

Nigerian debt

## Clean slate

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### Africa's biggest debtor reaches agreement with its rich-country creditors



AP Mrs Okonjo-Iweala sealed the deal

THE 34 billion barrels of oil reserves lying beneath the swamps and seabeds of Nigeria are the result of millions of years of geological pressure. Political forces nearly as strong resulted this week in something almost as prized: a deal to forgive about 60% of the \$31 billion the country owes to the Paris Club, an informal group of rich-country governments.

In the past, Nigeria's black gold has proved an obstacle to erasing its red ink: why should its creditors forgive the liabilities of a country blessed with such a valuable natural asset? But Nigeria's recent oil-revenue windfall, much of which is sitting in its central bank's vaults, has lubricated this week's deal.

The country will draw on its \$26 billion of reserves to clear its arrears with its Paris Club creditors, which amount to about \$6 billion. In about six months' time, it will then offer to buy back all of its remaining Paris Club debt at 24 cents on the dollar, an offer worth another \$6 billion or so. All in all, then, Nigeria will repay about \$12 billion of the \$31 billion it owes the Paris Club.

In the meantime, Nigeria must preserve the rough macroeconomic stability it has won in the past 18 months. Normally, any country that pleads forgiveness before the Paris Club must first accept the charity and chastity of a full IMF programme. But the Fund has an unfortunate reputation in Nigeria. So the IMF will monitor the country's progress at one remove, using a new "instrument" it has invented for the purpose, and without offering any money.



As Lex Rieffel, of the Brookings Institution, points out, Nigeria's commercial creditors forgave much of its debt as long ago as 1992. But the Paris Club governments were more fussy. They did not want to deal with General Sani Abacha, in power between 1993 and 1998, and he did not want to deal with them. In the past couple of years, much has changed. Nigeria's forceful finance minister, Ngozi Okonjo-Iweala, has sought to redeem Nigeria's woeful reputation in the centres of financial power, and the country's biggest creditor, Britain, has been equally keen to demonstrate its commitment to fighting poverty in Africa. The offer of \$12 billion did the rest.

The buy-back puts cash in the hands of creditors, who grew accustomed over the years to receiving precious little from Nigeria. It also has political virtues, according to Todd Moss of the Centre for Global Development, the Washington think-tank that first proposed the buy-back. In the past, he points out, Nigeria's oil windfalls have been squandered. Therefore it is better to spend this money now, by paying off future obligations, than to leave it piling up in the central bank, as an open invitation to irresponsibility. Oil money is here today, mis-spent tomorrow. Debt relief is for ever.

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Lex Rieffel, an expert on Nigeria, has written a number of [articles](#) on debt restructuring. The Centre for Global Development proposed the [programme of debt relief](#) which the [Paris Club has agreed to](#). The IMF will [monitor the programme's implementation](#).

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