INTERNAL DEBT MANAGEMENT PROBLEMS OF SUSTAINABLE ECONOMIC DEVELOPMENT PROCESS IN NIGERIA

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Abstract

Debt is one of the fiscal policy instruments used by government to raise fund. And by implication is expected to raise the living standard of the borrower. This study is on internal debt management problems for sustainable economic development process in Nigeria. Nigeria economy is dominated by excessive debt whose proceeds are never invested in domestic economy. The over burden of poor internal debt decisions and policies have led to severe economic problems resulting in the inability to settle contractual agreement with local contractors and local investors. While the internal debt profile is rising there is a fall in the standard of living as a result of low economic growth rate. The study is geared towards gingering the government and her agencies to apply loans for the purpose raised. This paper will examine an overview of internal debt management problems, causes of internal debt problems, role of internal debt in economic development, effects of internal debt problems, conclusions and appropriate recommendations were made. Government in her management techniques is beginning to be transparent, accountable, applying the due process order, with an attempt to minimize corrupt practices. This has enhanced the use of internal borrowing for economic development. The paper recommended that government should be cautious in her formular for borrowing. She should also ensure that internal loan raised are judiciously applied for the benefit of the citizens.

When we borrow indiscriminately without good management in place to service or repay what is borrowed, we face debt problem. This is the inability of the borrower to own up his or her responsibilities to service or payback what is owned. The short fall between domestic savings and the desired level of investment in most economics has led to both internal and external borrowing to fill the gap. Such borrowings by government lead to financial liabilities or obligations to individuals and institutions within and outside the country. These liabilities by government are classified as public debt.

The ability to raise loans within the jurisdiction of any government and the inability to service and repay the loans when due to the domestic lender results in internal debt problems. Since the economic depression years of the 1980s, Federal borrowings have followed unsteady pattern of rise and fall, but the increase has been more persistent. Sources of internal finance by national government as stated by Asogwa and Ezema (2005) consist of (i) Nigerian treasury bill (ii) Nigerian treasury certificates (iii) Federal government development stocks (iv) Treasury bonds and (v) ways and means advances collaborating this Bhatia as stated in Dickson (2004) noted that borrowing is met by "(i) ways and means advances, (ii) Drawing down of cash balances and (iii) Borrowing through the issue of treasury bills"

In relation to the origin of internal debt problems is the evaluation of the domestic debt instrument in Nigeria. As Asogwa and Ezema (2009) explained that, the beginning of the existence of market for domestic government debt in Nigeria is the fiscal reforms introduced by the colonial government in 1958. These reforms saw to the creation of CBN and the creation of marketable debt instruments to fund fiscal deficit.

Management of internal debt is crucial and very important. Debt has the major moving force through which individuals, firms, governments and even societies grow and obtain development in their economic activities.

An Overview of Internal Debt Management Problems

Internal debt is the obligation the institution or government owed to the various sources of funds generated internally to accomplish her economic, political and social goals. Asogwa and Ezema (2005) defined it, "as debt instruments issued by the Federal Government and denominated in local currency. While Wikipedia (2008) saw it, as the part of the country's debts that are owed to creditors who are citizens of the country. It is a form of fiat creation of money in which the government obtains cash not by printing it, but by borrowing it. The money created is in the form of treasury securities or securities borrowed from the central Bank. In his view Hockley (1979) observed that, internal debt involves a re-arrangement of assets such that citizens surrender current purchasing power in return for government securities and no increase of real resources is directly created as a result. Anyanwu (1993) expatiated that, they include loans through the issue of treasury bills, treasury certificates, development stock, ways and means advances etc. Thus government created internal debt by taping personal and co-operate savings directly and indirectly. He capped that internal debt are debt incurred by government through borrowing in the domestic market in order to finance domestic investment.

Domestic (internal) debt according to law comprises the monetary obligation including guarantees commitments to residents of a country in their currency or other currencies (surname debt management office, 2007), while Modigliani (1961) saw it as "all claims against the government held by the private sectors of the economy whether interest bearing or not (and excluding bank held debt and government currency if any) less any claims held by the government against the public sector"

Observing the nature of internal debt, Asogwa and Ezema (2005) reported that in line with governments policy of reducing reliance on monetary financing of deficit, the federal government through the debt management office (DMO) in 2003 raised funds through the capital market to meet its financing needs by using the 1st term bonds. The government was able to raise N72.6 billion out of the N150 billion worth of bonds issued representing about 5.4% of total domestic debt stock while Leba (2008) reported that Federal Government raised N65 billion from six different treasury bills as well as three and 10 years bonds. Confirming these government sources of borrowing Patience Oniha as reported by Edwards (2008) said that, twenty years bond worth N10 billion will be introduced on 26th November, 2008 while reporting CBN, Money Market (2008) reported it will auction N5.0 billion in 91- day bills and N10 billion in the 182 – day papers by Dutch auction.

The internal debt management strategies revolve mainly around the issue of repayment and contraction for internal debt Adigwe (2005) defined it as a conscious and carefully planned schedule of the acquisition, development and retirement of loan acquired for developmental purpose in-corporating the projected returns from the investment the loan has finance, the repayment schedule and the debt service burden. Anyanwa (1993) linked debt management to the establishment of the conditions of issues and redemptions of public securities, saying it involves the process of administering the Nation debt that is, providing for the payment of interest, and arrange the refinances of maturity bonds. He noted further that an accurate and comprehensive knowledge of debt in terms of its size, composition, maturity, historic evolution are indispensable for effective management of our debt.

A persistent default in interest obligations as well as debt repayment schedule is referred to as debt problems Anyanwu (1993) saw it, "as a result of the combination of solvency and liquidity constraints" while Arellan and Kocherlakota (2008) explained that "Internal debt crises is often associated with large real exchange rate depreciation, and that it then led the government to default on its sovereign debt due to fiscal pressures coming from its bailing out banks".

Causes of Internal Debt Problems in Nigeria

Debt problems emanated from the evolution of the instruments of domestic government debt in Nigeria: This is depicted in the table below:

Evolution of Domestic Debt Instruments in Nigeria

Debt instrument	Primary Legislation	Purpose	Maturity	Explicitly cost
Ways and means advances	CBN Act 1958 (cap 30 as amended)	To finance the budget before government revenue starts accruing	Amount outstanding must be redeemed at end of year	Interest
Treasury bill	Treasury bills ordinance of 1959	To finance federal budget deficit	91 days	Interest
Treasury certificate	Treasury certificates decree of 1968	To finance federal budget deficit	1 – 2 years	Interest
Development stocks	General loans and stock ordinance of 1951	To finance development projects and on lending to (regional states)	5-20 years	Interest
Treasury bonds	1989	Reduce burden of debt service	20 years	Interest

Source: Asogwa and Ezema, 2005

Invariably linked to these instruments of domestic borrowing is the debt problems, which accounts were by systemized by Taiwo (1992) as "the structural problem of under development, the oil price shock, domestic policy laps such as financial indiscipline and debt mismanagement and the international monetary system, leading for instance, to collapse of commodity price and hence dwindling of the domestic currency".

Anyanwu (1993) posited that, "the rapid increase in debt burden can be explained by the short fall in export earning and increase in interest payment, especially since 1978. Noting that, the result of head long rush for development was inevitable, that the country management resources were stretched beyond the level at which they could maintain quality control in both the selection and execution of projects. Thereby increasing federal government expenditure; this in turn, necessitated increased borrowing".

The rapid increase in the volume of domestic debt has had to be matched with corresponding increase in debt service payments Klein (1994) noticed that, countries which experience debt management problem in the 1980s had one thing in common: an inability to control fiscal deficits which was manifested by low priority investments, a decline in government revenue relative to GNP, a growth of government expenditure relative to revenue, or a failure to take action in response to declining terms of trade. In their findings, Arellano and Kocherlakota (2008) reported that, non fundamental shocks have the capability to generate large scale domestic defaults, such defaults cause the government's net tax collections to fall. Domestic governments then face fiscal pressures that can possibility lead to defaults.

Minor or temporary defaults involve temporary postponement of interest payments or failure to meet the maturity payments of a single security could originate debt problems. According to Steiss (1989), such minor defaults may be the result of unanticipated declines in revenue collection, the shorting off of normal line of bank credit, and/or a temporary inability to market refunded bonds. While municipalities (governments) faced with such fiscal problems :as peak debt service in a period of low payment capacity, serious breakdown in the local economy base, and/or abnormally high tax delinquency may become involved in more serious class of default.

In Nigeria, several factors have been advanced as causes of internal debt problems, the major factors, as Asogwa and Ezema (2005) put them are: high budget deficits, low output growth, large expenditure growth, high inflation rate and narrow revenue base, witnessed since the 1980s. Anyanwu (1993) reported that, accelerated Nigeria's internal debt was the escalation of public sector wages and salaries bills from higher minimum wages and upward salaries and benefits reviews. Other factors were the pursuance of unsound economic policies, which resulted in bad investments, bad management and minimal productive capacities, rising in inflationary trend, making the cost of project to escalate; consumption-oriented expenditure, and lack of probity and budgetary discipline in the public sector.

These problems were compounded by gross inflation of costs of government projects, which were discharged by contracts and indiscriminate recourse to the distributive sectors and middlemen categories.

Role of Internal Debt in Economic Development in Nigeria

The role of internal debt in economic development can not be over-emphasized, when proceeds of the debt are judiciously applied. Encyclopedia Americana (2006) explained "government finances their expenditures by taxing and borrowing. Government needs large capital outlays for such purpose as building or improving schools, hospital, and expenditures by borrowing.

(1) To avoid the excessive tax burden that such expenditures would involve in a single tax revenue and

(2) To obtain the payments for the long term facilities from the users under a long period of time.

Anyanwu (1995) postulated that, borrowing may be considered as a second best alternative to money creation during periods of unemployment. In this way, it is as an instrument of managing the economy. It assists equally, as a means of filling domestic savings gap especially in the face of dwindling government revenue from domestic sources and during fluctuating price of primary commodity exports. Hence diverting foreign exchange earning is a source of capital formation, which adds to per capital GNP or its component measures.

By citing Jhingah, Anyanwu (1993) reported further, that public internal borrowing acts as an anti – inflationary measure by mobilizing surplus money in people's hands. Such resources can be diverted to productive venture. In such areas as increasing Agricultural production of goods for export, mineral exploration and extraction, industrialization, transportation and communication, rural and urban development, raw materials development, technical education, health care service, balance of payment adjustments, funding infrastructural development etc.

Dickson (2004) argued that, public (internal) debt forms a major portion of the total supply of credit, any variation in it leads to variations in liquidity of the economy. He noted that, increase in public (internal) debt could have a positive influence on the economy, when employed as a tool for discretionary fiscal policy.

If the debt is increased by deficit spending during a period of unemployment, resources are put to work that would otherwise have reminded idle. He confirmed that, "desirable treasury bonds and other securities are a desirable investment for many families and large institutions to assist in securing future income for many families and pensioners who are not engaged in other functional economic activities.

Debt Management Office Nigeria (2008) listed the roles as:

(1) It fosters economic development by promoting the use of long term fund for long term investment in the economy,

(2) It serves as an efficient way of mobilizing domestic financial resources to productive investment in a non – inflationary manner,

(3) It provides the basic infrastructure for the development of the financial system and the overall economy,

(4) It helps government fund its deficits in a non inflationary manner

(5) It engenders rational management of Government's fiscal and monetary operations and

(6) It strengthens the implementation of monetary policy by the Central Bank of Nigeria.

Internal borrowing must lead to increased productivity and a growth of exports, so that the debt service on new borrowing can be paid. In their views Asogwa and Ezema (2005) opinioned that, domestic government instruments play an important role in any economy, as they provide economic agents with alternative options to banking for allocating their savings accordingly. It is a key part of the collateral use in financial markets, and such plays an important role in monetary policy implementation.

Effects of Internal Debt Problems in Nigeria

Borrowing (going into debt), is one of the ways in which expenditures are financed in the modern credit economy. Lending to borrower is one of the ways in which savings are invested in the economy. The providing of interest and in some cases of principal as well as undertaking after the borrowing can affect the finances of the Federal government.

It was discovered by Arellano and kocherlakota (2008) that, "internal debt crisis puts strong fiscal pressure on government, because it involves large fiscal transfers to lenders such as bank depositors and owners." In support, Anyanwu (1993) asserted that, "interest payments on domestic loans are a form of transfer payments from the government to Nigerians who holds the debt instruments. These resulted in a shift of income from tax payers to those investing in government securities; the resulting income redistribution may be unconducive to rapid economic development".

Noting Samuelson position, Adigwe (2005) observed that, "huge domestic borrowing could pose some danger to a national economy. In the first place, domestic borrowing certainly has an effect on income redistribution. Again Anyanwu (1993) explained that, "borrowing by government internally has been mainly through the process of money creation. This helps to fill the inflationary spiral in the country. Maintaining that, rapidly increasing debt service obligations constitute an impediment to the implementation of new development- oriented projects; since a proportion of revenue for this purpose is set aside for servicing previous debts. Saying, successive generations bear a burden in the form of an uncompensated distortion of their preferred pattern of consumption.

Contributing, Dickson (2004) observed that, large national or public debt could lead to insufficient acquisition of physical capital, with time; this problem normally falls on future generations who end up inheriting less plant and equipment.

The generations are, therefore, burdened by a low productive capacity, which ultimately will lead to a lower GNP.

More so, the payment of interest on internally contracted debt, may lead to conflict in economic management between the monetary authorities and treasury. The treasury may desire to keep interest rate low in order to facilitate debt-refunding operation and reduce the debt interest-charges in the federal budget. Whereas the monetary authorities wish to raise interest and reduce borrowing in order to keep inflation in check, hence, there results a conflict between monetary and fiscal policies.

A look at the equity aspects of the national debt, future generation, and capital formation effects, Hockley (1979) noticed that, the debt existing at the present time has the effect of redistributing income from existing tax payers to existing holders of securities. In 100 years from now both the holders of the debt and tax payer will be different people. The holders of the debt instruments, who are at the collecting ends become wealthier while the tax payers, who toiled daily to make ends meet, become impoverished by expending high tax to settle the debt arrangement. If we take a short term span, say thirty years, the argument can be looked at in terms of inter- generation equity- that some will be paying for the debts of their fathers, hence reducing future capital formation.

The inadequate measures by government, to solve the internal debt problems, can aggravate the nation into deep economic crisis.

Conclusion

It is obvious, from what have been discussed so far, that there is need to live internal debt in the useful hands of administrators who engage in gainful and productive investment of our domestic debt proceeds. The presence or absence of internal debt in the economy tells how liquid or the extent of its liquidity. Internal debt is the umbilical cord of any domestic economy. Inspite of its simplicity it is often not fully understood or appreciated by administrators.

The issue of maintaining adequate and proper uses of marketable securities in management refers to as internal debts management problems. Internal debts are raised with the issuance of tradable, negotiable, transferable and convertible financial instruments like shares, debentures, bonds and so on. Internal debt management problems have multi-dimensional effects on the economy. The direct effects on the government who may use marketable securities in part or in full to generate economic power is obvious, this can hinder growth and development or even result in economic crisis. Another resultant effect of such problems is that it discourages and inhibits industrial performance. This can have multiplier effects on the economy, that is, the negative effect of the problems usually goes beyond the industries, the whole economy bears the brunt.

In Nigeria, the magnitude of the loss arising from internal debt management problems is on the increase. Internal debt problems faced can be attributed to several factors, these are; the level of economic development, the domestic price level, the real cost of borrowing, the degree of openness of the economy, and the attitude of the government and her Agencies towards debt. As internal debt management is significant to GDP in Nigeria, any deliberate effort by the government to effect sound debt management will ensure economic growth and development. A reduction of debt burden is complimentary to growth in the disposable income in Nigeria which may impact positively on economic growth.

Recommendations

The purpose of this study will be defeated without evolving effective methods of checking incessant internal debt problems, which can lead to liquidity problems and economic failure.

Therefore, the following suggestions are made by way of recommendations:

1. In its borrowing operations, the Central Bank of Nigeria must consider, among other factors, the consequences of both the rate of interest it tries to pay on its issues and the kind of issues it offers to the public. Rational debt management strategies will bring a number of important changes in specific instruments and approaches.
2. Government should have a maximum debt limit that requires that all forms of long-term borrowing above limited amount be approved by the legislation. These legislative measures can help circumvent the financial catastrophe faced by it. It can also reduce debt burden.
3. A system of monitoring, registering and approving internal debt must be designed. This could lead to the establishment of the internal debt bureau to complement the efforts of the Debt Management office. This bureau should advise on the intending internal loans to be raised, mode of raising them, application of the loans and implication of such debt failure on the economy, possible crises points and avoidance.
4. Government should adopt a very cautious borrowing policy. Noting that debt financing is appropriate only when the tax burden of current financing for certain circumstances would be practically or politically unfeasible to meet the financing needs. For example, war, large capital projects such as highways electricity, schools and so on, required huge investment which the tax burden alone cannot finance.
5. Projects to be financed with internal loans must be properly appraised and their technical feasibility, financial viability and economic desirability ascertained beyond every reasonable doubt, before the funds are committed. Projects for which internal debt is raised should not be compromised.
6. Budgetary controls and financial accountability must be re-established in the public sector. By making it mandatory for government departments, Ministries and Parastatals to publish their audited annual accounts within three months of the end of their respective fiscal years. This would help to restore financial discipline and accountability within the public sector. It can minimize the misapplication and waste of funds. Thus, it would also provide the up-to-date data necessary for meaningful policy discussions and efficient internal debt management.
7. C.B.N should embark upon a programme of economic growth and development, as a strategy for alleviating the internal debt crisis facing the nation. The officials must ensure that appropriate style is adopted in investing internal debt proceeds and getting return to offset debt obligations.
8. Government must ensure that such internal loan generated must contribute to the growth of the productive capacity of the economy which is the source of repayment. For this to be achieved the nation must pursue proper internal debt management and documentation, using information and communication technology (ICT) procedures and sound economic development polices.

9. Public sector borrowing should be reduced by more effective tax collection and administration. While the spirit of self reliance should permeate every phase of our national life to enable us have technical inputs to reducing internal debt burden.
10. We are suggesting that the problems of managing and controlling internal debt, that arise from the conflict between policy and practice of the administrators could better be resolved, by adherence to their policy. This is because policies were made as a guiding principle of their action, while practice is the actual action which should be from the government's policy and not elsewhere.

    If adhered to, these steps together, would go a long way to ameliorate or eliminate internal debt management problems in the economy.

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