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Nigeria Foreign Policy and the Politics of Debt Relief

POLITIQUE ÉTRANGÈRE ET POLITIQUE DE L'ALLÉGEMENT DE LA DETTE DU NIGERIA

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Abstract: With the return of civilian rule in 1999, Nigeria embarked on a relentless campaign for debt relief. As at December 2004, Nigeria's external debt stood at US$35.94 billion. The unsustainability of the external debt necessitated President Olusegun Obasanjo's quest for making debt relief a priority, upon assumption of office in May 1999. With President Obasanjo's concerted efforts coupled with the ministry of finance, national assembly, debt management office, the economic management team, non-governmental organizations (NGOs) and other stakeholders, the credible implementation of the country's National Economic Empowerment and Development Strategy (NEEDS) as well as security of an IDA only status for Nigeria, the creditors and multilateral financial institutions began to positively consider Nigeria for debt relief. The campaign for debt relief reached a climax in 2005, when the Great Britain, acting as chairperson of Group of Eight Industrialized Nations brought to fore the African debt issues. At their meeting on Wednesday, June 20, 2005 the Paris Club Creditors announced its decision to grant debt relief to Nigeria. By 2006, this determination of President Obasanjo to obtain debt relief came into manifestation, when Nigeria was granted debt relief by the Paris Club creditors under the "Naples" term. That is 60% debt cancellation on Paris club debt which led to the final exit of Paris Club debt of about $31bn, Nigeria then paid arrears which was about $6bn and then bought-back the remaining debt stock of about $7bn. Nigeria had virtually exited the debt owed the London Club Creditor countries on Thursday, 4th of April 2007, after it paid $82m in oil warrants (Faloseyi, 2007). While the Debt management office estimated Nigeria's remaining external debt at about $3.035bn made up of $2.65bn multilateral agencies debt, $326m owed bilateral agencies and $101m of other commercial debt This paper attempt to analyse Nigeria's foreign policy and the politics of External Debt Relief and its implication on national development.
Key words: Debt Relief; Foreign Policy; Politics; National Development; Nigeria.

Résumé: Avec le retour du régime civil en 1999, le Nigeria a lancé une campagne acharnée pour l'allégement de la dette. Au Décembre 2004, la dette extérieure du Nigeria s'est élevée à 35.94 milliards de US dollars. La non-durabilité de la dette extérieure a exigé le président Olusegun Obasanjo de faire l'allégement de la dette une priorité du pays, lors de sa prise de fonctions en mai 1999. Grâce aux efforts concertés du Président Obasanjo, couplé avec le Ministère des finances, l'Assemblée nationale, le Bureau de gestion de la dette, l'équipe de gestion économique, les organisations non-gouvernementales (ONG) et d'autres intervenants, la mise en œuvre crédible de la Stratégie de renforcement de l'économie nationale et de développement (SRED) ainsi que la sécurité d'un statut AID seulement pour le Nigeria, les créanciers et les institutions financières multilatérales ont commencé à envisager positivement l'allégement de la dette du Nigeria. La campagne pour l'allégement de la dette a atteint un point culminant en 2005, lorsque la Grande-Bretagne, en présidence du Groupe des huit nations industrialisées a mis l'accent sur la question de dette des pays africains. Lors de leur réunion le mercredi 20 Juin 2005, le Club de Paris a annoncé sa décision d'accorder un allégement de la dette au Nigeria. En 2006, la décision du président Obasanjo d'obtenir un allégement de la dette est en marche, lorsque les créanciers du Club de Paris a accordé au Nigeria un allégement de la dette dans le cadre des "Termes de Naples". C'est une annulation de 60% de la dette, ce qui a fait que la dette finale vis-à-vis du Club de Paris était d'environ 31 milliards de dollars. Puis le Nigeria a payé des arriérés qui était d'environ 6 milliards de dollars, et racheté le

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stock de la dette restante d'environ 7 milliards de dollars. Le Nigéria a pratiquement sorti de la dette des pays créanciers du Club de Londres le jeudi 4 avril 2007, après avoir payé 82 millions de dollars en bons de pétrole (Faloseyi, 2007). Bien que le bureau de gestion de la dette a estimé la dette extérieure restante du Nigeria est d'environ 3.035 milliards de dollars, composée de 2.65 milliards de dollars de la dette des organismes multilatéraux, 326 millions de dollars envers les organismes bilatéraux et 101 millions de dollar d'autres dettes commerciales. Cet article tente d'analyser la politique étrangère et la politique de l'allégement de dette extérieure du Nigeria et ses implications sur le développement national.

Mots clés: Allégement de la dette; Politique étrangère; Politiques; Développement national; Nigeria

1. INTRODUCTION

A nation's foreign policy is always seen as the extension of its domestic policy. In other words, a nation's foreign policy is determined by the internal dynamics of its domestic policies. It is usually determined by the interest of the dominant class (ruling class) controlling the state apparatus or the machinery of governance (Ebegbulem, 2004). The foreign policy of any nation has always been a reflection of its domestic aspiration — that is, the paramount survival of its sovereignty (Nwakamma, 2004). How countries perceive the world, their place in it and reaction in the international political system depends on their geography, economy historical background, experienced and leadership quality (Nwakanma, 2004). The behaviours of states are greatly influenced by the environment or the state system within which they exist. Foreign policy is the promotion of national interest at the international level (Babalola, 2002).

However, the level of power a nation wields in the international system is being determined by the following:- geography, economy, population natural resources, economic development, military strength, government, quality of leadership, ideology. Over the years, Nigerian economy has been swindled into a huge external debt overhang occasioned by many years of military misrule, which was characterized by corruption, ethnic conflict, ambitious and unprincipled leadership who seek power and accumulate wealth at the expense of the tax-payers. While many countries are moving forward in terms of capital investment and economic development, Nigeria is economically stagnated as a result of bad governance and inconsistent policies. Where such continues, no nation or foreign investor will like to have any form of relationship with Nigeria. Against this background the administration (Obasanjo's regime) came up with some domestic imperative feign policy which includes:

• Creating a better image for Nigeria in the comity of nations and thus making the isolation and ostracization of the country from the mainstream of international interaction a relic of the recent past.

• Consolidation of democracy at home which is another imperative of Nigeria's foreign policy.

• Promoting and attracting foreign investment, realizing that foreign investment is an instrument for accelerating economic development and industrialization of a country.

• Debt burden reduction, cancellation or forgiveness to the high pedestal in Nigeria foreign economist agenda (Akindele, 2000).

Realizing that debt relief through reduction or forgiveness has become absolutely imperative in order to free a large chunk of Nigeria's foreign exchange earnings for use in social and economic development, Obasanjo's administration embarked upon rigorous campaigns to demonstrate that consolidation of democracy depend upon a successful programme of poverty alleviation which is impossible under oppressive and intimidating debt overhang.

The objectives of this paper are:

• To examine the relationship between Nigeria foreign policy and external debt relief;

• Examine the impact of external debt burden & external debt services on economic growth;

• To examine the Nigeria external debt profile from (1980— 2004);

• To assess the politics of external debt relief to Nigeria;

• To highlight the implication/gains of external debt relief to Nigeria.

This paper is divided into five sections. Following the introduction in Section 1 is the literature review and conceptual issues in section II. Section Ill, deals with

a) Nigeria/External debt profile from (1980 - 2004)

b) Nigeria Debt Management Strategies and Debt Relief deal.

Section (iv) (i) Politics of debt relief (ii) The gain of debt relief (iii) The Way Forward Section (v) conclusion.

2. THEORETICAL EXPOSITION

Nigeria became an independent nation on the 1st of October 1960 this transformed her status in the international scene from that of a colony to a nation state with all the attributes of a nation. On that date, she joined the list of independent nations of the world she also acquired capacity to administer and conduct her relations with other nations of the world, she wishes imperial control would cease immediately and this day ushered in first republic.

Nigeria's external behaviors and responses to the external world was governed by four principles which Tafawa Balewa pronounced to the General Assembly of the United

Nations in October 1960. These principles are summarized as follows:

- Sovereign equality of all African states
- Respect for the independence, sovereignty and territorial integrity of all African states.
- Non-interference in the internal affairs of other African states.
- Commitment to functional cooperation as a means of promoting African unity (Okunola, 2004).

Objectives of Nigeria foreign policy

According to Ogwu (2004), the objectives of Nigeria foreign policy are as follows:

- To promote and protect the countries national interests in the interaction with the outside world. What constitute Nigeria's national interests has been identified as follows:

- The defence of the country's sovereignty, independence, territorial integrity.

- The restoration of human dignity to black men and women all over the world, particularly the eradication of colonialism and white minority rule from Africa.

- The creation of the relevant political and economical conditions in Africa and the rest of the world which will not only facilitate the preservation of the territorial integrity, security of all African countries, but also foster national self-reliance in Africa, countries.

- The promotion and improvement of economic well-being of the Nigerian citizens and the promotion of world peace.

2.1 Nigeria's external debt profile from (1980—2004) genesis, growth, and the debt servicing

Nigeria began to experience external debt problems from the early 1980's when foreign exchange earnings plummeted as a result of the collapse of prices in the international oil market, and external loans began to be acquired indiscriminately (Obadan 2003). Like every developing country, Nigeria has had cause to borrow to finance investments in order to stimulate growth and development. Ordinarily such investments should be financed from national savings but this is hardly the case in developing countries like Nigeria. This is due to the large gap between national savings and investment requirements (Obadan 2003).

Consequently, the country had to resort to external sources to finance the savings-investment gap. However, the seeds of external debt problem were actually sowed in 1978. Before then, the debts incurred were mainly long-term loans from multilateral and bilateral sources such as the World Bank and the country's major trading partners. The debts did not exert much burden on the economy because the loans were obtained on soft terms. Moreover, the country had abundant revenue receipts mainly from oil, especially during the oil boom of 1973 — 1976. The dwindling oil prices in 1977/1978 forced the country to raise the first jumbo loan of about USD1.Obillion from the Eurodollar international capital market on commercial terms. The loan which had a grace period of three years was used to finance various medium and long term infrastructural projects which did not directly yield returns (Arikawe, 2005; Obadan, 2004). Since then the stock of debt has grown in leaps and bounds, and from the mid 1 980s, in particular, the rapid growth of debt and debt service payment became a wedge on national development (Obadan, 2003).

Table 1, Column 2, shows that Nigeria's external indebtedness rose from US$8.93 billion in 1980 to US$35.94 billion on December 31, 2004. Between 1980 and 31st December 2004, Nigeria's outstanding debt stood at US$35.94 billion in spite of the fact that Nigeria had paid about US$48.43 billion to its creditors between 1980 to 2004.

This means that Nigeria was obliged to repay about (US$35.94 + US$48.43) US$84.37billion by the end of 2004.

Table 1: External Debt Position of Nıgeria: 1980—2004

Year	**Nigeria's Ext. Public Debt outstanding** (US$billion) 1980-2004	**Total Ext. Debt Service Payment** (US$billion) 1980—2004
(1)	(2)	(3)
1980	8.93	1.52
1981	11.55	2.36
1982	15.3	2.65
1983	17.7	2.36
1984	17.3	2.65
1985	18. 90	1.50
1986	25.57	1.28
1987	28.32	0.74
1988	30.69	1.58
1989	31.59	2.17
1990	33.10	3.57
1991	33.74	3.44
1992	27.54	2.39
1993	28.72	1.77
1994	29.43	1.84
1995	32.59	1.62
1996	28.06	1.88
1997	27.09	1.50
1998	28.77	1.27
1999	28.24	1.73
2000	28.50	1.71
2001	28.35	2.13
2002	30.99	1.67
2003	32.92	1.81
2004	35.94	
	TOTAL 48.43	

Source: Debt Management Office (2004) Annual Report and Statements of Accounts p.26 and Aluko S.A(2003).

Between 1980 and 2004 external debt grew by about 402.3 per cent. This was about 396.1% of total Federal revenue in 2004 as against 14.4 per cent in year 1980 (Table 4). The increase in the debt stock was largely as a result of the interest component of additional payment arrears that accumulated, and continued depreciation of the US dollar against other currencies in which the debts were denominated.

Foreign policy

Following the emergence of the modern states, modern international relations emerged as these nation-states followed certain principles, courses and standards that govern their interactions in the international arena. Basically no nation can exist in isolation of the others, and it became necessary for nations to interact with each other, big or small, poor or rich. These actions therefore formed the foreign relations of states (Abia, 2003). F. S. Northedge (1968) defines foreign policy as a product of environmental factors both internal and external to it.

The relationship between nigeria foreign policy and the nigeria's external debt

Nigeria's foreign policy from (1960—1966), was skewed towards serving the interest of the British. There are three major reasons that are responsible for this posture and these reason are:- The: structure of the Nigeria economy which was tailored to serve colonial interest — the initial task of building a nation from various traditional, religious and political cultures in the country, immediately after independence and the level of Nigeria economic development (First Bank Business & Economic Report 1989) These factors account for the little interest shown in the African Affairs by the government of the First Republic. The foreign policy of the first republic was characterized by conspiracy between elite and the colonialist

The first phase of military government (1966—1975) witness a foreign policy whose thrust was centered reconstruction, reconciliation and rehabilitation of the war affected areas. Emphasis was shifted from conservative and loyalty of the British interest to active participation in Africa Affairs; African became the centre piece of Nigeria's foreign policy. From 1971 to 1974, the Nigerian economy was very healthy with increased earnings from crude oil exports; this promoted an aggressive foreign policy. The aggressiveness of Nigeria foreign policy continued with political optimisms during the Muritala-Obasanjo Era. By this time crude oil prices began to decline and this prompted Nigeria first external loan (First Bank Business and Economic Report 1989).

Second Republic of 1979 took off with an irreversible foreign policy; Africa continued to be the centre piece of Nigeria foreign policy. The second republic foreign policy was characterized by indecision, indiscipline and apathy, occasioned by financial mismanagement, corruption and very weak economic base (First Bank Business and Economic Report 1989). With the collapse of the Second Republic in 1983, ushered in the military back to power, Nigeria foreign policy on political issues under Buhari's regime was emphatic despite the dilapidating economic condition of Nigeria, the economic content of the foreign policy of the Buhari's regime was weak and insufficient (First Bank Business and Economic Report, 1989).

The Babangida's administration which came into power in 1985, dealt a staggering blow on Nigeria's image abroad and particularly, her foreign policy. The colossal financial waste and profligacy as well as the incessant and unbridled abuse of human rights which culminated in the annulment of June 12, 1993 presidential elections, were the hallmark of that regime (Nwakanma, 2004). This happened at a time the G-7 and most other countries had made democracy, good governance and human rights essential determinants in international politics and in their relationships with developing countries. This period marked the beginning of Nigeria's misunderstanding with the international community, particularly, the United States of America, Canada and the Commonwealth.

When Sanni Abacha came in after pushing aside the transition government of Chief Ernest Shonekan, he continued with the crude handling of the country's foreign policy. The regime e in a reckless abuse of human rights, imprisoned many people, including president Obasanjo and hung Human Rights Activist, Ken Saro Wiwa at a time Commonwealth Heads of States and government were meeting in Australia. Expectedly, this earned Nigeria a sanction from the Commonwealth.

Nigeria foreign policy from 1999 — date

President Olusegun Obasanjo on assumption of office on May 29th 1999 adopted a foreign policy which reflects its desire to correct the mistakes of the immediate past. This he has demonstrated at every given opportunity in the conduct of the nation's foreign policy. President Olusegun Obasanjo's administration foreign policy was anchored on numbers of domestic imperatives:- The first is redeeming the country's image among the comity of nations and thus making the isolation and ostracization a thing of the past. Positive image building became an important political strategy which objective is to move Nigeria away from the post — 1993 international pariah status into proactive and respected member and actor in the international community of states. This image building is seen in the president's frequent trips abroad, which have attracted strong criticism. Another domestic imperative to which the Obasanjo administration is built on the restoration of Nigeria's battered, economy occasioned by many years of military misrule (Nwakanma, 2004).

President Obasanjo, more than any Nigerian leader, has elevated the issue of debt burden relief to a high pedestal in Nigeria economic agenda (Akindele, 2000). Acknowledging the fact that debt relief is an imperative for socio-economic development, this administration embarked upon vigorous campaign to demonstrate that the consolidation of democracy depends upon a successful programme of poverty alleviation which is hardly possible under intimidating debt overhang. Although few creditor countries and non-governmental creditor agencies responded positively, some remained adamant, arguing that Nigeria does not deserve debt forgiveness and cancellation because it was plunged into huge external debt overhang occasioned by many years of institutionalized corruption and systematic looting of public treasuit. This President Olusegun Obasanjo also linked to one of the domestic imperative of his foreign policy is anchored He launched extensive campaign for the refund of money stolen from the national treasury and lodged in foreign banks all over the world by corrupt leaders government functionaries and their associates Only's loot was attacked though Obasanjo's regime pursued anti-corruption drive vigorously and religiously. President Olusegun Obasanjo has relentlessly taken several trips abroad in order to achieve these stated objective these visit has generated heated debate, but one thing worthy of no that in foreign policy, visits at the highest level forms an important element of modern diplomacy (Babalola, 2002). The importance of one on-one discussion in international relations cannot be overemphasized. These foreign visits have really achieved its objectives of which some of them were the realization of the country's image, now Nigeria is no longer a pariah nation (Babalola, 2002). The increasing willingness of the international community to do business with nation is another dividend of it. The Obasanjo's administration adopted economic diplomacy as one of its main foreign policy thrust. In order to attract foreign investors, Increased bilateral relations, technical assistance privatization, joint economic ventures in oil, gas and other related industries, debt cancellation and repatriation of Nigeria's stolen money formed the nucleus of Obasanjo's agenda during his various diplomatic trips abroad (Babalola, 2002).

2.2 Causes of Nigeria's external debt problem

The origin of Nigeria's external debt dates back 1958, when the sum of US$28million was contracted for railway construction. However, in 1978, owing to the oil glut, which exerted considerable pressure on government it became expedient to borrow for balance of payment support and project financing (Gana, 2002). The initial debt was to support the persistent fiscal and current accounts deficits and income decline caused by the depression in oil market recession. The depression equally encouraged policy makers to adopt a business-as-usual approach the erstwhile trend in expansionary fiscal policy (NCEMA, 2002).

The debt problem emerged in 1978 as the country borrowed from the Euro-dollar international capital market on commercial terms. Thus, the debt structure showed a significant shift from the traditional concessional bilateral and multilateral sources to market sources characterized by high and variable interest rate, shorter repayment and grace periods. And since the early eighties, the rapid growth of debt stock and debt service payments have become clogs on the national economic growth (Todaro and Smith, 2004; Obadan, 2003; Arikawe, 2005).

The external factors to the debt problems relate to:

Reduction in transfer of concessional loans to the country: The debt problem emerged in 1978 when the country borrowed from Euro-dollar capital market on commercial terms. Thus, the debt structure showed a significant shift from the traditional concessional bilateral and multi-lateral sources to market sources characterized by high and variable interest rates.

The reduction in foreign investment inflow and a significant increase in capital flight: This further led to the inability of the nation to increase its domestic investment.

The collapse of oil prices and other agricultural products in World market and thus contributing to decline in foreign exchange earnings and thereby making it difficult to service debts due.

Sharp increase in interest rates in the - financial markets, while increasing the cost of borrowed funds, r n in the grace and repayment periods

Activities of the multinational corporation through export over-invoicing and import under-invoicing deprives the y of the much needed foreign exchange resources for growth and debt

Exchange rate volatility, particularly, the 1 .ions of the US dollars against the other transaction currencies resulting in sharp increases in dollar denominated debt (NCEMA, 2002).

The internal factors include:

Import and technological dependence of Nigeria. The manufacturing sector is still dependent on the imported raw materials because of import-substitution industrial policy embarked upon.

The low level of domestic savings available for investment while the high propensity to consume imported goods contributed to massive importation of consumers goods, thereby, led to the accumulation of trade arrears and depletion of the foreign exchange needed for the importation of production inputs.

Economic mismanagement also contributed to the debt crisis. The poor utilization of borrowed funds, most of the projects executed with them, are not capable of paying themselves. Also, inappropriate monetary, fiscal and exchange rate policies reflected largely the economic mismanagement (NCEMA, 2002).

2.3 What is debt relief?

At one extreme, debt relief can mean palliative measures by the creditors to ameliorate a debtor country's debt repayment problems through re-scheduling (changing the terms, like interest rate and maturity) of existing debt. At the other extreme, it can refer to a complete write-off by the creditor of the debts. In between these two extremes, there are various degrees of debt relief that involve a combination of stock relief (like partial write-off of the debt stock) and flow relief (like partial write-off of debt service payments). In all cases, debt relief is creditor-driven, at the discretion of the creditors (DMO, 2004).

2.4 Nigeria in the context of debt relief

According to DMO (2004) there are three measures that have been applied to developing countries by creditors, these are the

- "Traditional" Approaches;
- HIPC (Heavily Indebted Poor Countries) initiatives; and
- Evian Approach.

2.4.1 Traditional approaches — endless cycle of rescheduling

For many decades creditor countries have relied on the "traditional approach" towards addressing international debt crisis. This has taken the form of debt rescheduling and refinancing, complemented in varying degrees by minor cancellations, especially for Overseas Development Assistance or ODA (soft, development-oriented) debts; debt buy-back; debt conversion and other restructuring mechanisms. The relief measures have centered on a number of key elements, including: (i) the requirement for adoption of macroeconomic stabilization and structural reform programmes endorsed by the Bretton-Woods institutions; and (ii) the requirement for establishing a track record of economic reform performance before qualifying for debt relief. The major relief measures involved are as follows:

The Venice Terms. These were introduced in 1987 for the poorest countries that were undertaking adjustment. The terms provided for lower interest rates, and longer repayment and grace periods. Nigeria did not benefit under this.

The Toronto Terms. These succeeded the Venice Terms in June 1988 and were made available for the low income, heavily indebted IDA-only (for International Development Association-only) countries. The terms provided lower interest rates, further lengthening of maturities and partial debt service write-offs that together could provide about 33 per cent debt service relief. Again, Nigeria was not a beneficiary under the Terms.

The Houston Terms. These were proposed in July 1990 for the middle-income countries and allowed for deferrals of payments, rather than debt reduction. Nigeria's debts were rescheduled four times under this arrangement.

The Enhanced Toronto Terms. These were formulated in 1991 to provide 50 percent debt service reduction as well as other enhancements that could ensure more even spread of debt service payments. However, Nigeria did not benefit here.

The Naples Terms was adopted in December 1994 for the poorest and most-indebted countries. They provided up to 67 percent relief on the net present value of the debt which could apply to I stock and flows depending on each country's balance of payments Nigeria's debts were not reduced under Naples Terms until 2005 cured debt relief.

2.4.2 The HIPC (Heavily Indebted Poor Countries) initiatives

The objective of this Initiative is to reduce the debt burden of those poor countries adjudged to be heavily indebted to a l they would have capacity to repay that is to "sustainable levels" It was f in 1996 before the "Enhanced" version replaced it in 1999 before the "enhanced" is designed to provide according to the Bretton Woods Institutions "faster deeper and broader debt relief and strengthen the links between debt relief, poverty reduction and social policies".

In order to reach the Decision Point, all eligible countries requesting HIPC initiative assistance must have prepared a Poverty Reduction Strategy Paper (PRSP). They are also required to adopt adjustment and reform programs supported by the IMF (in ff form of Poverty Reduction and Growth Facility, PRGF) and the World Bank, with a satisfactory record of compliance. Also the Debt Sustainability Analysis would have to show that the country's debt capacity indicators meet the above criteria. Upon attainment of the Decision Point, the country would get the debt stock relief. During the period between the Decision and Completion Points, which is "floating" or not time bound, the country would have to establish a further track record of good policy performance under the IMF/World Bank-supported programs including satisfactory implementation of key structural and macroeconomic policies and poverty-reduction strategy. Both official and commercial creditors are supposed to participate in the enhanced Initiative.

The eligibility for HIPC debt relief is based solely on low per capita income level, high debt sustainability indicators (mainly, high external debt/export ratio), and having the status of being an "IDA-only" country. While many countries with similar debt sustainability indicators and per capita income level as Nigeria have either benefited or are deemed to be potentially eligible to benefit under the Initiative, Nigeria was denied eligibility technically, because Nigeria does not have the "IDA-only" status. A country is accorded by the World Bank an "IDA-only" status if it has a low per capita income (not more than US$885) and a lack of creditworthiness for international market-based borrowing. With a per capita income of below US$300 and lack of access to foreign credit markets, Nigeria should have been accorded the "IDA-only" status and, hence, should have been eligible to seek HIPC debt relief. But, surprisingly, Nigeria has been denied eligibility However n moderately indebted low-income countries and even some middle-income countries are eligible HIPCs (and hence accorded "IDA-only" status) while Nigeria, severely indebted low-income country was not. A probable reason for being d status that the Bretton Woods Institutions would adduce as an excuse was Nigeria's policy reform stance But this stance has since improved dramatically recently and the status of Nigeria still was not reviewed This gave rise to a speculation that Nigeria, Pakistan and Indonesia were denied "IDA-only" status and hence HIPC eligibility; that Nigeria is an "oil-rich" country seems to provide an inadequate ex for its exclusion (as some are prone to speculate) since Cameroon, a country with greater oil contribution relative to the size of its economy, is an eligible HIPC (DMO, 2004).

2.4.3 Evıan approach to bilateral debt relief

The 2003 G8 Summit in Evian reached an agreement on debt relief and this is what has since been referred to as the Evian Approach. The approach sets out changes to the way in which the Paris Club will treat all non-HIPCs - low — and middle-income countries.

Traditionally, the Paris Club has offered debtor countries a menu of options, depending on their level of indebtedness, but also on their income grouping. The poorest (IDA-only) countries could receive relief on Naples Terms, a two-third (2/3) reduction in their stock of debt, or for countries involved in the Enhanced HIPC Initiative, which (though only in principle) is around 90% debt reduction. For other countries, the most generous deal available was Houston Terms, under which debts are rescheduled over 20 years, but with no debt write-off. But under the Evian Approach, there is a more flexible approach adopted by the Paris Club, according to which deals would not be based on pre-defined terms, but would instead be adapted to meet a country's individual circumstances. So, it is designed to be a tailor-made approach and it is linked to a debt sustainability analysis prepared by the IMF. The Paris Club would now look at the sustainability of a debtor country's long term debt position, as opposed to short-term cash needs. If the debt position is clearly seen to be unsustainable, creditors will adopts a more active approach, including debt reduction if necessary, with the aim of offering a long-term solution.

However, this Approach, unlike the HIPC, ignores both multilateral and commercial debts, which constitute about 20 percent of Nigerian debt stock; it only affects official bilateral debts (DMO, 2004).

2.5 Nigeria's external debt creditors

Nigeria external debt can be grouped in two main categories: official and private debts.

a. Official debts components are Paris Club debts, multilateral debts and Non-Paris Club Bilateral debts

b. The private debt components on the other hand, are made up of uninsured short-term arrears contracted through the medium of bills for collection, open account etc Commercial bank debts o through loans/letters of credit are referred to as London Club debts (DMO, 2001).

2.5.1 What is the Paris club/Paris club debt?

The Paris Club is an informal group of official money lenders formed in 1956 with its Secretariat in Paris. The Club has no legal basis or status. Its role is to find coordinated and sustainable solutions to the payment difficulties experienced by countries indebted to it. It is a voluntary gathering of creditor countries willing to treat in a coordinated way, the debt due to them by the developing countries. The Paris Club debts are government to government credit guaranteed by various export credit agencies of creditor countries (DMO, 2001; www.dmo.gov.ng).

The following 19 countries are permanent Paris Club members: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russia Federation, Spain, Sweden, Switzerland, United Kingdom and United States of America. The following countries sit in Paris Club meetings on an as needed basis: Abu Dhabi, South Africa, Argentina, Brazil, Korea, Israel, Kuwait, Mexico, Morocco, New Zealand, Portugal, Trinidad and Tobago, and Turkey (www.dmo.gov.ng).

Failure for Nigeria to honour its payment obligations to the Paris Club undermined the country's efforts to obtain substantial debt relief over the medium term. Another consequence of defaulting on the Paris Club Agreement, particularly with respect to the payment of agreed debt service payments, was the confirmed inability of Nigeria to benefit from credit facilities, which lower the cost of doing business. Export credit agencies in Paris Club creditor agencies do not provide cover and risk guarantees to countries in default of debt service payment. Business and government agencies from such countries such as Nigeria seeking to import goods and services will be required to pay the full 100 per cent cost upfront, even against deliveries that will take several years (DMO, 2001).

2.5.2 Multilateral debts

These are project loans owed to multilateral financial institutions (e.g. World Bank group, African Development Bank, European Investment Bank, IFAD, and ECOWAS) by Federal and State Governments and their agencies. Credits and loans from multilateral institutions are to be serviced immediately they are due. Debt service payments to the World Bank are due every 15 years, while ADB debt service payments occur almost as frequently. Currently, these debts are not subject to debt relief or rescheduling and carry stiff consequences in case of default. Sanctions are invoked 30 days after due date.

• The implication of loan default on multilateral loan and credits from the World Bank and ADB, Nigeria's major multilateral creditors, are indicated below:

• Prohibition of the Borrower/Guarantor from signing any new loan or guarantee agreement with the Bank Group.

• Suspension of disbursements in respect of all Bank Group loans granted to the Borrower/Guarantor.

• Suspension of the granting of any new loans by the Bank Group to the Borrower/Guarantor.

• Application of the gross effective sanction clause to the Borrower and to the Guarantor as the case may be. In this instance, all service payment due would require to be settled before the 6 day.

The imposition of the above sanctions by the multilateral institutions, adversely affects a country's credit-worthiness as well as its access to further foreign credits or loans, including direct foreign investment. Nigeria's rights to these multilateral agencies were also suspended and all other member countries were notified about its insolvency (DMO, 2001).

2.5.3 Non-Paris club bilateral debts

Debts owed by the government to countries, which are not members of the Paris Club and creditors resident in Paris Club countries whose debts are not insured by the Export Credit Agencies. Defaults in this category of debts incur penalty charges in the form of late interest which are usually 1-2% above the normal interest charged (DMO, 2001).

2.5.4 London club and commercial debts

The London Club is a group of commercial banks that come together to negotiate the restructuring of their claims against a debtor country. London Club debts are arrears of commercial Bank debts arising from Letters of credit and loans. They consist of Promissory Notes consolidated in January 1984, and Brady Par Bonds which were issued during the January 1992 London Club Agreement.

Defaulting on London Club debts carries stiff penalty. The present instruments carry enormous legal obligations. For example under existing terms, if promissory notes payment is not received as and when due, creditors could attach the assets of the Central Bank and NNPC anywhere in the world, as Nigeria agreed to waive its sovereign immunity under the terms of the agreement (DMO, 2001).

3. NIGERIA'S DEBT MANAGEMENT STRATEGIES AND DEBT RELIEF DEAL

3.1 Managing paris club debt

In accordance with Paris Club Agreed Minute IV, the Debt Management office of Nigeria had been negotiating on a bilateral basis with the fifteen creditor countries on the specific details of each agreement. The negotiations focused on the final reconciliation of eligible debt, as well as bilateral negotiations on the specific terms of rescheduling the eligible debts, including the applicable interest rates. The last of such negotiations was concluded with Italy in October 2004, and the details of all the bilateral agreements reached between Nigeria and its Paris Club creditors are provided in Table 3 below.

Table 3: Status of Paris Club Bilateral Negotiations/Agreements as at 31st December 2004

	COUNTRIES	PRESENT STATUS
1.	Austria	Fourth Bilateral Debt Rescheduling Agreement signed December 2002.
2.	Denmark	Fourth Bilateral Debt Rescheduling Agreement signed August 2003.
3.	Belgium	Fourth Bilateral Debt Rescheduling Agreement signed September 2003.
4.	Finland	Fourth Bilateral Debt Rescheduling Agreement signed January 2003.
5.	France	Fourth Bilateral Debt Rescheduling Agreement signed January 2003.
6.	Germany	Fourth Bilateral Debt Rescheduling Agreement signed September 2002.
7.	Italy	Fourth Bilateral Debt Rescheduling Agreement and Debt Swap Agreement signed October 29, 2004.
8.	Israel	Fourth Bilateral Debt Rescheduling Agreement signed January 13, 2002
9.	Japan	Fourth Bilateral Debt Rescheduling Agreement signed September 19, 2003.
10.	Netherlands	There are two Bilateral Debt Rescheduled agreement for the commercial loans, signed October 17, 2003; and the agreement for ODA signed September 23, 2004
11.	Russia	Fourth Bilateral Debt Rescheduling agreement with Russia was signed October 22, 2003
12.	Spain	Fourth Bilateral Debt Rescheduling Agreement Signed April 2003
13.	Switzerland	Fourth Bilateral Debt Rescheduling Agreement signed January 24, 2002.
14.	U.K.	Fourth Bilateral Debt Rescheduling Agreement signed March 27, 2003
15.	U.S.A.	Fourth Bilateral Debt Rescheduling Agreement signed September 11, 2003.

Source: Debt Management Office (2004) Annual Report and Statements of Accounts. P.26

3.2 Nigeria's external debt

Nigeria's total external debt outstanding as at December 31 2004 was US$35.94 billion made up as follows:

• US$30.85biIIion or 85.82% was owed to the Paris Club

• US$2.82billion or 7.86% was owned to Multilateral Institutions

• US$1 .44billion or 4.01% was owed to the London Club

• US$0.78billion or 2.18% was owed to the Promissory Note holders

• US$0.O48billion or 0.13% was owed to non-Paris Club creditors.

Clearly, the largest proportion of Nigeria's debt was owed to the Paris Club which was about 85.82 per cent of total external debt. This also means that success in securing substantial reduction on this category of debts was critical to Nigeria exiting the debt trap (www.DMO.gov.ng).

3.3 Sources of Nigeria's Paris club debts

These are loans insured through Export Credit Agencies of creditor governments or their appropriate institutions, extended to the Federal Government of Nigeria (FGN), the States and other public entities and which are covered by the guarantee of Federal Government of Nigeria. The Paris Club debts also include commercial credits or trade arrears incurred by private entities which have been verified by the Federal Government of Nigeria.

Nigeria had rescheduled its debts on four different occasions: 1986, 1989, 1991 and 2000. The effects of rescheduling include (see Table 3):

- extending the period of repayment, and

- improving the means with which payments are made.

However, despite these rescheduling agreements, Nigeria's Paris Club debt still continued to increase because of the country's inability to fully pay what was due each year (DMO 2004 www DMO gov.ng). Nigeria's debt outstanding to each of its Paris Club creditor countries as at December 31, 2004 is displayed in appendix 1.

4. THE POLITICS OF DEBT RELIEF

The debt overhang is as bad as slave trade and it is a way of slowing down a nations development (Obasanjo 2004) The creditor have outrageously blown the debt burden through long-term rescheduling made repayment very difficult In the years past Nigeria has spent nothing less 4 US$2 billion annually on debt servicing Between the late 1980s and mid 199A Nigeria was believed to have obtained external loan of less than US$15 billion; since then it has paid a total of about US$48 billion and owes over US$34 billion apparently due to capitalization of interest and punitive charges, exchange rate depreciation (Business Times, 2004; Ezeabasili, 2006).

4.1 Nigeria's case for debt relief

The furore over Nigeria's eligibility status for debt relief dates back to 1998 when it was mysteriously dropped from the group of Heavily Indebted Poor Countries (HIPC), which were then entitled and qualified to receive a minimum of 67% reduction in their debt stocks. Nigeria's disqualification was, ostensibly on the grounds that it was a blend country. That is, Nigeria was deemed to belong to a group of countries, which were eligible for both non-concessionary (commercial-rate) loans from the International Bank for Reconstruction and Development (IBRD) as well as concessionary loans from the soft lending arm of the World Bank, the International Development Association (IDA), although Nigeria had not borrowed from the IBRD since 1993. However, Nigeria at present did not re-seek HIPC status for debt relief, but would prefer to pursue the "Evian approach" which works on a case by case basis (DMO, 2004).

From most accounts, Nigeria's debt was unsustainable. All available poverty and debt indicators point to the fact that Nigeria deserved substantial debt relief. Nigeria has a very high incidence of poverty with close to 57% of the population living in abject poverty, defined by the world community as living on less than US$1 per day. Nigeria has been ranked 151st out of 177 countries in the 2004 United Nations Human Development Indicator ranking. While the major indicators have improved considerably over the last three decades, life expectancy of 51 years and adult literacy of 65% are still among the lowest in the world, even when compared with other developing countries. Infant mortality at 110 per 1,000 and maternal mortality at 1 000 per 100 000 live births are among the ht in the world Nigeria may be perceived as a rich country but with a population of over 132 million in per capita terms Nigeria does not match up with other able oil exporting Sub-Saharan African countries like Gabon and Angola and is more aligned to other HIPC countries like Cameroon (DMO 2004)

Indeed there is the strong perception that 4 may have been accorded unequal treatment with clear instances of do standards on the issue of the application of debt relief of deserving countries. The World Bank has continued to call Nigeria a 'blend' country although it has the char of an 'IDA-only' country. This double standard continued to limit Nigeria's access to concessional credit and substantial debt relief (Moss, Stanley and Birdsall, 2004).

Furthermore, Nigeria is poorer than Iraq and its oil wealth per capita falls far below that of Iraq, the latter has benefited from substantial debt cancellation, obviously for political and strategic reasons. These, if analyzed carefully, may well apply to Nigeria. Additionally, aid to Nigeria of less than US$2 per capita was amongst the lowest in the world. Despite this aid, after debt service payments, a net transfer was made from Nigeria to rich governments of over US$12 for every Nigerian annually. Therefore, given its high debt level and debt servicing obligations, it is doubtful that Nigeria will meet the millennium development goals (MDGs) targeted date of 2015. Indeed, of the US$3.2billion debt service due in 2005, (of which US$2.5billion was owed to the Paris Club), and an additional US$4.3billion in arrears, only US$1 .7billion was allocated in the budget for the year (DMO, 2004).

Nigeria has obtained debt relief through a series of debt rescheduling agreements, mainly with the Paris Club, and opportunistic buy-backs. However, the general belief was that these measures were not adequate to address the high debt burden of the country. There was therefore the need to complement the above “conventional” approaches with deeper debt relief in the form of substantial debt cancellation. Nigeria had embarked on a major programme of reform to increase the efficiency of public service delivery and expenditure management, cut corruption and promote the rule of law (DMO, 2004).

This is important because Nigeria needed to address head-on the concerns of creditors that savings from debt relief would be mismanaged, or that it would simply open another avenue for corruption. Creditors need to be assured that savings would go to the neediest of areas in education 4 and other critical sectors that impact directly on poverty alleviation and that a transparent and effective system for the allocation of the resources would be put u (DMO 2004)

Specific actions that the Federal Government d on towards this end are

a) A public expenditure management pF4 and the establishment of a Virtual Poverty Fund (VPF) to provide a framework for a transparent and effective system of resource allocation

b) The formulation of a Fiscal Responsibility Bill, the aim of which is to ensure transparency and accountability in public governance and the setting up of government agencies, like the Economic and Financial Crime Commission (EFCC) and Independent Corrupt Practice Commission (ICPC), to deal with corrupt practices (DMO, 2004).

4.2 Nigeria’s quest for debt relief

With the return to civilian rule in 1999, Nigeria embarked on a relentless campaign for debt relief. Nigeria’s debt, which stood at US$35.94billion in December 2004 was unsustainable, President Obasanjo campaigned. “*Nigeria pays more on interest payments than it does health care. Given this debt level, Nigeria cannot achieve the Millennium Development Goals*” (www.Dmo.gov.ng).

Accordingly, the quest for debt relief was declared a priority of the Obasanjo administration upon his assumption of office in May 1999. To achieve this objective, a Debt Management Office (DMO) was established in October 2000 as the sole agency responsible for the management of the country’s debt.

With the concerted efforts of President Obasanjo, the Ministry of Finance, National Assembly, DMO, the Economic Management Team, NGOs and other stakeholders, the credible implementation of the country’s National Economic Empowerment and Development Strategy (NEEDS), as well as the securing of an IDA only status for Nigeria (a factor very supportive for debt relief), the creditors and multilateral financial institutions began to positively consider Nigeria for debt relief.

In 2005 the campaign for debt relief reached a climax when Great Britain, acting as chairman of the G8, brought to the fore Third World, and particularly, African debt issues. At their meeting on Wednesday, June 20, 2005 the Paris Club announced its decision to grant debt relief to Nigeria (www.dmo.gov.ng)

4.2.1 Nigeria’s debt relief deal with Paris club

The agreement consists of three parts

The Paris Club agreed to give Nigeria “Naples terms” debt relief. This simply meant that the club will write off a minimum of the total debt stock. The name “Naples Terms” comes from the first time used in Naples Italy in 1994 that a reduction of up to 67% could be applied to a debtor country.

Nigeria was required to settle arrears owed to the Paris Club. Arrears are amounts of principal, interest and late interest that have been due, but have not been paid. These payments are known as “arrears”. It is a standard requirement of the Paris Club for a debtor to clear its arrears prior to commencement of any debt relief negotiation. It should be noted that Nigeria’s case is exceptional in the sense that the debt agreement was made even before the settlement of the arrears.

Once the arrears have been paid, there would be a reduction of the debt stock in favour of Nigeria, followed by a “buy back” of the remaining stock as appropriate (www.DMO.gov.ng).

What this meant for Nigeria in practice are the following:

1) About US$6billion, which was in arrears, would be paid up front.

2) Nigeria's total indebtedness to the Paris Club amounting to $31 billion would be reduced by 60% or US$18billion.

3) The remaining amount of about US$7billion would be bought back at a discount.

Through this process Nigeria would have cleared the entire US$31 billion owed to the Paris Club. Usually, to reach a deal with the Paris Club, a country is required to have a formal agreement with the IMF. Nigeria does not have an IMF program, but had to sign up to a new framework with the IMF known as a Policy Support Instrument (PSI).

This is essentially an arrangement for IMF officials to endorse NEEDS, Nigeria's locally driven economic reform program. The IMF already endorses NEEDS on a quarterly basis. The PSI only formalized this endorsement arrangement.

After arrears have been paid and the PSI signed, Nigeria had another meeting with the Paris Club in September 2005 to conclude details of the agreement. Between September 2005 and March 2006 the debt write off occurred and the buy back processed thereby ensuring that Nigeria no longer owes the Paris Club any money However Nigeria still had external debt outstanding of about US$5billion owed to Multilateral Financial Institutions, Promissory Notes Holders, London Club Creditors and Non-Paris Club Bilateral Creditors. Over the years Nigeria has continued to meet its obligations to these group of creditors as and when due. (www.DMO.gov.ng)

This debt relief effort yielded fruit on June 29 20 the Paris Club and Nigeria agreed on an US$1 8billion debt relief package that is 60% debt cancellation out of about US$31 billion owed by Nigeria. The debt relief granted on Nigeria was on humanitarian grounds. The kind of relief which will guarantee Nigeria's permanent exit from Paris debt trap is politically expedient as creditor-nations manipulate debt as a potent instrument of control for political colonialism.

As at the 4th of April 2007, Nigeria virtually exited the debt owed the London Club of Creditors after it paid $82m oil warrant. The Nigeria's remaining external debt is about $3.035bn made up of $2.65bn multilateral, $326m bilateral debt, and $101m commercial debt (Faloseyi, 2007).

The Implication/gains of Debt Relief:

• The debt write off of US$1 8billion is a direct savings on debt service payments of which the country would have had to make over the next 20-22 years.

• Henceforth, the Government will be able to spend an additional US$1 billion, which could have been used for debt service payments annually to fund education, health and other socio-economic services and infrastructure. This applies to both the Federal and State Governments and will assist Nigeria to meet the Millennium Development Goals.

• The debt deal will de-classify Nigeria as a "bad and doubtful debt" country. This will encourage the inflow of investment.

• Export Credit Guarantee Agencies will be confident to restore insurance cover for exports of goods and services, as well as investment capital to the Nigerian private sector. This will improve the competitiveness of private enterprises.

• Nigeria's early and permanent exit from the Paris Club debt overhang will bring a psychological and emotional relief to all Nigerians (www.DMO.gov.ng).

5. THE WAY FORWARD

After the exit of the Paris Club debt, what next? The next issue to address is the future of the country (Nigeria). The federal government has put the following measures in place to prevent further reoccurrence of the past mistakes:

• The government has set up a Virtual Poverty Fund, which is a framework for monitoring and tracking expenditures to meeting the Millennium Development Goals (MDGs) as provided in the budget: poverty alleviation, health, education and infrastructural development.

• Efforts to enhance and strengthen existing guidelines on public borrowing in line with relevant provisions of the DMO Act.

• The Fiscal Responsibility Bill has been designed to consolidate the gains of the economic reform and prevent a relapse of the past. The Law will commit all tiers of government to a set of rules for efficient economic management in terms of standardized planning, as well as control and monitoring of public borrowing and expenditure. Early passage of this bill into law will have a very positive effect on debt management.

It is advisable that Nigeria should incur concessional debts to aid poverty alleviation and for the improvement of infrastructures.

6. CONCLUSION

With Nigeria's final exit from Paris and London Clubs debts, Debt management office as at the 4th of April 2007, estimated the remaining external debt at about $3.035bn made up of $2.65bn multilateral debt, $326m bilateral debt and $101m commercial debt.

The exit of Nigeria external debt burden from the Paris Club and London Club of creditors will revitalize the country's image from poor and pariah state to credible and industrious sovereign state. It will also restore the country's confidence in the participation and the influence of issues in the international arena.

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