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"A high-risk political strategy"

by David White, April 26, 2005

The stakes have been rising in Nigeria's bid for relief on its foreign debt which, at almost Dollars 36bn, is the largest in Africa. The government wants a deal from the Paris Club of bilateral government creditors, which holds the bulk of the debt, for a two-thirds reduction. It is arguing that it needs a write-off soon to counter political pressure at home and gain public acceptance for an unpopular programme of economic reform and fiscal discipline.

At the same time, by giving a high profile to the campaign, President Olusegun Obasanjo and his team have brought a patriotic dimension to their reform strategy, showing themselves as fighting for national interests on an international stage.

Some experts in Abuja see a danger of this approach backfiring badly if Nigeria fails to get a deal by the end of this year. Continued stalemate with creditors or a less favourable settlement, they say, would undermine the position of Mr Obasanjo's team of modernising technocrats, spelling the end of the reform programme and condemning any subsequent chances of securing a debt write-off.

Arguing the case for debt forgiveness has been hard at a time when Nigeria has been using high oil export prices to build record foreign exchange reserves, now equivalent to abut 60 per cent of its outstanding external debt. But Ngozi Okonjo-Iweala, finance minister, insists: "We don't want to wait until oil prices crash."

She accuses the less amenable creditors of being "politically naive" and lacking imagination. Recalling a resolution passed last month in the lower house of the National Assembly calling for a unilateral cessation of debt payments, she says the government faces pressures it cannot always control. Creditors need to find a solution, she warns, "because, if they don't, we don't know where this is going. It might result in their not getting anything at all".

Britain, the leading creditor with about Dollars 8bn outstanding, has been Nigeria's chief supporter. Nigerian negotiators say the US has also been sympathetic, with the strongest reservations coming from the Netherlands, Germany and Japan.

As an oil producer, Nigeria was disqualified from the Highly Indebted Poor Countries (HIPC) scheme backed by the World Bank and the IMF. But why, Nigerians ask bitterly, should Iraq obtain debt relief and Nigeria be excluded? Countries completing transition programmes under HIPC receive 90 per cent write-offs.

In its report last month, the British-appointed Commission for Africa backed the extension of relief to Nigeria under a wider "debt compact", calling for up to 100 per cent cancellation for those poor countries that needed it.

Paris Club negotiators, however, want first to see proven results of Nigeria's reforms, especially in tackling corruption. "Why would anybody relieve you of your debt if they suspect you of embezzling the whole time?" one Nigerian economist agrees. Others argue that it is hard for Nigeria to demonstrate that default is imminent.

Nigeria's cause was little helped by an IMF staff mission statement last month concluding that, at current oil prices, its debt was sustainable. However, the IMF made clear this would not be the case if prices reverted to historical levels of about Dollars 20 a barrel. Officials say its forthcoming report will also factor into calculating the country's financial requirements for moving towards UN-agreed Millennium Development Goals in the next 10 years.

Nigeria's debt service bill now runs at more than Dollars 3bn a year and is projected to remain in the Dollars 2.5bn to Dollars 3bn range up to 2015. Since it is paying just over half this amount, the debt continues to build up. According to government figures, payments made to the Paris Club alone exceed the country's total public health spending.

One of the obstacles to a Paris Club deal is the lack of a standard IMF programme, although the IMF monitors the government's own programme under an "intensive surveillance" arrangement. Mr Muhtar says the idea of an IMF deal presents "an insurmountable barrier" for Nigerians after the bitter experience of the 1980s, which coincided with steep economic decline and the collapse of health and education systems which have never recovered. "You cannot get the university students to endorse the IMF, never, never," he says.

The debt, mostly with a handful of bilateral creditors, built up in the early 1980s and accumulated as subsequent military governments stopped payments. Penalties and arrears on capital and interest make up Dollars 5.7bn of the total.

Since 2000, when the Debt Management Office was set up, Mr Muhtar says, Nigeria has made payments of Dollars 6.9bn but its debt stock has risen by Dollars 7.4bn. Not having a sovereign commercial rating, Nigeria has little access to credit on the international market. Nor, unlike fellow oil-producer Angola, does it enjoy the top concessional status within the World Bank, a standard condition for the debt relief terms it wants.