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Foreign Assistance to Developing Countries and its Effect on External Debt: The Nigerian Experience

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Abstract
This study explored the nexus of foreign assistance to developing countries and its effect on external debt the Nigeria experience. It went further to present foreign assistance as a germane issue in the sphere of international politics and its uniqueness anchored on the interdependency nature of the world. It is also technically more of symbiotic relations in the lexicon of global politics. Thus the relationship between foreign assistance and Nigeria's international indebtedness was ascertained to be the manipulative conditionality's attached to these assistance and this research suggests that Nigeria as a recipient nation, should set up a standard functional policy that will always securitize and restrain strings in order to avert debt burden. This study adopted dependency theory propounded by the dependents in the late 1960/1970 as framework of analysis with ex-post facto and content analysis as measuring tools.

Keywords: Conditionality's - Indebtedness, Dependency, Foreign Assistance, Economy

Introduction

Foreign Assistance encompasses all official grants and concessional loans, in currency or in kind, that are broadly aimed at transferring resources from developed nations and financial institution to the developing nations. It established a kind of relationship that is simultaneously political, cultural, economic, and exploitative as well as domination.

Despite the above explanation, foreign assistance has remained a germane issue in the sphere of international politics because of its uniqueness that is anchored on the interdependency nature of world.

Foreign Assistance for the purpose of this study, refers to the financial aid made available to assist states of the third world speed up their economic development but rather than help or encourage this developing nations economies, it further submerged it deeply into underdevelopment by making the nations heavily indebted because of the strings attached to it and when it has to do with purchase of equipment's and foreign technical manpower, it of course implies foreign technological domination.

Njoku (2003) in his impulse observed foreign assistance as a powerful mechanism of imperialist domination and exploitation because it comes with socio-political strings. He went furthers to describe it as an instrument used by the western imperialist for the penetration of foreign developing countries such as Nigeria. The critics such as Nilton Friedman (1958), Peter Bauer (1972) and William Easterly (2001) noted that foreign assistance has failed is its principle objectives of spurring economic growth due to attached conditionality and it enlarged government bureaucracies. They further pointed out developing countries such as Somalia, Haiti and Democratic republic of Congo that have received substantial aid for over three decades, yet have disastrous records of huge external debt.

Nigeria as a developing nation have been receiving foreign assistance from developed nations and international institutions. And the lending policies of these institutions and western nations tend to trick third world nations like Nigeria into debt peonage because of harsh financial policies, channeling of bogus loans into non-productive section as well as non -viable capitalist development plans. (Njoku, 2003: 100) And as a result, the foreign assistance that was meant to spur acceleration of the developing nation's economy like that of Nigeria, has ending up driving it into perpetual indebtedness.

Literature Perspective

In an attempt to assess critically the empirical evidence of relevant literature, effort is geared towards foreign assistance and how it has led to Nigeria's International indebtedness.

Ajayi (2000) opined that various accounts have been identified by analysts as the root cause of the debt crisis. These ranges from harsh conditions of the aid, consistent decline in the prices of Nigeria's raw materials, Widening deficit of trade and persistent balance of payment problems which result in external debt burden.

Inspite of the above, the private debts guaranteed by the state over invoiced projects, Whether the funds were actually invested among others, in order to ascertain Nigeria's debt profile. Its lad disclosed that out of the $37 billion dollars borrowed from financial institutions, only about $ 17 billion could actually be ascertained to have really been used for the purpose of which the fund was borrowed and the balance must have gone into private pocket (Vanguard) June 29, 2005: 17).

Moreso, Hiryonen (2005) asserted that foreign assistance to developing countries such as Nigeria is dangerous because the aid is designed to serve the strategic and economic interest of the donor nation.

Similarly Ajakpuruaja (2008) stated that Nigeria is at risk for opening door to the penetration of profit driven donors and he further declared that external borrowing and reliance on foreign assistance has saddled the country with huge stock of external debt without any corresponding gain to its economy.

Despite the above, personnel al (2007:40) demonstrated that foreign assistance programs are not well administered in Nigeria and as such, it has contributed to development crises. Their arrangement so far, is that liberal economic development recipe is harmful to Nigeria and that the mechanism of such aid has been used by western powers to retard Nigeria's socio-economic development even as they parade themselves as pundits and patrons of Nigeria's development. Also the Afro centric scholars together with numerous authors believed that foreign assistance rather than solve the problems of Nigeria's economy, aggravated it into huge external debt burden.

Ajayi (2004) opined that Nigeria's debt burden comes as a result of pursuance of foreign assistance from the countries of the North which had from the beginning created the condition of economic subservience and master-servant relationship that generated persistent lobbying for foreign aid with its attached strings through borrowing.

Theoretical Framework

In this study, the theoretical perspective used is the Dependency theory propounded by the DEPENDENTAS such as Theotonio Dos Santos, Gunder frank, Galtung Frank, Galtung J and Fernando Cardoso in the late 1960s and 1970s.

Galtung Johan (1971) opined that the nexus of dependency theory is the analysis of center-periphery, where the world has been partitioned into the developed nations represented by the core states such as US in North America, Britain and France in Europe and underdeveloped nations represented by the periphery states such as Nigeria in Africa, Brazil in Latin America and India in Asia. In nutshell he presented his analysis as follows: That central contention of dependency theory is that the developing states are indebted and impoverished by the centre states via the strings attached in their means of integration into the world economic system.

Theotonia Dos Santos (1977) stated the historical dimension of the dependency relations which shapes a certain structure of the world economy in a way that it favours the core states to the detriment of others because of the conditionality that comes with the core states assistance.

It creates a situation where the economy of some states are conditioned by the development and expansion of another to which it is subjected.

Frank (1966) explained his concept of dependency theory as a situation where the development of the core states result in the underdevelopment of the periphery because of conditions.

The underlying principle of these definitions of the dependants, is that a country can be linked to the world capitalist system through the channel of dependency on bilateral and multilateral foreign assistance that comes with harsh conditionalities. The theory suggests that the indebtedness and underdevelopment of the developing country like Nigeria, is a result of its dependence on the Western Foreign aid which came with manipulative demands and penalties.

Foreign Assistance and Nigeria Indebtedness

Nigeria as a developing nation was among the recipient nations that kept demanding for more external assistance during the second half of the 1970’s until early 1980’s when huge debt burden caught up with them repayment became a problem and this problem has actually referred to as debt crisis. Various accounts have been identified by analysis as the causes of this debt crisis, it ranges from conditions attached to the aid, consistent decline in the prices of Nigeria raw materials, widening trade deficits persistent balance of payment problems which result in external debt.

Despite this: Njoku (2003) noted that financial aid from financial Institutions, instead of spurring economic growth and development in developing countries such as Nigeria, further submerged it deeply into underdevelopment of causing the nation to get into debt burden because of the strings of the assistance.

Emphasis was laid on the International Monetary Fund (IMF) programs in Nigeria as having led the state into serious debt burden with the payment situation very discouraging and also most with the payment situation very discouraging and also most of the economic sectors had remained in deep crises because they wore grappled with the difficulties that emerged with the incorporation of the fund’s ideas (Adebayo, 2010.8).

Collins 1998: Stated that for every one dollar received as foreign assistance by developing country like Nigeria, she pays back about nine dollars in debt service and while it earns about four percent of the income, it owes about 11 percent of debts.

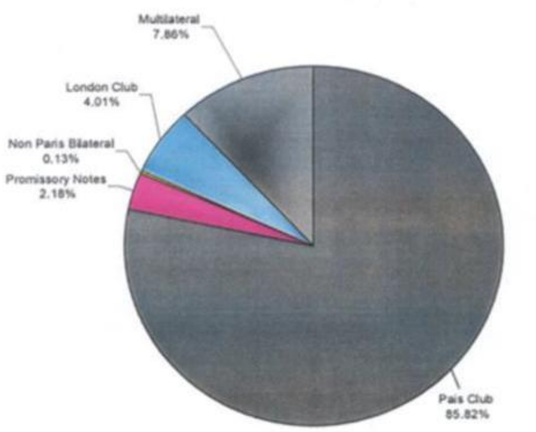
Similarly in 1986, Nigeria decided to ban importation of wheat and other basis food in order to boost its domestic agricultural production. This economic policy did not go down well with the hegemonic powers because their food acid to Nigeria was tied to Nigeria Importation of wheat from them, which made Nigeria their 6^{th} largest importer. They mandated Nigeria to reopen its market or risk boycotting of foreign assistance from them and this foreign assistance pressure made Nigeria only to protect the economic interest of the donor states as against her own domestic interest but also to accept their acid that yielded the following detrimental result: Nigeria accepted $10 million dollars in 2000 and other $27.5million dollars in 2004 and also recorded external debt of about 28.3 million dollars in 2000 and $35.9 dollars in 2004. Nigerians debt statistic profile at the end of 2009 stand at $3.97 billion out of which the federal government owes 2.093 billion dollar while state government owes $1.85 billion (CIA World Fact Book, 2010).

It was this highest rate of debt crises that made Ajakuruaja (2008) to declare Nigeria as being at high risk for opening door to the penetration of profit driven donors. He concluded that external borrowing and reliance on foreign assistance has saddled the country with huge stock of external debt without any corresponding gain to its economy.

Conclusion

Any decision taken by the heavily indebted third world nation like Nigeria, will command instant attention from the World Financial Community because it will threaten the very foundation of the World Financial System. Drawing from this, Nigeria as a nation should take such drastic actions by putting up a strong rebuffing policy towards these foreign aid and with that, there would be a round table for renegotiation concerning our choking debt burden caused by the attached strings of aid. (Okigbo1993:18).

External Debt Outstanding by Creditor Category as At December 31, 2004



Source: DMO, "Nigeria"s Debt Relief Deal with the Paris Club," Briefing Paper, October 6, 2005, p. 4.

Nigeria's External Creditors, as of 2003

Creditor	Debt Stock (US$ bn)	Share of Total (%)
UK	7.0	21%
France	5.6	17%
Germany	4.6	14%
Japan	4.2	13%
Italy	1.8	6%
Netherlands	1.4	4%
USA	0.9	3%
Other Paris Club	1.9	6%
Total Paris Club	*27.5*	*83%*
Multilateral Creditors	3.0	9%
Private Creditors	2.4	7%
Other Bilateral Creditors	0.1	0%
Total Debt Stock	32.9	100%

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