported from outside the country (Olukoshi, 1993). The importation increased the import bills of the Nigerian state. For instance the bill that was ₦ 756.4 million in 1970 rose to ₦ 143.2 billion in 1992 (Ukpong, 1993). The rise in the bills coincided with the economic recession that confronted the country. The economic setback made it difficult to pay the loans. Consequently, external debt increase due to penalty charges for default. Therefore, import dependent industrialization intensified Nigeria's debt crisis.

In October 1979, the military administration of General Olusegun Obasanjo handed over power to a democratically elected government headed by Alhaji Shehu Shagari. The government of National Party of Nigeria (NPN) was riddled with corruption. The leadership of the party was very corrupt that it was described as the golden age of corruption (Adamolekun, 1985: 88). For instance, the civilian administration of Alhaji Shehu Shagari inherited ₦ 2.8 billion in foreign reserves from his predecessor and earned over ₦ 40.5 billion during his tenure but the resources were misappropriated through the award of inflated contracts to party caucus (Ogundiya, 2012). Umar Dikko, a one time Transport and Aviation Minister under the NPN led government of Alhaji Shehu Shagari was alleged to have looted over \$1 billion within three years (Agubamah, 2009). By implication the stolen wealth phenomenon has stashed away the available resources that could be channelled in paying the country's outstanding external debt.

During the military administration of General Ibrahim Badamasi Babangida, the Okigbo Panel reported that Babangida opened an account into which the windfall

from the first Gulf War was paid. The report indicated that the deposited windfall was over \$12.4 billion but only \$206 million was left in the account (Agabamah, 2009). In addition, the government of Babangida was accused of mismanagement of ₦ 400 million allocated to Better Life for Rural Women, ₦ 2 billion to Directorate of Food Roads and Rural Infrastructure and \$200 million looted from the Aluminium project (Ogundiya, 2012). The Abacha military regime was considered to be the worst in terms of looting public resources. Ogundiya (2009:288) argued that:

In Abuja alone, the army general was asked to forfeit six ultra modern buildings worth millions of Naira. In addition, his family was asked to return \$625, 263,187.19 and over 75 million British Pounds and another 100 million Naira illegally acquired (to) the state. This is not inclusive of 250 million Naira forfeited to the Nigerian state by his sons- Mohammed Sani Abacha and Abdulqadir Abacha respectively. Until his death in the presidential villa in Abuja, Abacha nursed and promoted corrupt practices to hold into power. Pay offs and undue reward to the regime loyalists became the order of the day. Army those who enjoyed the General Abacha's wanton generosity included Chief Anthony Ani to the tune of DM 30 million and US\$3 million. Alhaji Bashir Dalhatu US\$5 million gift from late General Sani Abacha held in a London Account and Alhaji Abdulazeez Arisekola Alao

100 million Naira gift from Abacha (Ogundiya, 2009:288).

The degree to which looting during the military administration of General Sani Abacha intensified the tempo of debt crisis was that during the period Nigeria did not pay its outstanding debt hence the accumulation of arrears and penalties.

On 29th May, 1999 Olusegun Obasanjo became the democratically elected president of the Federal Republic of Nigeria. In his effort to curb corruption in the country, he signed into law, Anti-corruption Bill in 2003. Subsequently, Independent Corrupt Practices Commission (ICPC) and Economic and Financial Crime Commission (EFCC) were established. Despite this, corruption has become the order of the day. For instance, Human Rights Watch (2007) reported that Nigeria lost the sum of \$4 to 8 billion per annum over the eight years of Obasanjo administration (Ogundiya, 2012). Specifically, Chief Evans Enwarem, Chuba Okadigbo and Adolphos Nwabara were impeached due to gross mismanagement of public resources. Senator Chuba Okadigbo among other things was found guilty for inflating street light project to the sum of ₦ 173 million; authorized the payment of ₦ 37.2 million to furnish Senate President's residence instead of the approved ₦ 25 million and installed a 100KVA generator at the Senate President residence at an inflated price of ₦ 15 million. Senator Adolphus Wabara was also found guilty of collecting ₦ 55 million to inflate budgetary allocation to Federal Ministry of Education. Senator Chimuroke Nnamara was charged for money laundering of ₦ 5.4 billion (Vanguard, 2008). The first female speaker of the Federal House of Representatives in

person of Madam Patricia Etteh was indicted over misappropriation of public funds in multiple contracts of ₦ 628 million (\$5 million) for the renovation of her official residence and purchase of 12 official cars. Furthermore, the Senate Committee found that Vice President Atiku Abubakar was guilty of diverting \$145 million Petroleum Technology Development Fund to private account. The committee reported that:

The Vice-President abused his office by aiding or abetting the diversion of public funds to the sum of \$145 million and \$20 million respectively approved for the specific projects of deposits in the banks, some of which were fraudulently converted as loans to NDTV, Mofus Shipping Company Limited and Transvavi Services Limited (Report of the Senate Committee, 2007).

In July 1999, the World Bank published 20 names of top Nigerian government functionaries and their loots in foreign banks that amount to US\$100 billion. Similarly, in 2000, a London-based Nigerian sports ambassador reported \$6 billion fraud by Ibrahim Badamasi Babangida through a debt-buy back and currency stabilization scheme between 1988 and 1993 (The News, 2000). President Obasanjo also looted Nigeria's resources in 2001 by authorizing the office of the Accountant General of the Federal via Central Bank of Nigeria, Abuja to debit CBN/NCC USD Account No 400938294 with Chase Manhattan Bank, New York the sum of \$40 billion (₦ 16, 051, 500, 000:00 billion). The implication of looting Nigeria's public funds was captured by Hope (2000:23):

Corruption increases the cost of doing business. Kickbacks and illegal commissions which have to be paid to public officials are simply added to the final cost of contracts, equipment, supplies and so on. This not only increases government expenditures and siphons off scarce funds but eventually leads to the need to increase revenues either through higher taxes, or by borrowing, or by reducing development programmes of great importance, and ultimately, to a general welfare loss, lower growth and macroeconomic distortions for the affected country. Corrupt politicians choose investment projects not on the basis of their intrinsic economic worth, but on the opportunity for bribes and kickbacks these projects present. Similarly, theft, embezzlement and fraud by public officials reduce the availability of government funds for development-related activities (Hope, 2000:23).

Similarly, Obasanjo noted that:

Corruption brings a nation no good. The resources meant for water supply, roads, education, health and other basic and social service that are captured and stolen by a handful of Nigerians through corrupt acts stultify development. When you encourage cover up, join hands in such acts you are destroying the nation and our collective future.

The prevalence of high corruption in Nigeria motivated African Network for Environment and Economic Justice (ANEEJ), a non-government organization to commit itself to the campaign for the repatriation of Nigeria's stolen wealth. ANEEJ secretariat is located in Benin City, Edo State Nigeria. Nigeria is also the headquarter of the Global Campaign known as Nigeria Network on Stolen Assets (NNSA). NNSA is monitoring the tripartite agreements on repatriated Abacha loots between the Nigerian government and the World Bank on one hand and the Nigerian government and the government of Switzerland on the other hand. The agreement is that Nigeria should invest the recovered loot on projects that would be beneficial to the masses (African Forum and Network on Debt and Development, 2007). The prospects of identifying, seizing and recovering Nigeria's stolen assets were very bright because the Federal Government of Nigeria (FGN) was pursuing economic reforms that do not only uphold transparency, public accountability and good governance but committed to retrieving every Kobo of Nigeria's stolen wealth whether at home or abroad. In addition, NNSA under the leadership of Reverend David Ugolor of ANEEJ share the federal government's commitments to stolen wealth recovery. Furthermore, EFCC and ICPC are striving hard to prevent corruption in public places and retrieve looted public assets. The former chairman of EFCC, Alhaji Nuhu Ribadu (2006) declared that:

Over \$400 billion oil money has been stolen by bad leaders. We

are going to trace the activities of past and present leaders and publish the names of those leaders who have laundered money, their accounts and the names of the banks where the monies are kept.

The West is tightening its banking laws to prevent money laundering. For instance, the US and UK are leading the global fight against terrorism that is usually sponsored with laundered funds (AFRODAD, 2007). In 1999, Nigeria wrote a formal request to the British and American governments for the repatriation of the stolen wealth that was over \$6 billion by former military ruling class and their cronies. In 2001, a United Kingdom High Court ordered banks to freeze accounts linked to General Sani Abacha for stealing over \$30 billion during his military administration (Dinneya, 2006). In February 2002, the UBS Switzerland's biggest bank froze US\$60 million linked to the family of late General Abacha (Wealth Recovery, 2002). The US and UK have also been co-operating with Nigeria to retrieve Nigeria's stolen assets in their various countries. In fact, the EFCC has been collaborating with UK courts to confiscate assets worth \$17 billion allegedly belonging to some state governors in Nigeria (Comet, 2009). Furthermore, the UK London Metropolitan Police co-operated with the EFCC to arrest two state governors in London for money laundering (AFRODAD, 2007). The US on the other hand apart from imposing its strict money laundering laws, revoked the entry visas of several political office holders and other public officials believed to be engaged in corrupt practices (Campbell, 2005). Moreover, with the

inauguration of the Nigeria's Extractive Industries Transparency Initiative (NEITI), a sub-set of a global policy framework aimed at achieving transparency in oil, gas and solid mineral industry in Nigeria, the chances of looting Nigeria's wealth has been minimized (AFRODAD, 2007). With these institutions put in place, Nigeria's stolen wealth has relatively been recovered. For instance, some of Abacha looted funds that were scattered all over western banks were repatriated back to Nigeria. Specifically, Jersey Island in 2003 returned about \$180 million traced from seven banks (Federal Office of Justice, 2004). In February 2006, the total loot returned to Nigeria was about \$700 million (This Day, 2006). Despite the recovery of Nigeria's stolen wealth debt burden continued to affect social economic development in the country because the recovered resources were nowhere to be found. This indicates that the resources were further misappropriated by the ruling class.

Apart from corruption there are other factors that contributed to Nigeria's debt crisis. For instance, in the early 1970s most of the loans Nigeria obtained from the World Bank and other international financial institutions were soft loans that attracted low interests. For instance, the London Inter-Bank Offered Rate (LIBOR) charged by commercial bank was only 4 percent but in 1986 when adjustment programmes were implemented it has reached 12 percent. The situation increased Nigeria's total debt to \$28 billion in 1989 (Ukpong, 1993). Thus, increase in interest rate has contributed to Nigeria's debt crisis.

Prior to 1978, Nigeria incurred soft external loan from bilateral and multilateral

institutions. However, in 1978, the military administration of General Obasanjo obtained \$1 billion loan facility from the International Capital Market (ICM) for a number of reasons. In the first instance ICM loan was flexible and relatively very easy to secure. In addition, the 1970s and 1980s were periods of excess loanable funds in the Western world and International Commercial Banks were ready to lend out such funds to developing countries to finance their development programmes and superstructures. As a result, Nigeria secured many external debts from the International Capital Market (ICM) (Obadan, 2004). For instance, the military administration of Obasanjo broke the tradition of obtaining external loan from the bilateral and multilateral institutions at cheaper rate and secured \$1 billion, which was the first Nigeria's major borrowing from the International Capital Market (ICM), a non-concessionary facility. Nigeria's resort to the International Capital Market (ICM) for external debt was the beginning of reckless borrowing by successive governments. Little wonder that many states secured debts from the ICM to finance development projects and were guaranteed by the federal government. Some of the projects were abandoned while others misappropriated by the irresponsible and corrupt Nigerian ruling class. The ICM charged 3 to 4 percent interest. As a result, the country's debt rose from \$3, 146.0 million in 1977 to \$5 billion by the end of 1978. The interest rate rose to 13 percent in 1986 and was responsible for increasing the country's debt to \$28 billion in 1989 (Ukpong, 1993). The increase in external debt had generated payment crisis, thus creating

the need for debt rescheduling and refinancing.

Defaults were identifiable to the regimes of Babangida and Abacha respectively and led to the accumulation of interest and penalties that amounted to \$5 billion (Iweala, 2005). Although, General Sani Abacha did not obtain external loan from the International Financial Institutions (IFIs) during his regime he however, did not repay Nigeria's external debt to its creditors (Kolawole, 2005). Indeed, Nigeria's debt overhang in 2005 was not attributed to heavy borrowing but relatively to small debt payments accumulated arrears, penalties and interest (AFRODAD, 2007). Specifically, Nigeria obtained \$2.1 billion in 1971 from bilateral source but due to defaults it accumulated to \$22 billion in 2005 (AFRODAD, 2007). The accumulation of external debt contributed to the debt crisis of the country.

External debt is tied to implementation of Structural adjustment programmes by the countries in need of external financing to address their economic problems. Devaluation is an element of SAP. It was aimed at promoting production as well as providing employment generation (Fadahunsi, 1993). The weaker nations have to devalue their national currencies before qualifying for loan facility (Ayagi, 1997 and Stiglitz, 2003). Devaluation of the Naira started right from 1974 when the military administration of Yakubu Gowon pegged Naira to Pound Sterling. However, it was not successful because it did not ensure the stability of the Naira. In fact, Naira was overvalued due to oil boom and foreign exchange surpluses.

Consequently, the government added French Franc, German Mark, Japanese Yen, Dutch Gulder and Swiss Franc as its exchange rates (Abdullahi, 1987; and Omoruyi, 1989).

From 1974 to 1982 the value of the Naira to US dollar was ₦ 0.70 for \$1.00. By implication Naira was overvalued to US Dollar (Olukoshi, 1993). Therefore, Nigeria's external debt that amounted to ₦ 500 million in the 1970 increased to ₦ 10.081 billion in 1983 just within a span of 15 years. The external reserve that was \$8.5 billion in 1981 declined to \$2.5 billion in 1982. It was due to channelling of the reserves in paying external loans. The balance of trade that was ₦ 5.1 billion in 1980 similarly decreased to ₦ 2.0 billion in 1982 (Ekuarhare, 1993). To address these problems the military administration of General Babangida devalued the Naira.

To ensure the implementation of devaluation the government in 1986 introduced the First and Second Tiers Foreign Exchange Markets. The First-tier was to last between twelve and eighteen months. It was aimed at payment of debt and subscription to international organizations, settlement of import bills and letters of credit (Fadahunsi, 1993). The value of the Naira under the first-tier was determined through bidding.

On the other hand, the Second-tier foreign exchange market was established to encourage imports, exports and investments (Fadahunsi, 1995). In this, the value of the Naira was determined by the market forces. The tier was also operated based on the bidding sessions. Big banks were allowed to buy a maximum of 10 percent of the total available foreign exchange. Small banks were allowed to buy only 7 percent (Fadahunsi, 1993). For

instance, from January 1986, prior to devaluation, the value of the Naira to US Dollar was 0.9996. But from September 1986 its valued to US Dollar was 1.6010. Subsequently, from October 1986 to December 1989, the values of the Naira to a US Dollar were 2.0593 and 7.5827 respectively (CBN, Annual Report and Statement of Accounts, 1987 and 1989). The effect was that the Naira had continued to be devalued. As a result the CBN introduced "marginal rate system". It aimed at restoring the value of the Naira. To achieve the objective, banks were reclassified into large, medium and new to increase the number of successful bidding. The banks were also allocated 5, 2 and 1.5 percent respectively for the purchase of available foreign exchange. Despite this, the value of the Naira continued to depreciate. The Central Bank of Nigeria had to directly, in 1986 intervened in the bidding session to restore the value of the Naira. However, the effort was not successful (Omoruyi, 1989).

In April 1987, the government introduced the Dutch Auction System (DAS). The system did not restore the value of the Naira. As a result the Autonomous Inter Bank rate was introduced and merged with the Second-Tier Foreign Exchange Market (SFEM). The merger also did not appreciate the value of the Naira. Due to the series of failures, the government broke the merger and banks were allowed to buy and sell foreign exchange and only to be determined by the market forces (Fadahunsi, 1993). However, the value of the Naira continued to depreciate. Omoruyi (1989) argued that because of the many exchange rates under

the Dutch Auction System (DAS) the differences between the Foreign Exchange Market (FEM) and Autonomous rates intensified the depreciation of the Naira.

In 2006, the CBN introduced the Wholesale Dutch Auction System (WDAS) to restore the value of the Naira and unify the exchange rates between the Official and Interbank markets. It was carried out through the reduction of the interest rate in the Bureau De Change (CBN, 2005; African Development Bank and OECD, 2007). The process adjusted the premium between the two exchange rates from 13.6 percent in February 2006 to the average of 7.6 percent within six months of its operation (CBN, 2007; and African Development Bank, 2007). Therefore, the devaluation of the Nigerian currency, the Naira has also contributed to Nigeria's debt crisis because between 2002 and 2003 the country's external debt increased by \$4 billion due to depreciation in the exchange rate of the Naira to Dollar. In fact, debt crisis and debt burden affect the

productive forces, distributive capacity and exchange relations of Nigeria because massive resources are allocated in the payment of debts than in investment, provision and maintenance of economic sector and other superstructures. Arguably, it hinders investment and affects growth and development in the Nigerian social formation. Consequently, this affects social relations of production between Nigeria and international financial institutions in particular and its trading partners in general.

1.5 CONCLUSION

From the discussion above many factors were attributed to be the causes of Nigeria's debt crisis. The most contributing factor to the crisis was the issue of corruption. This problem of corruption among others intensified abject poverty and unemployment; decrease capacity utilization of industries and food insecurity in the country.

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