An Empirical Analysis of the Impact of Public Debt Management Strategies on Nigeria's Debt Profile

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ABSTRACT

This study examined the impact of debt management strategies on the Nigeria's public debt profile. Specifically, the study evaluates the impact of debt refinancing (DRF), and measure the impacts of debt forgiveness (DF) and debt conversion (DCV) scheme on the public debt profile of Nigeria. To ensure robust result is achieved, time series data from World Development Index, Central Bank of Nigeria (CBN) and Debt Management office were used. The study applied the autoregressive distributed lagged model econometric methodology in order to investigate the long-run and the short run dynamics of total debt profile of the country on DRF DF and DCV. The findings of the study reveal that DRF has negative impact on total debt profile in Nigeria. In addition to that, DF was detected to have significant negative impact on the debt profile of the country. While, DCV on its part was found to be having significant effect on the Nigeria's debt profile. The implications of these findings is that whenever, the debt profile of the country is not streamlined with the tenets of economic development and fiscal policies of the country, then it is obvious that any persistent and sustained rise in exchange rate, devaluation and or fall in the country's external reserve will add to existing economic hardship of the country, particularly when greeted by a fall in the international market prices of petroleum. These developments can overheat the economy, retard internal plans for economic expansion and cause significant derelictions of already attained economic growth. The researchers thereby, recommend that government should strengthen DRF in order to reduce debt profile of the country, seek for DF and provide more instruments for DCV with a view to drastically reduce the Nigeria's national debt profile following its observed long run effect to the country's economic wellbeing.

Keywords: Debt Refinancing, Debt Forgiveness, Debt Conversion, Total Debt
JEL Classifications: G3, M41

1. INTRODUCTION

Public financial management is one of the major determinants of standard of living in any economy. Effective management of public finances enhances economic growth and development and ensures fiscal sustainability of a country. However, financing ever increasing public expenditures has been a major challenge to government and financial managers in recent times, because of the deficits in government budgets. This is especially in the developing countries, where there is over reliance on aids and grants in financing public expenditures (Adepoju et al., 2007).

However, in spite of the debt management office (DMO) there is a rising concern on the increase in Nigeria's public debt. For instance, in 1987 there was an unprecedented rise in Nigerian public debt by 96.9% to N137.58 billion and up to N6.188 trillion in 2004. Then the total debt profile was largely driven by the domestic debt, while the dominance of the external debt and the steady rise in total debt continuous till 2005 when the country was granted debt pardon by the Paris Club. This debt relief reduces Nigerian total debt by 59% and external debt by 90.8% between 2004 and 2006 to N2.533 billion and N451.5 billion respectively. However, while external debt stock decreased, domestic debt continued to grow up

to 2011, when the total debt majorly domestic reached N6.519.65 trillion. By 2012, Nigeria's total debt reached the all-time high of N7.564.4 trillion and the domestic debt accounted for 82.2% to 87.2% of the total debt and as at September 2017 Nigeria's total debt stood at 17,189.697 trillion (DMO, 2017). This problem prompted researchers and experts in public financial management to suggest prudential limits on public debt-to-GDP ratios. This is also accepted by the debt management agencies including the International Monetary Funds (IMF).

The effect of Nigeria's debt on the economic growth according to David and Onwa (2016) was found to be indirect; that is, the strategies adopted in managing the debt profile of the country affect the economic growth and development on the basis of any sustained increase of external or internal borrowing. Existing empirical evidence supports the view that the higher the quality of a country's policies and institutions, the better is its capacity to carry debt and withstand exogenous shocks. Historical evidences have shown that poorly structured debt in terms of maturity, currency or interest rate composition, and large unfunded contingent liabilities, have been an important factor in inducing or aggravating economic crises in many countries. In the light of the problems highlighted, this study intends to examine the impact of debt management strategies in Nigeria in terms of debt refinancing (DRF), debt conversion (DCV) and debt forgiveness (DF) on the Nigerian public debt profile.

The study aims at identifying measure to ameliorate the worsening trend of debt burden to the country through effective debt management strategies. This will among other things redirect the attention of the government on the proper use of internal and external debt resources. This will among other things gives confidence to investors and reduce their lending spread. Further, domestic financial institutions will benefit from having available public debt instruments for investment that can also provide a benchmark for pricing of other securities and help develop domestic capital markets. Therefore, the findings from this study is expected to provide a guide to the policy makers towards re-designing a careful public debt management strategies and how to achieve it.

2. THEORETICAL AND EMPIRICAL REVIEW

Debt in financial management literature has received a great attention, especially with the seminal work of Miller and Modgliani (1956). Oyejide et al. (2005) sees debt to be the resources of money in use in an organization which is not contributed by its owners and does not in any way belong to them. In the words of Olaleye (1997) debt is defined as the sum of money owed by individuals, organizations or countries. Ogbeifun (2007) emphasized that debt is generated by the gap between domestic saving and investment, which can increase in absolute terms over time. As the gap widens and the debt accumulates, interest rates also accumulate and the country must borrow increasing amounts just to maintain a constant flow of net imports. It must also borrow to refinance maturing debt obligations. The concept when viewed in public finance is simply related to where government borrows money or financial resources to accomplish certain goals and this can

either be internal or external. Public debt According to Sogo-Temi (1999) means government IOUs issued to individuals, organizations and government. In addition, governments like individuals borrow from willing creditors to finance their long and short-term pressing financial needs that cannot be financed from other sources. A country becomes in debt when she borrows money to meet deficit as a result of short fall in revenue to meet earmarked expenditures. Asley (2002) opined that high level of external debt in developing country negatively impact their trade capacities and performance. Debt overhang affects economic reforms and stable monetary policies, export promotion and a reduction in certain trade barrier that will make the economy more market friendly and this enhances trade performance. However, debt decreases a government ability to invest in producing and marketing exports, building infrastructure, and establishing a skill labour force. However, Ngassam (2000) asserts that public debt is not bad especially when it is prudently used to increase the assets most of which can create employment opportunities. But, if a country borrows and the proceeds are put into unproductive uses or mismanaged, then we should avoid it like a plague. Let us go for debt only when it is absolutely necessary and when there is guarantee for its prudent management.

To ensure efficient and effective utilization of debt by managers in their decisions and operations certain strategies called public debt management strategies need to be employed. The strategies are built upon foundations (goals) stated in government's debt management objectives. The debt management objectives according to the IMF and World Bank (2001) is "The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk". According to the Debt Management Office of Nigeria, it maintained that the country has been managing its debt stocks through DCV, debt restructuring, DRF, debt rescheduling, debt buy-back and DF.

DCV was introduced in July, 1988 and it entails the exchange of monetary instruments like promisory notes for tangible assets and other financial instruments. It is a mechanism for reducing a country's debt burden by changing the character of the debt. It can be in the form of debt for equity or debt for cash. The country through this process either sold its external debt instrument as domestic debt or equity participation in domestic enterprises. A whooping sum of USD908.3 million debts relieve occurred between 1988 to1995. Within the period Nigeria had a discount of USD423.6 million. It also received a commission of USD11.6 million. Debt restructuring on the other hand, entails the conversion of an existing debt into another category of debt done through refinancing, buy back, issuance of collectarised bonds and the provision of new money. DRF on its part is seen as an arrangement where government procures new loan (especially short term trade debt) to pay-off an existing debt. However, a negotiation is held with the new creditor with repayment specified in the new agreement. The first refinancing arrangement was in July, 1983 preceded by another one in September the same year during which US$2.1 billion, with applicable interest rate of 1.5% above the London Inter-Bank Offer rate with repayment period of 30 months and a grace of 6 months. Another arrears

of uninsured short term debt were refinanced that is worth $3.2 billion.Other refinancing agreement were contracted between 1984 and 1988 within this period trade arrears amounting to over $4.8 billion were refinanced and covered with promissory notes. The amount was refinanced over a 22 years period with a 2 years graced period of 5% interest rate (Adam, 2014). Another strategy where Debt is spread over a longer period until it is financially liquidated is referred to as debt rescheduling. Nigeria has made three rescheduling arrangements with the Paris Club in 1986, 1989, and 1991. But the arrears continued to mount and further aggravated the debt problem (Onuoha, 2008). Following the second round of negotiation, Nigeria reached agreement with the Paris Club to reschedule a debt of about $21.4bn over an 18-20 year period (Onuoha, 2008). But after four debts rescheduling with the Paris Club since 1986, Nigeria's external debt burden did not get lighter thereby, making the strategy a "debt enhancing" rather than "debt reducing" option. For debt rescheduling to be meaningful, it has to be "interest free" else the debt burden will keep compounding (Onuoha, 2008). For instance, in the year 2000, Nigeria paid $1.086b due to Moratorium interest arrears resulting from rescheduling; this significantly compounded the debt burden. The debt buy-back arrangement implies the offer of substantial discount to pay off an existing debt. Nwankwo, (2011) while commenting on the huge debt stock, observed that: "Between 2004 and 2006, the implementation of the exit from Paris Club was completed such that Nigeria was forgiven 60 per cent of the $30 billion foreign external debt, and $18 billion was written off while $12 billion was paid and so we completely exited and lastly DF that arises where the creditor nation decides to forget or write off the debt against its debtor. Paris Club has taken this option in favour of some debtors in the past. Recently, the club agreed to write off $30 billion being owed by Nigeria. This is based on the agreement that the country will pay the remaining $12.4 billion between now and the 1st quarters of 2006 (EIU, 2005).

Nigerian public debt profile came to notice following the OPEC oil price windfall of 1978 which made borrowing by Nigerian government inevitable. Until this period, government pegged external borrowing at a manageable rate of N1.0 billion. Nigeria's rendezvous in the company of debtor nations began with the decision of the then military head of state Olusegun Obasanjo to raise the ceiling on external debt from N1.0 billion to N5.9 billion in 1978 (Babawale, 2007). Debt crises subsequently caught up the country following the compromise on its economic progress, political stability, social dignity, and cultural integrity (Togo, 2007; Weist et al. 2010; Gill and Pinto, 2005; Godfrey and Cyrus, 2012). Accompanying this debt crisis was poverty. For instance, from 28% in 1980 Poverty took a frog leap to 66% in 1996 and finally settled at about 70% in 2000. Put simply, the UNDP estimate, about 65 million Nigerians were living on <1 dollar a day. The wealth of the nation was therefore concentrated in the hands of a selected few while an average of 3 million Nigerians enter the non performing job market annually (Ajayi, 2003). The picture of debt crisis in Nigeria was that the country borrowed $11billion and has so far paid back $32 billion still owes $34 billion. That means every dollar borrowed has been repaid three times over, yet about three times the initial borrowed is still being owed, creditors are having their cake and eating it in a vicious arrangement designed by IMF

and its allies, the effect of which stifles growth and development in developing countries. According to Sogo-Temi (1999), the explanation for the growing debt burden of developing countries is of two-fold. Firstly, developing countries have become much dependent on external funding than they used to even previously. Secondly, the difficulties experience by most countries in servicing external debt burden. These two factors according to the author, account for Nigeria's indebtedness. Any assessment of the present dependency nature of Nigerian economy must take into cognizance the political economy of the country during the colonial era.

In the words of Ajayi (2000) the causes of debt problem is related to both the nature of the economy and the economic policies put in place by the government. He articulated that the developing economies are characterized by heavy dependence on one or few agricultural and mineral commodities and export trade is highly concentrated on the other. See also (Rafindadi and Yusof (2014a; 2014b; 2014c), Rafindadi and Zarinah, (2015), Rafindadi, (2015), Rafindadi and Yusof, (2013). The manufacturing sector is mostly at the infant stage and relies heavily on imported inputs. To these authors, manufacturing industries in Nigeria are dependent on the developed countries for the supply of other input and finance needed for economic development, which made them vulnerable to external shocks. The grand cause of the debt crisis is that, in most cases, the loan is not used for development purposes. The loan process is done in and shrouded with secrecy. The loan is obtained for the personal interest and parochial purposes. It is usually tied to party politics, patronage and elevation of primordial interest rather than the promotion of national interest and overall socio-economic development (Aluko and Arowolo, 2010). The causes of Nigeria's external debt burden could be grouped into six areas and these according to Aluko and Arowolo (2010) are: Inefficient trade and exchange rate policies, adverse exchange rate movement, adverse interest rate movements, poor lending and inefficient loan utilization, poor debt management practices, and accumulation of arrears and penalties. Inappropriate monetary policy also contributed to the problem of Nigerian external indebtedness. For instance, until recently little or no conscious effort was made to achieve financial discipline which was made necessary for effective and efficient mobilization of domestic savings. The negative real rates of interest which prevail for long had the effect, if representing the financial market, increase the dependence of Nigeria on external loans, and encouraging capital flight (Kasidi and Said, 2013; Were, 2001; Wheeler, 2004).

Adebiyi and Olowookere, (2013) established that, the DMO as the custodian of the nation's debt profile, issued a warning showing a rising domestic debt and its likely consequences. According to the DMO, a hefty 85% of Nigeria's public borrowing comes from the domestic market, while only 15% represents external debt recently. This has ominous economic implications. It is not hard to see how the country got into this quagmire. As at June 2017 the total domestic debt of Nigeria stood at12 trillion, up from 10.6 trillion as at June 2016 and N1.7 trillion in 2007. In terms of tenor, the domestic debt was highly short tenured until recently. For instance, in 1994 treasury bills accounted for 42% of domestic debt, Treasury bond (TB) accounted for 48%, treasury certificate accounted for 9.16% and development stock accounted for 8.22% of domestic

debt and this was the trend until 2007. In 2002, treasury bill accounted for 62.93%, TB accounted for 36.93% and development stock which is the long term instrument accounted for a mere 0.14% of domestic debt. The implication of this is that the debt was used to finance recurrent expenditure which was not growth inducing. However, this situation was reversed from 2007 as the contribution of treasury bills to domestic debt fell to 26.50%. TB accounted for 18.80% and federal government bonds which are the long term instrument accounted for 54.67% of the domestic debt.

In a related development, the DMO puts the country's domestic debt stock at N12.033.45 trillion as at June 30, 2017 up from N4.551.82 billion as at December 31, 2010. The ratio of domestic debt stock to GDP is estimated at 15.11%. The breakdown of the total domestic debt stock by instrument type as at June 2017 shows that the FGN Bonds accounted for N8.134.876 trillion representing 67.60%; Nigerian Treasury Bills accounted for N3,702.831 trillion, representing 30.77% and TBs accounted for N190 billion, representing 1.59%. External Public Debt is the aggregate of all claims against the government of a country held by private or public sector of a foreign economy. It may be interest or non-interest bearing including bank held debts and government currency less any claims held by the government against such foreign creditors, Anyanwu (1986). Nigeria has excited about N18 billion worth of debt in 2005. These loans were mainly from Paris and London Club of creditors. However, Nigeria's total external debt stock as at June 30, 2017 stood at US$15.352billion i.e., N4.693.913 trillion. The nature of Nigeria debt for the purposes of this study is classified according to the type of creditors. The key creditors to Nigerian are Paris club, London club (Par Bonds), World Bank group, African Development Bank Group, the European Investment Bank Group, IFAD, and ECOWAS Fund), Non Paris Club (Bilateral Debts) and International Capital Market.

Previous empirical researches on debt management extensively studied the relationships between debt management strategies and indices of economic growth and development and the financial markets development. This necessitated the need for the current studies which intends to find the empirical linkage between the DCV scheme and the debt profile of Nigeria. Some of the previous empirical studies includes Traum and Yang (2010) who estimated the crowding out effects of government debt for the U.S. economy using a New Keynesian model which includes the following variables: Real aggregate consumption, investment, labor, wages, nominal interest rate, gross inflation rate, and fiscal variables such as capital, labor, consumption tax revenues, real government consumption and investment, and transfers. The result of the estimates revealed that whether private investment is crowded in or out in the short term depends on the fiscal shock that triggers debt accumulation (debt profile). Higher debt can crowd in investment despite a higher real interest rate for a reduction in capital tax rates or an increase in productive government investment. Distortionary financing to retire debt also showed that the degree of crowding out depends on the monetary authority's responses to inflation and output fluctuations. Charles (2011) examined the Nigeria's foreign debt profile, in relation to the debt management plans adopted to manage Nigeria's increasing debt stock.

Theory of dependency is used as a framework of analysis. Data were gathered through qualitative method of data collection from secondary sources like books, journals, government publications and so on. To ensure that data from the secondary sources were given qualitative interpretation and analysis, they applied qualitative descriptive method of data analysis. Through the historical research design, the study was able to observe and carefully analyzed the Nigeria's debt management strategies and relate it to the present and future nature of Nigeria's foreign debt. The study found out that Nigeria debt looked sustainable in relation to the GDP, since Nigeria exited from the Paris club debt which returned the country's debt to sustainable levels. The study equally submitted that some of the management strategies Nigeria adopted reduced the country's total debt stock. The study noted that the hypotheses which states that debt management plan adopted by Nigerian government tend to worsen her foreign debt were largely invalidated. This is because DCV, debts buy back, economic reforms and debt inflow as debt management strategies introduced varying levels of reductions in the total debt stock. However, limit on debt service payments, embargo on new loans, refinance and rescheduling do not reduce the debt profile within the period 1999-2007; but injected varying degrees of cash inflows into the country to expand and strengthen its productive and export capacity.

3. DATA SOURCE, MODEL AND ESTIMATION PROCEDURE

The data on DCV and total debt was collected from the Central Bank of Nigeria annual statistical bulletin, Debt Management Office Records and World Development Index (WDI). The data covered the period of 36 years (1981-2016). The data on DRF, debt forgiveness (DFG) and that of DCV were all collected from the WDI. The model below examines the causal relationship between the dependent (TD) variable and the independent variables (DCV, DRF, DFG) and debt profile of Nigeria.

$$\Delta TD_t = \psi_0 + \sum_{I=1}^{P} \psi_1 \Delta TD_{t-1} + \sum_{I=1}^{P} \psi_2 \Delta DFG_{t-1} +$$
$$\sum_{I=1}^{P} \psi_3 \Delta DRF_{t-1} + \sum_{I=1}^{P} \psi_4 \Delta DCF_{t-1} + \alpha_1 ECM_{t-1} \quad (1)$$

$$\Delta DFG_t = \psi_5 + \sum_{I=1}^{P} \psi_6 \Delta DFG_{t-1} + \sum_{I=1}^{P} \psi_7 \Delta TD_{t-1} + \sum_{I=1}^{P} \psi_8 \Delta DRF_{t-1} +$$
$$\sum_{I=1}^{P} \psi_9 \Delta DCV_{t-1} + \alpha_2 ECM \quad (2)$$

$$\Delta DRF_t = \psi_{10} + \sum_{I=1}^{P} \psi_{11} \Delta DRF_{t-1} + \sum_{I=1}^{P} \psi_{12} \Delta TD_{t-1} + \sum_{I=1}^{P} \psi_{13} \Delta DFG_{t-1} +$$
$$\sum_{I=1}^{P} \psi_{14} \Delta DCV_{t-1} + \alpha_3 ECM \quad (3)$$

$$\Delta DCV_t = \psi_{15} + \sum_{I=1}^{P} \psi_{16} \Delta DCV_{t-1} + \sum_{I=1}^{P} \psi_{17} \Delta TD_{t-1} + \sum_{I=1}^{P} \psi_{18} DRF_{t-1} +$$
$$\sum_{I=1}^{P} \psi_{19} \Delta DFG_{t-1} + \alpha_4 ECM \quad (4)$$

The model explained the relationship among the variables using correlation matrix or testing the effect of each variable on the others. Total debt is used as dependent variable while (DFG, DRF, DCV) were correlated. Likewise, DF is used as the dependent variable where other variables are correlated with it. DRF as well was used as dependent variable and correlated with the other variables. While DCV stands the dependent variable while other variables were correlated as independent variables this is following Gujarati (2007).

The procedure adopted for the test of research objective I (i.e. research model I): The econometric model specification below was used in auto regressive distributed lag model equation to capture impact of independent variable on the dependent variable. This is expected to inform us if the causes selected and adopted in this study will have a positive or negative impact on the debt profile in Nigeria. The empirical model specification is as follows:

$$TD_t = \Phi DRF1_{t-1}; \ \Phi DFGp_{t-p}; \ \theta 0DCV_t; \ u_1t$$

The procedure for the test of research objective II (i.e. research model II): The econometric model specification below was used in regression model equation to capture impact of independent variable on the dependent variable. This was able to inform us if DF (independent variable) in this study will have a positive or negative impact on the debt profile (dependent variable) in Nigeria. The main objective of this estimation is to be able to ascertain the acceptance or rejection of hypothesis II as provided in this study. The empirical model specification is as follows:

$$TD = \beta_0 DFG; \ \beta_1 DRF; \ DCV\beta_2; \ U$$

The procedure for the test of research objective III (i.e. research model III): Likewise, the econometric model specification below was used in auto regressive distributed lag model equation to capture impact of independent variable (DCV) on the dependent variable (Debt Profile). This is expected to be able to inform us if the causes selected and adopted in this study will have a positive or negative impact on the debt profile in Nigeria. The empirical model specification is as follows:

$$TD = \beta_0 DFG; \ \beta_1 DRF + \beta_2 DCV + U$$

3.1. Estimation Procedure
For the data extracted from various sources, ordinary least square and autoregressive distributed lagged model (ARDL) and multiple regression analysis method were employed in this study because we are dealing with more than one variable. However, the least squares and ARDL method have the ability to draw inferences or generalization about the relationship for the entire population. To ensure parsimonious data analysis, and considering the nature of time series data, the variables in the model were tested for stationary using Augmented Dickey-Fuller (ADF) and Philips Perron (PP) test. The Dicky and Fuller (1979) come up with a method to test for stationary called Dicky-Fuller or ADF unit root test the ADF test which states series are stationary or not can be expressed as follows:

$$\Delta yt = {}^{\text{ʊ}}+0^{\text{ʊ}}{}_1+{}_\beta y_{t-1}+{}^{+}\sum{}^{\chi}\Delta{}^{\gamma}{}_{t-1}+ut \quad (5)$$

Thus inserting the variables, we have:

$$\Delta TD={}^{\text{ʊ}}+0^{\text{ʊ}}{}_1+{}_\beta TD-1^{+}\sum{}^{\chi}\Delta{}^{\gamma}{}_{t-1}+ut$$

$$\Delta DRF={}^{\text{ʊ}}+0^{\text{ʊ}}{}_1+{}_\beta DRF-1^{+}\sum{}^{\chi}\Delta{}^{\gamma}{}_{t-1}+ut$$

$$\Delta DCV={}^{\text{ʊ}}+0^{\text{ʊ}}{}_1+{}_\beta DC-1^{+}\sum{}^{\chi}\Delta{}^{\gamma}{}_{t-1}+ut$$

$$\Delta DFG={}^{\text{ʊ}}+0^{\text{ʊ}}{}_1+{}_\beta DFG-1^{+}\sum{}^{\chi}\Delta{}^{\gamma}{}_{t-1}+ut$$

Thus if a non-stationary series it must be difference 1 time before it becomes stationary, then it is said to be integrated of order; I this was written as yt-I(1) If calculated absolute t value of a variable is greater than ADF critical t-value the null hypothesis is rejected and this variable is stationary. The test of stationarity was followed by co-integration. The co integration test is an important statistical tool for estimating the long run relationship that exist between time series variables intuitively, if xt-I and $y^{-I(1)}$ a regression is run as: $Yt=BX_t+Ut$. If the residuals, Ut are I(0)then Xt and Yt are cointegrated, then the hypothesis was H_0: B=0 (there is no contegration between the series) and H_2: B≠ (there is no cointegration between the series). IF the residuals statistical value is greater than critical value, the null hypothesis should be rejected.
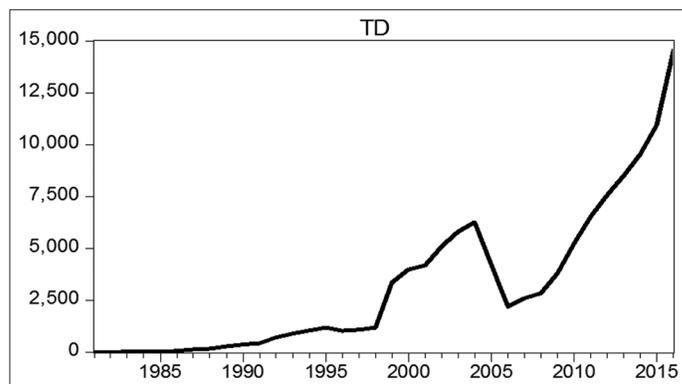
4. RESULT AND DISCUSSION

4.1. Trend Analysis
Figure 1 shows the trend analysis of total debt from 1985 to 2016, there was <2500 from 1985 to 1995 where an increase is observed till 2004, there was a decrease from 2004 to 2005 while an increasing pattern is observed from 2005 to 2016.

A study by Ajayi (1991); Frankal and Dude (1989) shows that the country's macroeconomic policies led to the accumulation of debt in excess of what was sustainable as judged by her export performance. They found out that for the entire period between 1970 and 1988, macroeconomic policy coupled with inadequate trade policy led to a rate of borrowing that was not sustainable by Nigeria. Adepoju et al. (2007) further noted that a huge external debt without servicing as it was the case for Nigeria before 2000, constituted a major impediment to the revitalization of her

Figure 1: Trend analysis of total debt from 1985 to 2016.

Source: Author's computation, 2017

shattered economy as well as the alleviation of the debilitating poverty. They revealed that the much needed inflow of foreign resources for investment stimulation, growth and employment were hampered because without credit cover, Nigerian importers were required to provide 100% cash covers for all orders and this therefore, placed them in a competitive disadvantage compared to their counterparts elsewhere.

As shown in Figure 2, the DRF has a drastic drop from 1985 to 1988 while an upward surge was experienced from 1989 to 1990. Zero level was maintained form 1990 up 2016. This implies that zero was recorded from 1990 to 2016. This development suggest that the applied DRF strategies in Nigeria are not carefully coordinated and need to be re-aligned with national economic policies in order to stimulate realistic economic growth. Suggesting that DRF strategies in Nigeria need to be more realistic not only with overall plan but also with the nation budget.

From Figure 3 on DCV from 1985 to 2016, zero record was maintained from 1985 to 1998 from where an increase was seen to peak at 1989 with 250 (billion) in value, a decrease was experienced from 1990 to 1994 from where a sharp increase was seen up to 1998 at 200 (billions). A fluctuating decreasing patter was maintained down to 2003 where zero record was maintained till 2016. This may be as a result of cancellation of DCV programe in the year 2003.

It is further observed from the Figure 4 that DF was only experienced from 2004 to 2006 with value over 9 billion, a decrease was seen down to zero which was maintained till 2016. The benefits of the debt cancellation, which was expected to manifest after a couple of years, was wiped up in 2009 by the global financial and economic crisis, which precipitated the collapse of the sub-prime lending market in the United States. The effect of the crisis on Nigeria's exchange rate was phenomenal as the Naira exchange rate to the Dollar rose astronomically from about N120/$ in the last quarter of 2007 to more than N150/$ (about 25% increase) in the third quarter of 2009 (CBN, 2012; Aluko and Arowolo, 2010). This is attributable to the sharp drop in foreign earnings of Nigeria as a result of the persistent fall of crude oil price, which plunged from an all-time high of US$147 per barrel in July 2007 to a low of US$45 per barrel in December 2008 (CBN, 2008). Available statistics show that the external debt stock of Nigeria has been on the increase since after the debt relief in 2005. The country's external debt outstanding increased from $3,545 million in 2006 to $3,654 million in 2007, and then to $3,720 million and $3,947 in 2008 and 2009 respectively (CBN, 2012; DMO 2013).
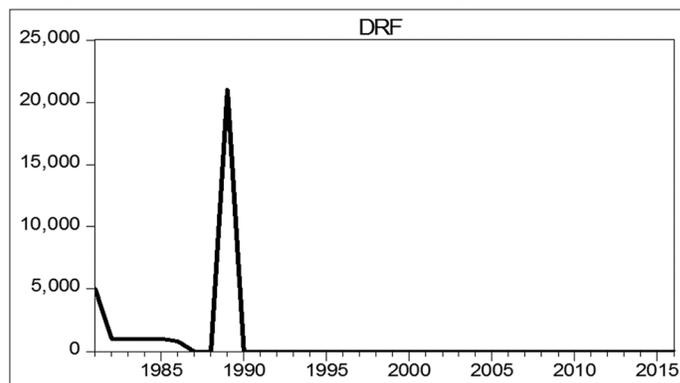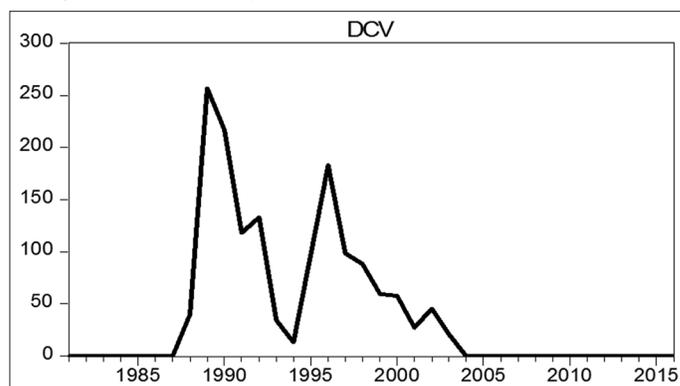
Table 1 indicates that the dependent variables of DFG, DCV and DRF have a mean of about 855.5, 44,800,000 and 41.5% respectively. It implies that the itemized variables bear the respective proportions of the total public debt within the period. Among this set of variables, DFG records the highest volatility as the standard deviation amounts to 1,830,000,000% compared to TD, DRF and DCV with 3589.8, 3562.8 and 66.9 respectively which indicates that there is high interval in the occurrence, based on the data collected.

Figure 2: Trend analysis of debt refinancing from 1985 to 2016

Source: Author's estimation using e-views 9, 2017

Figurer 3: Trend analysis of debt conversion from 1985 to 2016.

Source: Author's estimation using e-views 9, 2017

Figure 4: Trend analysis of debt forgiveness from 1985 to 2016

Source: Author's estimation using e-views 9, 2017

Table 1: The descriptive statistics

Statistics	TD	DRF	DFG	DCV
Mean	3226.286	855.5556	448000000	41.46389
Median	1699.660	0.000000	0.000000	0.000000
Maximum	14537.12	21000.00	9670000000	257.0000
Minimum	13.52380	0.000000	0.000000	0.000000
Standard deviation	3589.830	3562.860	1830000000	66.92180
Skewness	1.307163	5.271420	4.297117	1.788781
Kurtosis	4.261850	30.08923	20.56786	5.421277

Source: Author's estimation, 2018, DRF: Debt refinancing, DFG: Debt forgiveness, DCV: Debt conversion

Table 2 contains the result on the relationship between the total debts, DF, DCV and DRF. The values diagonally placed on the matrix in a constant stream of one all through, indicating that each variables is perfectly correlated with itself. While some of the variables are positively correlated with TD, others are negatively correlated. Negative correlation of variables implies that as the value of one increases, the other decreases. The decision rule according to Evans (1996) as the author suggested for the absolute value of r. *0.00-0.19: "Very weak" *0.20-0.39: "Weak" 0.40-0.59: "Moderate" *0.60-0.79;" Strong" and *0.80-1.0 "very strong." DF and total debt has a very weak correlation as indicated in the table with value of −0.02. Also, the result shows a weak significant negative relationship between the total debt profile and DCV in Nigeria with the significant value of 0.361, which implies that there is decrease in total debt as DCV increases. A very weak negative relationship is observed between DF and total debt with value of 0.207. This implies that there is reduction in DF as there is increase in total debt.

Table 2: Correlation matrices of the study

Variables	TD	DFG	DCV	DRF
TD	1.000000			
DFG	−1390000			
	−0.021752	1.000000		
	0.8998	-----		
DCV	−84346.27	−183E10		
	−0.361126	−0.153118	1.000000	
	0.0305	0.3726	-----	
DRF	−2585206.	−3841344	114442.0	
	−0.207901	−0.060415	0.493689	1.000000
	0.2237	0.7263	0.0022	-----

Source: Author's estimation, 2018, DRF: Debt refinancing, DFG: Debt forgiveness, DCV: Debt conversion

Table 3: Unit root test

Variables	Level		First differences	
	ADF	PP	ADF	PP
DC	−3.67017	−2.50603	−3.67017	−6.04783
	0.6615	0.1227	0.0031*	0.0000*
DF	−3.50748	−3.3309	−6.16225	−13.2148
	0.0137**	0.0209**	0.000*	0.000*
TD	1.3666868	−3.6329	−5.5216	−5.69925
	0.9985	0.9999	0.0001*	0.000*
DR		−6.04468		−36.0266
		0.000*		0.0001*

*, **, ***Significance at 1%, 5% and 10% respectively, ADF: Augmented Dickey-Fuller, PP: Philips Perron

Table 3 shows the unit root test for DCV, DF, Total debt and DRF using the ADF and Phillips-Perron test. The table indicated that, Total debt was insignificant at a level but became significant at first difference, this is an indication that DCV was not stationary at level as confirmed by the p-values of ADF and PP with 0.6615 and 0.1227 respectively. While after first difference the variables were found to be stationary and were said not to contain unit root with ADF and PP P = 0.0031 and 0.000 respectively. DRF was significant at 5% and 1% level of significant at both level and first difference respectively. This is evident from the p-values in both methods (ADF and PP) of 0.013 and 0.000 respectively. Total debt on the other hand exhibit stationary nature at first difference but non-stationery at a level in both models. Lastly and surprisingly, DRF the unit root test for DRF was tested using Phillips Peron method only, this is because ADF test was unable to test the unit root due to singular matrix (content of the data with zero values from 1990 to 2016 while PP shows that DRF contains no unit root both level and after differencing with P = 0.000 and 0.0001 respectively.

Since all the series were at the same order, the data set was appropriate for further analysis. The dependent and independent variables are stationary at the first difference. The results from the Johansen Co-integration analysis were present in Table 4 where the Eigen value and trace statistics examine the null hypothesis of no co-integration against the alternative of co-integration. Therefore, analysis of annual data from 1985 to 2016 appears to support the proposition that there exists a stable long run relationship among the dependent variable. The values of the trace statistic were greater than relevant critical values which showed that the existence of 2 co-integration equation (s) at 5% is statistically significant level.

4.2. Test of Model One
Evaluating the impact of external refinancing on the public debt profile of Nigeria.

Table 5 contains the result of the short run ARDL estimates. The results on DRF and total debt in Nigeria with p-value of 0.9567 is insignificant at 0.05 thus has no impact on debt profile, DCV has P = 0.04 which is significant at 0.05 level although with negative impact as indicated in the coefficient value of −0.31044, this implies that for every unit increase in DCV 31% decrease is expected in total debt. This implies no enough evidence to

Table 4: Johansen cointegration test

Hypothesized number of CE (s)	Eigenvalue	Trace statistic	Critical value	P value
None*	0.607071	62.72062	47.85613	0.0011***
At most 1*	0.448125	30.9603	29.79707	0.0366**
At most 2	0.225677	10.74954	15.49471	0.2274
At most 3	0.058609	2.053498	3.841466	0.1519
Hypothesized		Max-Eigen	0.05	
Number of CE (s)	**Eigenvalue**	**Statistic**	**Critical value**	**P value**
None*	0.607071	31.76032	27.58434	0.0137**
At most 1	0.448125	20.21075	21.13162	0.0669*
At most 2	0.225677	8.696043	14.2646	0.3123
At most 3	0.058609	2.053498	3.841466	0.1519

Trace test indicates 2 cointegrating eqn.(s) at the 0.05 level, *, **, ***Represent significance at 1%, 5% and 10% level, Max-eigenvalue test indicates 1 cointegrating eqn.(s) at the 0.05 level.

Table 5: Short run ARDL bounds test

Variable	Coefficient	Standard error	t-Statistic	P value
D (DRF)	0.001863	0.034001	0.054796	0.9567
D (DFG)	−0.000000	0.000000	−6.480343	0.0000
D (DCV)	−0.310440	1.929155	−0.160920	0.0432
CointEq(−1)	0.171924	0.036744	4.678959	0.0001
R-squared	0.247507			
Adjusted R-squared	0.147174			
Log likelihood	−284.8137			
F-statistic	2.466868			
P value (F-statistic)	0.066191			
Durbin-Watson stat.	1.367878			

ARDL: Autoregressive distributed lagged model, DRF: Debt refinancing, DFG: Debt forgiveness, DCV: Debt conversion

determine the level of contributions made by DRF on total debt in the short run. The result on the DFG shows it is positive and statistically significant in the short run.

The result on the DRF shows a negative relationship exists between DRF and debt profile in Nigeria. The relationship is statistically significant. The result in Table 4 indicates that negative relationship effect exists between DRF and total debt the $P = 0.0467$ which is significant at 0.05 level. The coefficient of −0.01 implies that for every unit increase in DRF 1% decrease in debt profile is expected. Likewise, the output of the result on DF shows that a negative relationship exists between DFG and total public debt in Nigeria over the stipulated period but, the impact is negligible as indicated in d table (−0.000002). This implies that a 1% increase in DF will lead to 0.002% reduction in the level of debt profile in Nigeria. However, the negative relationship implies that the greater the DF, the lower the total debt profile becomes. The output of the result on DCV shows that an inverse relationship exists between the total debt profile and DCV in Nigeria over the periods (1981-2015) although, not statistically significant with $P = 0.8748$. Also, the analysis of the result on DF shows a negative relationship exists between the total debt and DF. This implies that a forgiveness of the country's debt will result into a reduction in the stock of the debt in Nigeria (Table 6).

The result on DCV also shows a negative relationship exists between DCV and debt profile in Nigeria. This implies that an increase in the conversion of debt will lead to a reduction in the level of the Nigeria public debt. The adjusted R square which represents the percentage of the dependent variable which is captured by the independent variables shows 97% of the behavior of the dependent variable is explained by the independent variables. This result then implies that it can be concluded that debt management strategies DRF, DF and DCV jointly determine the level of public debt in Nigeria. Based on the result above the null hypothesis which states that there is no significant impact of DRF on debt profile of Nigeria can be rejected.

4.3. Test of Model 2
Measuring the impact of DF on the public debt profile of Nigeria.

It is observed in Table 7 that DRF has no significant impact on Total Debt Profile, with the $P = 0.843$ which is greater than the alpha value of 0.05, DFG is observed to be strongly significant at 5% level with $P = 0.040$ with a negative coefficient which implies

Table 6: Long run ARDL bounds test

Variable	Coefficient	Standard error	t-Statistic	P value
DRF	−0.010837	0.197848	−0.054775	0.0467
DFG	−0.000002	0.000001	−3.992887	0.0004
DCV	−1.805682	11.363679	−0.158899	0.8748
C	−0.553321	1152.091684	−0.480116	0.6346
R-squared	0.975836			
Adjusted R-squared	0.972614			
S.E. of regression	595.6094			
Durbin-Watson stat	1.712957			
F-statistic	302.8757			
Prob. (F-statistic)	0.000000			

ARDL: Autoregressive distributed lagged model, DRF: Debt refinancing, DFG: Debt forgiveness, DCV: Debt conversion

Table 7: Regression of debt forgiveness against debt profile objective II

Variable	Coefficient	Standard error	t-Statistic	P value
DRF	−0.03787	0.190236	−0.19909	0.843449
DFG	−0.5300	3.25000	−0.47133	0.040604
C	−0.411654	717.1507	5.739477	2.31E-06
R-squared	0.737559			
Adjusted R-squared	0.696705			
SE of regression	3486.563			
F-statistic	1.701332			
Prob. (F-statistic)	0.186426			
Durbin-Watson	1.89575			

Source: Computed by Author, 2017. DRF: Debt refinancing, DFG: Debt forgiveness

that for every unit increase in DF 53% decrease in total debt profile is expected. Result of the OLS as shown from the r-squared value implies that 73.5% of the variation in the dependent variable (TD) is explained by the independent variables which are further adjusted to 69%. The Durbin Watson value of 1.89 which can be approximated to 2 indicates that there is no autocorrelation within the model. Thus, from Table 4; the null hypothesis which states that DF has no significant impact on the public debt profile on Nigeria can be rejected.

4.4. Test of Model 3
To determine the impact of DCV on the public debt profile of Nigeria.

As revealed from the result presented in Table 8, it can be observe that DRF has no significant impact on Total Debt Profile, with the p value of 0.843 which is greater than the alpha value of 0.05, DCV is observed to have negative impact on debt profile at 5% level with $P = 0.022$. The implication of the coefficient value of -0.19

Table 8: Regression of debt conversion against debt profile

Variable	Coefficient	Standard error	t-Statistic	P value
DRF	−0.03787	0.190236	−0.19909	0.843449
DCV	−0.193	10.23016	−1.85914	0.02224
C	−0.421612	717.1507	5.739477	2.31E-06
R-squared	0.137559			
Adjusted R-squared	0.056705			
SE of regression	3486.563			
F-statistic	1.701332			
Prob. (F-statistic)	0.186426			
Durbin-Watson	0.189575			

DRF: Debt refinancing, DCV: Debt conversion

Table 9: Pairwise Granger causality tests

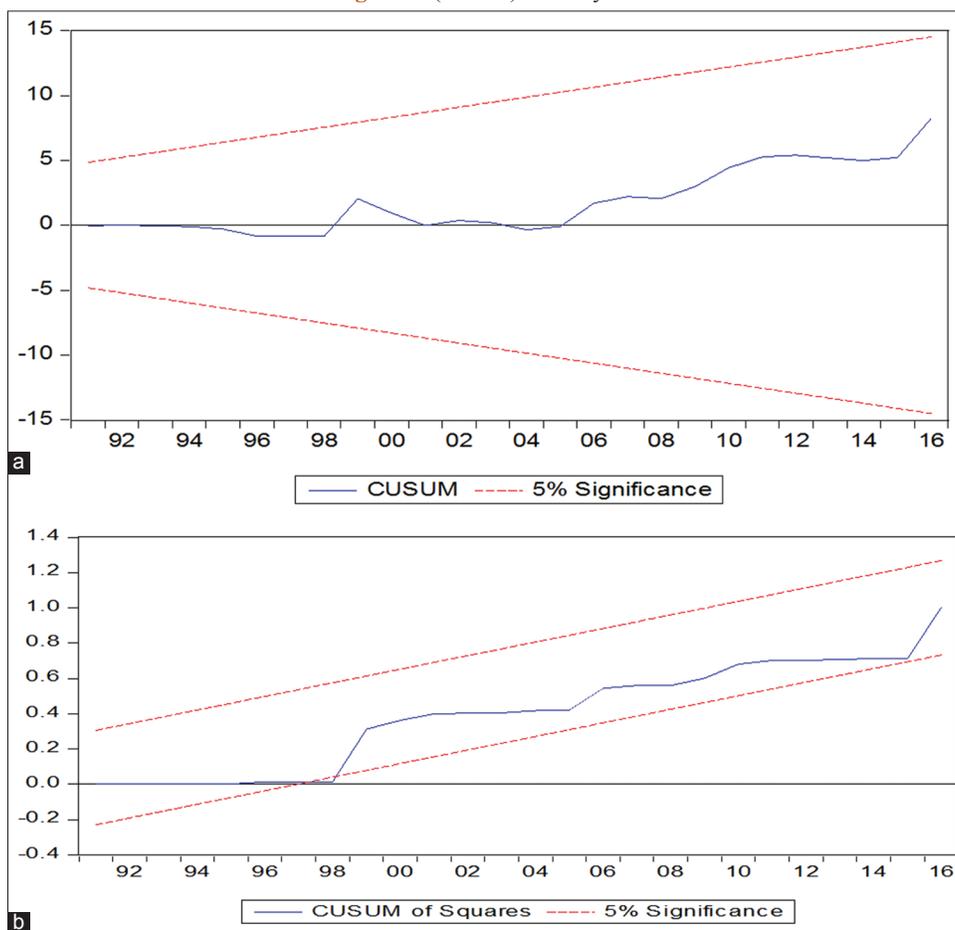| Null hypothesis	Obs.	F-statistic	P value
DFG does not Granger cause TD	34	0.39582	0.6767
TD does not Granger cause DFG		4.75681	0.0163
DCV does not Granger cause TD	34	0.01742	0.9827
TD does not Granger cause DCV		1.32460	0.2815
DRF does not Granger cause TD	34	0.00464	0.9954
TD does not Granger cause DRF		0.73847	0.4866
DCV does not Granger cause DFG	34	0.28452	0.7544
DFG does not Granger cause DCV		0.16424	0.8493
DRF does not Granger cause DFG	34	0.06693	0.9354
DFG does not Granger cause DRF		0.06546	0.9368
DRF does not Granger cause DCV	34	0.32226	0.7271
DCV does not Granger cause DRF		0.76323	0.4753

DFG: Debt forgiveness, DCV: Debt conversion, DRF: Debt refinancing,

implies that a unit increase in DCV, 19% decrease in debt profile is expected. Result of the OLS shows from the r-squared value that 73.5% of the variation in the dependent variable (TD) is explained by the independent variables which is further adjusted to 69%. The Durbin Watson value of 1.89 which can be approximated to 2 indicates that there is no autocorrelation within the model. Thus, from the result above; the null hypothesis which states that DCV has no significant impact on the public debt profile on Nigeria can be rejected.

In line with the second objective of the study of establishing the causal relationship between the total debt profile and DF, the result shows that DF does not granger cause debt but total debt of Nigeria given the probability vale of 0.0163 indicating significance at 5% level. The result further implies that debt financing does not affect the level of debt profile but debt profile on the other hand affect debt financing. This shows that the relationship between the total debt profile and debt financing is unidirectional. DCV does not Granger Cause TD with P = 0.9827 as well, TD does not Granger Cause DCV 0.2815. It is also shown that DRF does not Granger Cause TD 0.9954. Likewise, all other independent variables do not granger cause one another other. This could be interpreted that; it is only when there is debt that strategies are formulated to reduce or eliminate the debt (Table 9).

4.5. Post Estimations Stability Test

Figure 5: (a and b) Stability test

Source: Computed by Author, 2017

The Cusum test or a test for stability of the data is shown in Figure 5. The result shows that the curve is fit into the two lines that form a boundary. The curve staying within the boundary implies the data are stable. Any intersection with the boundary or the curve moving out of the boundaries implies instability of the data.

The horizontal axis here is the plot of response impulse. The measurement here is stated in SE (standard error). It is not unitized because it is a measurement of the magnitude of system's error term response to shock. The response resulted from external shock exerted onto the system. This change in the error term is called impulse response (Figure 6).

4.6. Heteroscedasticity Test

H_0: No Heteroscedasticity exists.

Heteroskedasticity test: Breusch-Pagan-Godfrey.

Table 10 tests the presence of Heteroscedasticity in the data adopted for the model of the study. Decision rule; we accept the null hypothesis that there is no Heteroscedasticity in the data of the model when the result is not statistically significant. It is important

that the data has no Heteroscedasticity as this also serves as the condition of Homoskedasticity. This shows the data is good or fit for estimation.

4.7. Serial Correlation Test

Table 11 contains the result on autocorrelation test. The null hypothesis of autocorrelation states that 'no autocorrelation exists in the data used'. It is therefore important that the result is not statistically significant. We then accept the null hypothesis that there is no autocorrelation among the data of the variables adopted.

Table 10: Heteroscedasticity test results

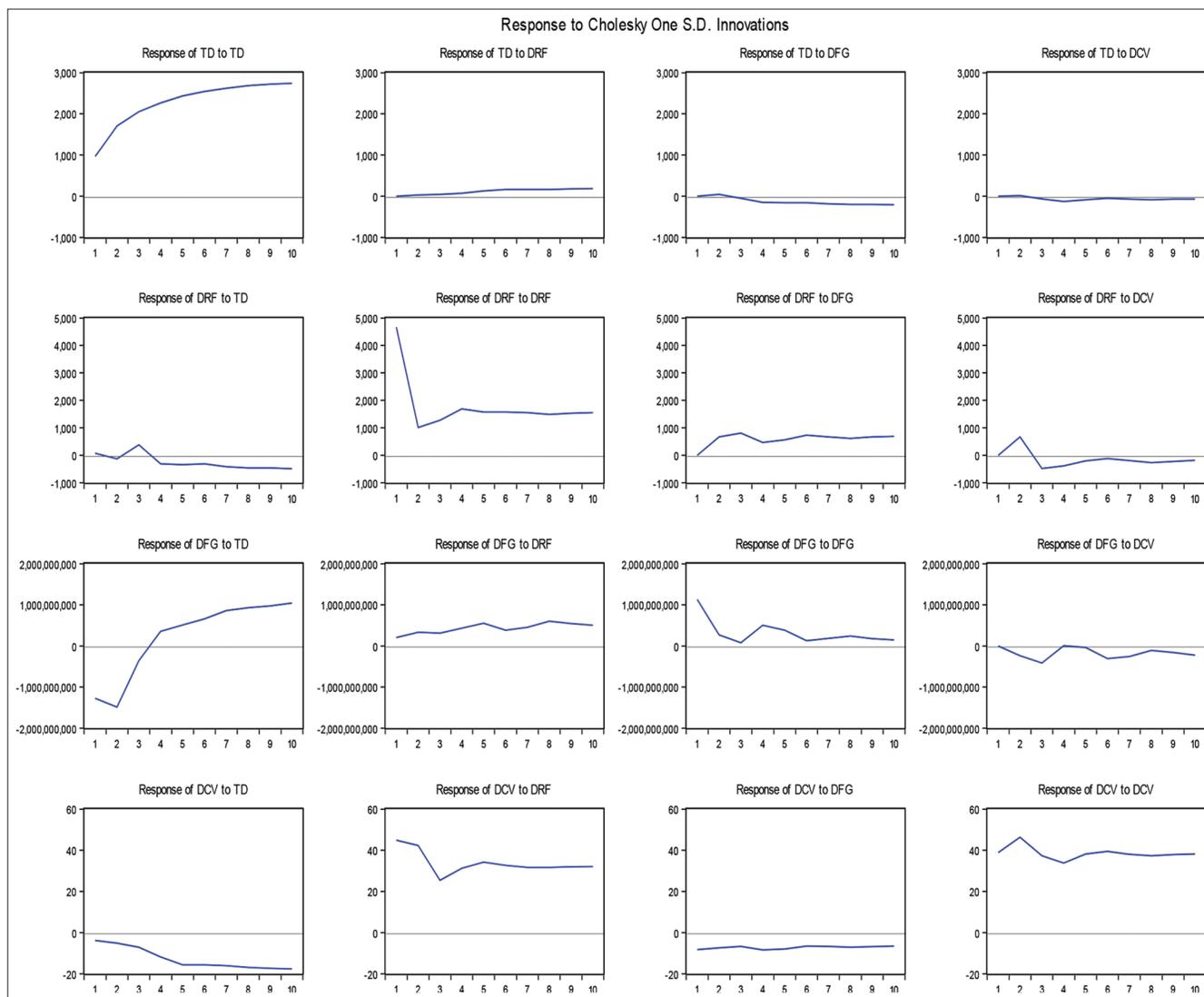|			
F-statistic	0.989568	Prob. F (4,30)	0.4283
Obs.* R-squared	4.079700	Prob. Chi-square (4)	0.3953
Scaled explained SS	8.979433	Prob. Chi-square (4)	0.2616

Source: Author's computation, 2017

Table 11: Breusch-Godfrey serial correlation LM test

F-statistic	1.361626	Prob. F (2.28)	0.2727
Obs.* R-squared	3.102335	Prob. Chi-square (2)	0.2120

Source: Author's computation, 2017

Figure 6: Impulse response function

5. CONCLUSION, RECOMMENDATIONS AND POLICY IMPLICATIONS

Strategies for the management of debt have been in existence for several decades. These efforts were aimed at fostering economic growth and reduce both debt burdens and poverty level of countries. As borrowings from developed or developing country by poor countries was geared towards boosting the level of economic growth and development. Government goals to raise funding at low cost and also to structure the composition of its debt portfolio in such a way as to minimize the impact of relevant shocks on its budget and expenditure plan cannot be achieved without efficient and effective debt management strategies. Based on the data analyzed, the major findings of the study can be concluded thus: The first conclusion is that, DRF programme as a debt management strategy plays a significant role in the reduction of public debt profile likewise its application drastically decrease the total debt burden of the country. Secondly, if DCV are properly and carefully applied, the huge debt burden of the country will definitely be lightened creating space for other opportunities and economic advancement.

Thirdly the study is of the view since DF gives a great relief to the debt profile of the country although it is not achievable on common ground. But when realized it is of positive impact on the total debt of the country. In addition to the foregoing, the study is of the view points that. Nigeria has come a long way in evolving an enduring debt management policy and strategies particularly in the area of making debt management decisions and its servicing. The huge foreign debt burden of Nigeria created a lot of problem for the country. The debt servicing payments that gulp about $26 billion from 1999 to 2007, has negative effects on the development of infrastructure, health, education and many more other developmental project. Similar to that, it is evident to note that a nation borrow to meet the resource gap and to stimulate the direction, speed and size of economic activities that heavily scarce in the country. In respect to that it is sufficient to argue that from the findings of this study, it is quite good for a nation to borrow but yet the implications is that it may yield to the rising of external debt position by increasing the stock of debt servicing costs and this can be aggravated by poor exchange rate system, devaluation and key economic and currency crisis that keep recurring particularly in developing countries like Nigeria. Similar to that development, is the fact that if the borrowed financing is not properly utilized, it can lead to poor and failed market system, lack of coherent, sound and effective attainment of developmental goals. In addition to the foregoing, poorly managed debt could create a hostile economic environment that could discourage foreign investors. Adding to the above arguments is the possible discouragement in the creation and development of export oriented industries this will also be imminent thereby, crippling the export base of Nigerian economy. Furthermore, there could be every tendency for the decrease in access to appropriate technology incubation prospects, external market and other benefits associated with foreign investment as a result of heavy cost from the debt burden and debt servicing. This can as well lead to absence of divergent economic policies and poor monetary and fiscal policies. Lastly,

effort to stimulate employment generating investments in industry will fail due to the high costs of doing business. These suggest that, poor productivity, theft, bribery and corruption and above all, highly underdeveloped manpower can all rise to overheat the economy for possible economic failure.

The following recommendations have been made based on the findings and conclusions made in this study: The outcome of the result shows that DRF has a negative and significant impact on the public debt profile in Nigeria since the DRF strategy is aimed at collecting another facility under different terms and conditions which will in most cases be at the mercy of the debtor by reducing the interest rate and extending of a payment period to a longer time and most in times the debtor will have recovered from the investment made with the facility or recovered from the economic suffering. It is therefore recommended that the government should strengthen DRF to reduce Nigeria debt profile. The study also found out that DF shared a negative relationship with the total public debt in Nigeria even though DF will involve high international politics with global connections from most powerful and most developed economies like G8 and particularly the countries that are involved in the deal. It is therefore recommended that government should come out with strategies to seek for DF in order to ameliorate Nigeria's debt profile.

The result on DCV also signified reduction in the total debt profile of Nigeria. It is pertinent for us to understand that the DCV is aimed at changing the mode of payment by introducing some instrument different from the first agreement this will also involve a lot of professionals and expert in international economy to try as much as they could to convince the lenders to agree with the proposed agreement It is therefore also recommended that more instruments for DCV should be adopted with a view to reducing the Nigerian national public debt. Thus, for Nigeria to maintain a sustainable debt profile; she must borrow only from concessionary sources. The Debt Management Office should conduct debt sustainability analysis on the country's debt portfolio, from time to time; that is at least within 2 years' period. To determine when the Nigeria foreign debt drop to unsustainable position. This would enable the debt office to foresee and raise early warning signs of liquidity problem.

Suggestions for Future Research: This study considered debt profile in Nigeria. Future studies should consider researching on the impact of public debt management strategies on the debt profile in the cross country. This implies that future researchers can go a step further by carrying out a cross country studies in this area to give room for the harmonization of the findings. More so, future studies should consider larger timeframe and more variables as proxies for public debt management strategies such as debt rescheduling among others. Moreover, previous studies reviewed adopted techniques such as descriptive statistics, VECM, granger causality, simple regression, OLS, Variance decomposition analysis among others. This study adopted descriptive statistics, correlation matrices, Short-run Error Correction Model, Johansen co-integration test and VEC granger causality block exogeneity wald test to analyze the impact of debt management strategies on the public debt profile of Nigeria. Future studies should consider

adopting all in one to analyse the objectives such as the likes of impulse response test, variance decomposition analysis, test for structural breaks, VECM and Granger causality test to present and analyse the objectives on the impact of public debt management strategies on the debt profile in Nigeria. Likewise, Panel studies, regional studies should be carried out to investigate the effectiveness and impact of debt management on the performance of different sectors in respective economies.

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