THE IMPACT OF EXTERNAL DEBT ON NIGERIA'S ECONOMIC DEVELOPMEMNT

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ABSTRACT

The external debt issue today stands out as one of the greatest concerns in international economic relations and also in international politics. For the developing country like Nigeria, in spite of her abundant natural resource endowment, has not been able to grow and develop to any appreciable level, it is discovered that one of the factors retarding Nigeria's -economic growth and development is her huge external debt burden the is as a result of high propensity to borrow on the part of governments. The study employed Classical Linear Regression Model with the application of Two stages Least Squares (2SLS) with the unit root test of cointegration to estimate the regression model. The results revealed that there is high correlation between economic growth and development denoted by GDP_t *and external finance in Nigeria. In model 1, the coefficient of multiple determination* R^2 *which is 78% reveals that there is high degree of association between the dependent variable and independent or explanatory variables. This means that the indices of external debt have significant impact on economic development. The negative value of the autonomous term however shows how heavily dependent the Nigeria economy has been on external debts. Similarly, in model 2, the growth of GDP is shown to be dependent on external debt service payments (*$EDSP_t$*) and value of the imports (*IM_t*) as indicated by the coefficient of multiple determination when is adjusted is R2 which is 94.1%*

On the whole therefore this study reveals that while Nigeria's huge external debt retards economic growth and development, poor economic policy formulation and implementation. Based on the findings, the study recommends a holistic macroeconomic management to give room for sustainable economic growth and developments as well as the adoption of proactive measures to forestall the reoccurrence of external debt overhang in future.

Keywords: External Debt, Economic Development, Underdevelopment, Economic Growth

1.1. INTRODUCTION

Most developing countries of the world are groveling under crushing external debt burden is not a hidden fact and it remains the most pressing issue in contemporary international economic relations. The decade of the 1980s has stood out as one of excruciating economic pains for Nigeria and indeed other developing countries of Africa, Asia, and particularly Latin America. These economies are characterized by worsening balance of payment deficits, galloping rates of inflation and increasing unemployment rates amidst declining national output levels further worsened by inadequate supply of imported industrial inputs along with the attendant low levels of capacity utilization in the real sectors of the economy. Thus, Nigeria resorted to an elaborate Structural Adjustment Programme (SAP) remedy in the same decade of 1980s under the IMF in order to address the structural rigidities in the domestic economy.

In most of the literature on external debt theory, it is maintained that, there is a need for developing countries to resort to foreign financing in order to foster their internal growth and also to increase the resources available for investment. Little or no harm is attributed to foreign or external borrowing according to most of the liberal scholars, such as McCormack (1997), Low (2001), Soesastro, (2001) and Seers, (1969) which more often than not, encouraged developing countries to venture into external growth mechanism. Agaldo(2002). In line with this, Olukoshi (1990) buttressed this view that investment projects financed by such external loans are supposed to yield enough foreign currency to cover at least the servicing of debt. As such, no major limits are imposed by external loans on the developmental prospects of the developing countries. He argued further that the judicious utilization of foreign finance helps to improve the productive capacity of third world countries especially if adequate plans are made in advance on how to repay the debt.

However, though the argument sounds good, we find that since the "Mexican Weekend" of 1982, when the Mexican authorities announced that their country could no longer cope with its debt service obligations, this development jolted the major creditor nations and institutions, to the sudden realization that the threat of a possible third world debt default was not merely a far-fetched theoretical possibility, but a real imminent danger. Even with this eye opener, Nigeria went for IMF loan in 1986 despite the stringent and obnoxious conditionalities attached to the loan and repayment which manifest in high interest charge, capitalization of interest arrears as well as the penalty for default in payment of interest and principal amount.

The increase in debt profile presents serious problems or obstacles to Nigeria's sustainable economic growth and development. This is because most of the resources that should have been deployed for formulation and execution of development projects are always being used in the financing of past consumption in form of loans repayment as well as inability of Nigeria to meet all its debt service payment with its attendant accumulation of debt service arrears which has been compounded with penalty interest constitutes one of the serious obstacles to the inflow of external resources into the economy. It can therefore be deduced that debt burden is partly responsible for Nigeria's economic backwardness as it has impeded and still impeding Nigeria's economic growth and development.

It is within this context that this study intends to examine the impact of Nigeria's external debt on the country's economic growth and development with a view to proffering policy recommendations to the problem.

2.1. LITERATURE REVIEW

The demand or accumulation of debt is a common phenomenon of developing countries at the stage of economic development where the supply of domestic savings is low, current account payments deficits are high, and imports of capital are needed to augment domestic resources. All these are common characteristics of Nigerian economy.

However, the concept and meaning of debt must be put in proper perspective so as to be able to distinguish between borrowed funds (loan), other contractual financial obligations and liabilities, outstanding to be repaid by the borrower or debtor; from other categories of funds (non-debt financial assistance) like Foreign Direct Investment (FDI) or Equity participation, and humanitarian foreign aids geared towards cushioning the effects of some natural disasters such as earthquakes, draughts and famine and so on. While the former is expected to be repaid or must be repaid by the debtor to the lender or creditor, the later which is non-debt financial assistance need not to be repaid.

The act of borrowing creates debt. Debt, therefore, in the words of Oyejide, Soyode and Kayode (1985) refers to the resources of money in use in an organization which is not contributed by its owners and does not in any other way belong to them. According to Ogba (1999), debt is a contractual obligation of owing or accumulated borrowing with a deduction from the above definitions of debt, debt can be perceived as a contractual financial obligations or liabilities standing against the borrower or debtor which must be repaid, unless decided otherwise by the lender or creditor.

Nwadighoha (2005) went further by saying that debt can be identified as private or public debt. To him, private debt refers to financial obligations standing against individuals, business firms, and non-governmental organizations. Public debt can therefore be said to be the financial obligations or liabilities incurred by government through borrowing from within the economy and from outside the territorial boundaries of the country, for the purpose of financing the domestic investment. Hockley (1970) conceptualized public debt to be National debt, and went further to say "it is the aggregate of securities over time, less redemptions. To him, in practice, factors such as currency flows from abroad mean that changes in the national debt are not identical with the government surplus or deficit in the same period.

Itsede (2001) on his part, said government borrowing is known as public debt, and that governments resort to borrowing as a means of augmenting available resources in the drive to accelerate economic growth and ensure fiscal viability. He then went further to say this act of borrowing may be carried out internally or externally. To him, both domestic and external debt impose servicing crisis.

In the words of Anyanwu (1993), public debt may be seen as all net claims against the government held by the private sector of the economy or by foreigners, whether interest bearing or not. In the opinion of Omoruyi (1993) the formal definition of external debt is given as the "gross amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal with or without interest, or to pay interest with or without principal.

Essien and Onwioduokit (1998), believed that external debt is prompted by external borrowing to bridge the gap between domestic savings and investment, and between exports and imports of goods and services. External borrowing is therefore, seen as a source of capital formation necessary for economic growth and development. This can only be possible if the borrowed fund is productively deployed in the economy, in the situation where borrowed fund is misappropriated or expended on unproductive ways, then debt repayment could be difficult thereby accumulates over time and eventually leads to debt burden with its attendant consequences such as heavy debt servicing, accumulated interest charge due to incessant debt rescheduling, penalties for default in payment among others, as the case of Nigeria and other developing countries thereby retards the level of their economic growth and development.

2.1.1 Conceptual Perspective of Debt

According to Central Bank of Nigeria (2001), "Debt (domestic and external) is a stock of liabilities with different tenure accumulated by government operations in the past and scheduled to be fully repaid by government in the future". This conceptual meaning is very apt for this study. The external debt therefore cannot be brushed aside by Nigerians and those in government, since external debt is a liability to the country which must be repaid either at the agreed date or a later date.

External borrowing has therefore been identified as one of the key elements of external assistance or foreign aids required to augment domestic resources necessary for the enhancement of economic growth and development. The experience of the developing countries across Africa, Latin America and Asia confirms the position of the above ascension. In addition, Essien and Onwioduokit (1998:12) asserted that;

> *The work of early development economist including Higgins* (1959), *Lewis (1954), Eshag* (1983), *Domar* (1957), *agreed that the transfer of foreign resources to less developed countries will help to transform their economies, characterized by low or zero growth rate, into economies capable of adequate and sustainable growth.*

From this perception, foreign resources to developing countries are not only important but necessary. External debt from this perception is desirable as it serve to supplement domestic resource gaps with positive effects on growth and development. The central argument for foreign and both at the local and international levels has continued to be that without it, third world countries such as Nigeria cannot progress at a reasonable rate, or cannot progress at all. For instance Sanusi (1986) asserted that Nigeria can develop without any injective of external finance". To consolidate this opinion of Sanusi, Higgins (1959), (as cited in Essien and Onwioduokit (1998:11), opined that;

Domestic investment in developing countries has been too low to promote rapid economic growth. He maintained that these countries would not raise enough capital resources for economic growth without foreign assistance in one form or the other.

It should therefore be noted that it was on the above premises that Nigeria like any other developing country continued to borrow over the years with little or no capacity to pay back. Equally, important to note is the study conducted by Ashinze and Onwioduokit (1996), where it was found that foreign credit only contributed positively to growth between 1988 and 1992 when the resources mobilized externally were used directly on productive activities. The study however revealed that between 1979 and 1987 as well as the period of 1993-1994, there was a negative relationship between foreign capital and growth.

However, while the inflow of foreign capital could lead to positive structural changes in the economy, Michaely (1981) observed that it can equally give rise to economic dependence on the outside world. In the same way, Ihonvbere (1989) argued that, many countries of the world that are considered to be under-develop were incorporated into the world capitalist economy through many processes and one of the process is the deliberate attempt by the developed nations to give loans to the developing countries for the purpose of attainment of their imperialist objectives and thus, tied to the intricate and often contradictory capitalist economic relations. The acclaims rationale has been to finance savings investment gap; finance import, meet balance of payment requirements and improve the country's foreign (external) reserves. Neglect the fact that consequently, the external debt stock will continue to rise which will culminates in the external debt burden, which will further affect the level of growth and development and thereby increase the level of dependency on the imperialist masters.

The unfortunate circumstances of the huge external debt crisis confronting Nigeria in particular and the developing countries in general have been a source of intellectual discourse in recent time both locally and internationally. Many are of the view that the debt crisis which transcends into general economic, socio-political crises and also increase the dependency level in the Third World Countries originated in the first place from poor macroeconomic policies and management and not for the purpose of achieving the imperialist interest. This implicitly means that in a way, the borrowed external loans were not productively invested to generate the required returns needed not just for the take-off of the repayment of the foreign debt. They emphasized that this has reinforced the weak capacity of the domestic economy from being unable to service and repay the external debt as and when due, let alone addressing some developmental problems.

The International-Dependent Revolution School of Thought have perceived and blamed the third world countries' debt crises on the highly unequal international power relationships between the Advanced Countries and the developing world. In their own opinion, external debt is one of the mechanisms for the establishment and the manifestation of the unequal international power relationship that took its roots from the colonial to the present day neo-colonial era.

To support this view, Nwoke (1990) asserted that; Third World Countries were introduced into debt debacle through direct colonization and preserved today through neo- colonialism. The welldocumented deformation of the national economic structure of the Third World Countries by foreign domination has made it almost impossible for them to generate on their own the financial resources indispensable for overcoming backwardness. More concretely, the disadvantaged position of Third World Countries arising from their peripheralisation in the international capitalist division of labour is manifested in the mono- cultural nature of their once-colonized national economies and the resultant under- development of productive forces. He then concluded that, it is because of the fact that the developing countries have terms of trade that are perpetually unfavourable vis-a-vis the advanced countries, that Third World Countries, without much room for economic maneuver, have difficulty generating on their own the financial resources crucial for overcoming underdevelopment. To him, it is a vicious cycle caused by the inequalities in global economic relations between the advanced centre and Third World Countries, which ultimately push the later into a perpetual debt bondage to the former, thereby intensify the contradiction of underdevelopment in the developing countries such as Nigeria.

In furthering this argument, the school of thought which sees itself as the radical school with the works of scholars such as Amin (1974), Ake (1981) and Onimode (1983), argued that if such foreign (external) financial resources often labeled "for development' simply because they are aimed at the Third World, were actually provided in the interest of the Third World Countries then such stringent and obnoxious conditionalities as short amortization period and high interest rate charged, as well as the inclusion in the loan agreement of clauses such as "Default clause", 'cost clause; 'application of payment clause' and so on would not have been Shehu (1984). In contrast however, conditionality is considered to help resolve a debt crisis and do away with the debt overhang. The argument is that the absence of a proper enforcement Mechanism for sovereign debt generates a commitment failure. In support of the arguments, Fafchamps (1996) was of the opinion that the recognition that sovereign borrowing is characterized by a failure of commitment; contractual obligation cannot be enforced with a sovereign the same way they are enforced with a private individual. As a result, debt renegotiation leads to incentive issues that are particularly to sovereign borrowing. Conditionality to him therefore is an effort to resolve these incentive problems by addressing the commitment failure.

This may be reviewed to be possible in principles. In practice however, stringent conditionalities have partly encouraged over borrowing in a bid to refinance outstanding debt. Debt can be conceptualized as the mechanism or process of having economic as well as socio-political undertone, since the loan given to the Third World Countries were not to stimulate growth but basically as an investment outlet with profit maximization motives to the detriment of the domestic economies of the borrowing countries.

On his .part, Adedeji (1991) conceptualized that "debt is political", it diminishes sovereignty. As debtor no longer owns what is his and is no longer master of his own house. The creditor has power over the debtor and politics is the allocation of power. It is therefore important to buttress the fact that the creditor countries give loans primarily because it is in their political, strategic or economic because it is in their political, strategic or economic self- interest to do so. In the same context, Alkali (1997) conceptualized debt to be the tool for international capitalist exploitative tendencies designed to perpetuate the under-development' of the Third World Countries. To him, debt combined with institutions such as the Twin Bretton Wood served as formidable instrument for subjugation, exploitation and domination of Third World Countries by the developed countries. Aimiuwu, (2004:32), quoting Lenin (1918) as saying that,

> *As long as capitalism remains what it is, surplus capital will be utilized not for the purpose of raising standard of living of the masses of a given country, for this would mean a decline in profits for capitalist, but for the purpose of increasing profit by exporting capital abroad to backward countries.*

It is therefore glaring that the huge debt burden facing the Third World Countries could be perceived to have been master-minded by the developed capitalist nations of the world as a way of subjecting the Third World Countries to perpetual underdevelopment. Debt therefore is conceptualized to be the tool or mechanism for the propagation of imperialist and capitalist agenda thereby fostering the dependency syndrome.

2.2. THEORIES OF ECONOMIC DEVELOPMENT

Understanding the concept of development is very important in the process of review of economic development, because the term development may mean different things to different people. Traditionally and in strictly economic terms, development has traditionally meant the capacity of a national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase in its Gross National Income (GNI) at rates of 5% to 7% or more. However, when many developing nations did reach their economic growth targets but the level of living of the masses of people remained for the most part unchanged, this signaled that something was very wrong with this narrow definition of development. As a result of this, many economists and policymakers clamored for more direct attacks on widespread absolute poverty, increasingly inequitable income distributions, and rising unemployment.

Dudley posed the basic question about the meaning of development succinctly when he asserted;

> *The questions to ask about a country's development are therefore: what has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result "development" even if per capital income doubled". (Todaro & Smith, 2006:68).*

This assertion was neither idle speculation nor the description of a hypothetical situation. A number of developing countries including Nigeria experienced and are still experiencing relatively high rates of growth of per capita income but shows little or no improvement or even an actual decline in employment, equality and the real incomes of the bottom 40% of their population.

Ogboru (2006) asserted that economic development can be looked at, focusing on a more equitable distribution of wealth, this considered economic development as involving a percentage and cumulative rise in the material standard of living for an increasing proportion of the total population. Development must therefore be conceived of as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty.

In line with the above assertion, Rodney (1972) in his book "How Europe Underdeveloped Africa" has this to say of economic development.

"A society develop economically as it members increase jointly their capacity for dealing with the environment. This capacity depends on the extent (science), on the extent to which they put that understanding into practice by devising tools (technology), and on the manner in which work is organized".

Development and underdevelopment in the words of Anzaku, (1996) are like the two sides of a coin that breeds development at one end and underdevelopment at the other. This assertion will be well understood more on the international dependence revolution theory of development. For better understanding of the concept of development, some of the theories are consider below.

2.2.1. The Linear-Stages of Growth Model

Under the linear-stages of growth model as theory of development, W. Restow's stages-of growth model of development. This is not to say that Rostow's model is the only one or the best. It is however, the model that achieved dominance in this strand of development economics.

In the words of Todaro and Smith (2006), Rostow's stages-of-growth model viewed economic development as a linear process, to them, Rostow argued that advanced countries had all passed through a series of stages. He designated the stages as follows: (1) The traditional society (2) The preconditions to take-off (3) The take-off, (4) The drive to maturity, and (5) The age of high mass-consumption.

In Rostow's view, the advanced countries had all passed the stage of take-off and had achieved self-sustaining growth. The developing economies were either in the "preconditions" or "traditional" stage. All that these societies had to do in order to take-off (to reach self-sustaining growth) is to follow a certain set of rules of development. Since the transition from underdevelopment to development can be described in terms of a series of steps or stages through which all countries must proceed.

He went further to say one of the principal strategies of development necessary for any take-off is the mobilization of domestic and foreign saving in order to generate sufficient investment to accelerate economic growth. Rostow defined take-off as a period when the degree of productive economic activity reaches a critical level and produces changes which lead to a massive and progressive structural transformation of the economy and society. Based on this model, the take-off stage according to Rostow could only be reached if three criteria were satisfied. First, the country had to increase its investment rate, with investment amounting to no less than 10 percent of the National income. The requirement could be satisfied through foreign aid or foreign investment. Second, the country had to develop one or more substantial manufacturing sectors with high rate of growth. Third, a political, social and institutional framework had to exist or be created to promote the expansion of the new modem sector.

Under this theory, economic growth was measured by a rising per capita income. Rostow was not concerned whether the production was evenly divided among all economic sectors; he also equates economic growth with economic development. To stimulate growth, the country had to increase savings and investment. Given the low savings rates in developing countries, the government is responsible under this theory for creating a class of people with a propensity to save. The government also had to ensure that people who saved more would obtain a greater share of the national income; otherwise, national income would be consumed rather than invested.

It is easy to see why this model was so widely accepted. It justified massive transfer of capital (loans inclusive) and technology from the North (industrialized countries) to the South (developing countries). At the same time, it provides a rationale for the massive concentrations of wealth in the hands of few that existed and still existing in developing countries.

2.2.2. Structural-Change Models

Structural change theory focuses on the mechanism by which underdeveloped economies transform their domestic economic structures from a heavy emphasis on traditional subsistence agriculture to a more modem, more urbanized, and more industrially diverse manufacturing and service economy. It employs the tools of neoclassical price and resource allocation theory and modem econometrics to describe how this transformation process takes place. Under this model, the ultimate question becomes how to expand the modem economy while contracting the indigenous traditional economy of the country or region. Two well-known representative example of the structural-change approach are the "two-sector surplus labour" theoretical model of W. Arthur Lewis and the "patterns of development" empirical analysis of Hollis B. Chenery and his coauthors.

In the Lewis model, as observes by Todaro and Smith (2006), the underdeveloped economy consists of two sectors; a traditional, overpopulated rural subsistence sector characterized by zero marginal labour productivity, a situation that permits Lewis to classify this as surplus labour-and a high productivity modem urban industrial sector into which labour from the subsistence sector is gradually transferred. The primary focus of the model is on both the process of labour transfer and the growth of output and employment in the modem sector. Both labour transfer and modem-sector employment growth are brought about by output expansion in that sector. To Lewis, the speed with which this expansion occurs is determined by the rate of industrial investment and capital accumulation in the modem sector, and concluded that in the process, structural transformation of the economy will have taken place, with the balance of economic activity shifting from traditional rural agriculture to modem urban industry, Todaro, (ibid).

2.2.3. The International-Dependence Revolution

As observed by Rewman and Littlefield, (2002), that during the 1970, international-dependence models gained increasing support, especially among developing country intellectuals, as a result of growing disenchantment with both the stages and structura1change models. Essentially, international-dependence models view developing countries as beset by institutional, political and economic rigidities, both domestic and international, and caught up in a dependence and dominance relationship with rich countries. Within this general approach are three major streams of thought; as highlighted by Todaro and Smith (2006); the neocolonial dependence model, the false-paradigm model, and the dualistic development thesis.

The first major stream, which is called the neocolonial dependence model, is an indirect outgrowth of Marxist thinking. It attributes the existence and continuance of underdevelopment primarily to the historical evolution of a highly unequal international capitalist system of rich country-poor country relationships. Whether because rich nations are intentionally exploitative or unintentionally neglectful, the coexistence of rich and poor nations in an international system dominated by such unequal power relationships between the centre (the developed countries) and the periphery (the LDCs) renders attempts by poor nations to be self-reliant and independent difficult and sometimes even impossible. According to Dos Santos (1973), underdevelopment, far from constituting a stage of backwardness prior to capitalism, is rather a consequence and a particular form of capitalism, dependence is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. To him, dependence then is based upon an international division of labour which allows industrial development to take place in some countries while restricting it in others, whose growth is conditioned by and subjected to the power centers of the world.

The second and a less radical international-dependence approach to development, which is call the false-paradigm model, attributes underdevelopment to faulty and inappropriate advice provided by well-meaning but often uninformed, biased, and ethnocentric international "expert" advisers from developed-country assistance agencies and multinational donor organizations. These experts offer sophisticated concepts, elegant theoretical structures, and complex econometric models of development that often lead to inappropriate or incorrect polices.

The third international-dependence approach to development is the Dualistic- Development thesis that possesses the notion of a world of dual societies, of rich nations and poor nations and, in the developing countries, pockets of wealth within broad areas of poverty. Dualism is a concept widely discussed in development economies. It represents the existence and persistence of increasing divergences between rich and poor nations and rich and poor people on various levels. To this approach, there exists different sets of conditions, of which some are "superior" and others "inferior", and that the interrelations between the superior and inferior elements are such that the existence of the superior elements does little or nothing to pull up the inferior element, let alone "trickle down" to it. In fact, it may actually serve to push it down-to "develop its underdevelopments".

2.2.4. The Neoclassical, Free-Market Counter-Revolution

The central argument of the neoclassical counterrevolution is that under-development results from poor resource allocation due to incorrect pricing policies and too much state intervention by overly active developing-nation governments.

The leading writers of the counterrevolution school, which includes Peter (1984), Deepak (1985) and Ian (1982), argued that it is the state intervention in economic activity that slow the pace of economic growth. They are of the opinion that by permitting competitive free market to flourish, privatizing state-owned enterprises, promoting free trade and export expansion, welcoming investors from developed countries and eliminating the plethora of government regulations and price distortions in factors, products, and financial markets both economic efficiency and economic growth will stimulated. Contrary to the claims of the dependence theorists, the neoclassical counterrevolutionaries, argue that the third world is underdeveloped not because of the predatory activities of the first world and the international agencies that it controls but rather because of the heavy hand of the state and the corruption, inefficiency and lack of economic incentives that permeate the economies of developing nations. To them, what is needed, therefore, is not a reform of the international economic system, a restructuring of dualistic developing economies, and increases in foreign aid, attempts to control population growth, or a more effective development planning system. Rather it is simply a matter of promoting free markets and laissez-faire economics within the context of permissive governments that allow the "magic of the marketplace" and the "invisible hand" of market prices to guide resource allocation and stimulate economic development. The conclusion, therefore according to Amartya (1995) is that minimal government is the best government.

From foregoing, my own opinion is that Nigeria has no need being a debtor nation. But the genesis of the debt is traceable to the initiation and integration of Nigeria into the world capitalist system by the then colonial and the neocolonial administrators. The pattern of this development rested on the exploitation of labour by capital and over dependence on foreign capital. It is true there was a large gap between savings and investments which must be filled by borrowing. That the country took loans to supplement or complement internal development finance is not a bad idea at all. What is perhaps sad is the motive behind the loans and how some of these loans were managed.

Therefore, the level of Nigeria's development can be said to be a product of the pattern of subordination to international capitalism as well as constellation of factors; such as, inept leadership, corruption and sheer ignorance of the intricate politics of underdevelopment have conspired to trap the nation in what is clearly a debt debacle.

3.1. METHODOLOGY AND SOURCES OF DATA

The study employed classical linear Regression Model (CLRM). Annual data on some major economic indicators and external debt indicators, were collected, econometric tools were used to analyze them in order to bring out in real terms, the relationships that exist between external debt indicators and economic development indicators. A model consisting of nine variables formed into three structural equations would be fitted and a multiple regression analysis using the three stages least square (2SLS) methods would be employed.

The debt issue being an ongoing debate, this research project sought to make its own contributions through reliance on secondary sources. Such secondary sources therefore include the publications from the Debt Management Office (DMO), Central Bank of Nigeria (CBN) statistical bulletin, statistics from National Baeurau of statistics (NBS), textbooks and other relevant sources of information.

3.1.1. FORMULATION AND SPECIFICATION OF THE MODEL

The model will comprise of two structural equations. The first structural equation model is of the form:

$EDO_t = B_0 + B_1EDSP_t + B_2\ GDP_t + B_3IM_t + B_4\ EX_t + B_5ER_t + Uit$….(1) with a prior expectations of $B_1<O$, $B_2>0$, $B_3<0$, $B_4<0$, $B_5<O$. **where**:

$EDO_t =$ Total External Debt outstanding at the end of period t.

$EDSP_t =$ External Debt Service payments in period t

$GDP_t =$ Gross Domestic Product in period t

$IM_t =$ Total value of imports in period t

$EX_t =$ Total value of exports in period t

$ER_t =$ Total external reserves in period t

$U1_t =$ Error term that captures the other variables not included in the equation (1)

In a similar fashion, the second structural equation model will take the form:

$GDP_t = \alpha o + \alpha_1 EDSP_t + \alpha_2 IMt + \alpha_3 ERt + U_{2t}$ ..... (2) With a prior expectations of $\alpha_1 < O$, $\alpha_{2>0}$, $\alpha_{3>0}$.

where:

$GDP_t =$ Gross Domestic Product in period t

$EDSP_t =$ External Debt Service payments in period t

$IM_t =$ Total value of imports into the economy in period t

$ER_t =$ Total external reserves in period t

$U2_t =$ Error term that captures the other variables not included in the equation (2)

In the case of the above equation (1), B_0, is a constant, while B_1, B_2, B_3, B_4, and B_5, are the parameter of the explanatory variable to be estimated in accordance with the first hypothesis which states that external debt has no significant impact on Nigeria's economic growth, against the alternative hypothesis which states that external debt has significant impact on Nigeria's economic growth.

Also, in the case of the equation (2) above, α_0 is a constant, while α_1, α_2 and α_3 are the parameters of the explanatory variable to be estimated in line with the second hypothesis which states that annual growth of rate of GDP is not adversely affected by the annual debt servicing.

3.1.2. ESTIMATION OF MODELS AND ANALYSIS OF DATA

In this section, we will now give the estimates of the parameters in the two equations as obtained after running a multiple regression analysis Both equations are assumed to be linear, with values estimated using data for the years under review (1980-2012), applying the two stages least squares (2sls) technique

The parameter estimates for the first equation were as follows:

$EDO_t = -153639.5 + 7.19EDSP_t + 0.616GDP_t - 0.015IM_t + 0.0122Ext - 0.9539\ ER_t$ …… (1)

SEE = (216512.5) (3.6424) (0.24092) (0.75259) (0.03406) (0.209444)

$R = 0.9086$ $R^2 = 0.8255$ $R^2 = 0.7796$

$DW^* = 1.39$

$F^* = 17.97970$

From our estimated regression line for the first model it can be seen that a unit increase in EDSP increases EDO by 7.19; a unit increase in GDP increase EDO by 0.616; a unit increase in imports (IM) decreases EDO by 0.015; a unit increase in Export (Ex) increase EDO by 0.021 and unit increase in external reserves (ER) decrease EDO by 0.9519.

What this means is that changes in the dependent variable i.e. External Debt Outstanding (EDO) depends on the changes in the explanatory or independent variables ($EDSP_t$, GDP_t, IM_t, EX_t and ER_t).

With respect to $R^2 = 0.8255$, we realize that:

R^2 shows that 82.6% variation in External Debt outstanding is accounted for by the variations in all the independent variables, while the remaining 17.4% accounts for the error term (U_{t1}). This shows a "Good-fit".

It follows therefore, that there exist a significant relationship between external debt and indices of economic growth.

In the case of DW test, since the rule according to Gujarati (2004) states the decision rule that at chosen level of significance if $d^* < du$, it shows that there is statistically significant positive autocorrelation, we the reject the H_0 and accept the H_1. Given our Ho and

In our analysis, $d^* = 1.39$, $dL = 0.953$ and $du = 1.886$ at 5% level of significance. We then reject the null hypothesis (Ho) and accept our alternative hypothesis (HI) that there is positive autocorrelation, though it decreases as the figure $DW^* = 1.39$ tends towards 2.

Given our empirical value of $F = 17.9797$, while F-table value at the 5% level of significance with $V_1 = (K - 1 = 5 - 1 = 4)$ and $V_2 = N - K = 32 - 5 = 27)$ degree of freedom gives 2.87.

Therefore, since $F^* = 17.9797 >$ F-table $= 2.87$, we reject the null hypothesis and accept and accept the alternative, that not all slope coefficient are simultaneously zero. That is to say, the difference between the means is significance.

Similarly, recall model 2, which was stated as:

$GDP_t = \alpha_0 + \alpha_1 EDSP_t + \alpha_2 IMt + \alpha_3 ER_t + U_{2t}$

Then the estimated model is of the form:

$GDP_t = 209770.7 + 11.807EDSP_t + 2.309IM_t - 0.045ER_t$

SEE = (209125.2) (2.5158) (2.444) (0.2021)

$R = 0.9739$, $R^2 = 0.9486$, $R^2 =- 0.9412$

DW = 1.74

F* = 129.089.

Given the estimated regression line above, it can be seen that a unit increase in $EDSP_t$ increases GDP_t by 11.8: a unit increase in imports (IMD, increase GDP by 2.3 and a unit increase in External Reserves (ERD decreases GDP by 0.05.

With respect to R^2, it shows that 94.9% variation in GDP_t is accounted for by the variations in all the independent variables, while the remaining 5.1 % accounts for the error term (U_{2t}), This also shows a 'Good-fit'.

The above analysis means that the change in GDP depends on changes in the variables considered in the model account to a great extent for the change in economic growth and development denoted by GDP.

In view of DW test, and given our DW* as 1.74 tending towards 2, it can be said that the presence of autocorrelation is negligible.

Given our empirical value of F = 128.089, while F-table value at the 5% level of significance with V I = (K - 1 = 3 - 1 = 2) and V 2 = (N - K = 32 - 3 = 29) degree of freedom gives 3.44.

Therefore, since F* = 128.09> F-table = 3.44, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1) that is, we accept that not all slope coefficients are simultaneously zero, meaning that we accept that the difference between the means is significant.

4.1. CONCLUSION AND RECOMMENDATIONS

From our empirical results, there is high correlation between economic growth and development denoted by GDP_t and external finance in Nigeria. In model 1, the coefficient of multiple determinations R^2 which is 78% reveals that there is high degree of association between the dependent variable and independent or explanatory variables. This means that the indices of external debt have significant impact on economic development. The negative value of the autonomous term however shows how heavily dependent the Nigeria economy has been on external debts.

Similarly, in model 2, the growth of GDP is shown to be dependent on external debt service payments ($EDSP_t$) and value of the imports (IM_t) as indicated by the coefficient of multiple determination when is adjusted is R2 which is 94.1%

On the whole therefore this study reveals that while Nigeria's huge external debt retards economic growth and development, poor economic policy formulation and implementation as well as poor economic management reinforced the debt overhang.

The study concludes that the indiscriminate borrowing which characterized past government administrations and the misuse of such borrowed funds accounts for the huge debt burden on one hand, while on the other hand the stringent conditionalities attached to such foreign loans also account for the rising debt stock. The escalating debt profile presents serious obstacles to Nigeria's sustainable economic growth and development in such a way that the resources that should have been deployed for executing development projects have increasingly been expanded in the financing of- past consumption in the form of loan servicing and repayment.

Having seen how debt overhang has put Nigeria's economy in doldrums for sometime now and how heavily dependent the economy has remained on external resources, the study recommends the following:

+ The noose on external borrowing particularly by individual state governments and other government agencies should be further tightened and a body charged with the responsibility of screening such demands for foreign finance, should be set up so as to discourage the uncoordinated wave of resorting to the international capital market at the wish of any state government or agency.

- This study strongly recommends that government should now concentrate on improving the domestic economic environment with the aim of attracting private foreign resources, especially in the form of direct private investment or Foreign Direct Investment (FDI) with its attendant benefits of Technology transfer.
- On a final note, this study recommends that Nigeria's economic planning should now be carefully articulated on a long term basis rather than the ad hoc types that have characterized past plans, while the continued dependence on the oil sector as the major revenue earner for the government should be discouraged. Other sectors of the economy must be consciously resuscitated so as to compliment the oil sector.

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