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Double-Standards, Debt Treatment, and World Bank Country Classification: The case of Nigeria

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Abstract

Nigeria is currently classified by the World Bank as a 'blend' country, making it the poorest country in the world that does not have 'IDA-only' status. This paper uses the World Bank's own IDA eligibility criteria to assess whether Nigeria has a case for reclassification. Given that the country has not borrowed from IBRD for the past eleven years, such a change would merely recognize what is already de facto the case. Based on our analysis, Nigeria clearly qualifies as IDA-only based on its low income level and lack of creditworthiness. Its record of policy performance appears to be the final barrier, but we show it is no worse on performance than three African comparator groups: the current IDA-only pool, previous reverse-graduates, and the IDA-only oil producers. We also question the logic of this criterion for IDA-only 'eligibility' (though not of course for actual allocation or disbursements). Certainly, Africa's three previous reverse-graduates and Angola's current IDA-only status suggest that Nigeria is facing a double-standard. We thus conclude that Nigeria does have a strong case for reclassification. Nigeria has good reason to request such a change as it would allow it more equal consideration of its access to IDA grants (restricted to IDA-only countries) including for HIV/AIDS programs and its allocation of IDA loans. Reclassification would also strengthen the case for Nigeria receiving an immediate write-down of a large portion of its debt to bilateral donors (along the lines of concessional Naples terms for IDA-only countries), which we argue is critical to any hope that the current government's economic and political reform efforts can be sustained. The creditors have good reason for supporting such a change as part of a broader strategy for encouraging progress in Africa's most populous country, and one that is key to stabilizing a region where internal conflict and Islamic radicalism create threats to global security.

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1. Introduction

The international system for allocating aid and resources to low-income countries has evolved substantially over the past decade. One common eligibility criterion for many mechanisms of assistance has been a country's status within the World Bank. Countries deemed to have certain characteristics (in general very low average income and no access to private finance) are classified as 'IDA-only.' This makes them eligible for highly concessional loans and grants, and in principle, for special programs of debt stock reduction and debt relief. Critically, a country's classification by the Bank has applied not only within the World Bank Group itself, but has been used by other external institutions as well, such as the Paris Club. Conferring IDA-only status on a country is a signal to donors and creditors that a country faces special development challenges and should be considered in a different light from other developing countries. In practice, the international aid system allocates extra benefits to countries deemed IDA-only and denies some of those benefits to countries classified otherwise.

Nearly all poor countries are IDA-only, with one notable exception: Nigeria. Indeed, Africa's most populous country is the *poorest country in the world that is not IDA-only*. This has many implications, most notably in the way Nigeria's external debt has been handled by creditors. Over the past decade there has been substantial movement toward relieving the external debts of low-income countries, including through increasingly concessional terms from the Paris Club and the Heavily Indebted Poor Countries (HIPC) Initiative. Yet, Nigeria, which currently has an external debt stock of some $33 billion, has not benefited at all from either of these programs.[2] Nigeria was excluded from HIPC consideration based on its IDA status and it was also *ex ante* disqualified from soft Paris Club terms, such as Naples terms which would have reduced debt

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[2] See Appendix 1 for more detail on Nigeria's debt profile.

stocks by 67%.[3] This occurred even though one of the founding principles of HIPC is "equitable treatment among debtors" (Madavo 2001). The introduction of more flexible Evian terms by the Paris Club in October 2003 has (at least on paper) removed the automatic disqualification based on World Bank status, but Nigeria has nonetheless not yet benefited from this change. A reclassification of its IDA status would certainly strengthen its case for more favorable treatment.

At the same time, World Bank resources are allocated to countries through a formula that considers country performance and characteristics, such as population size and Bank classification. Nigeria's 'blend' status means that it does have access to IDA funds, but not necessarily at the same level that it would if it were IDA-only. Bank classification has become even more relevant since the introduction of IDA grants in the IDA-13 replenishment round and the certain expansion of the grants window under the IDA-14 round which begins in July 2005. Countries that are not IDA-only will not have equal access to IDA grants, and may even be fully excluded (World Bank 2004a).

In this paper we question Nigeria's status as IDA-only within the World Bank Group. Among the 48 sub-Saharan countries, 37 are classified as IDA-only, nine are IBRD-only, and Nigeria and Zimbabwe are in a special 'blend' category that allows access to both windows. To make the case for a change in Nigeria's IDA status we lay out IDA's eligibility criteria (section 2) and assess Nigeria against these requirements. We ask if the application of the current criteria is consistent and if Nigeria is being treated fairly relative to other countries. We find that Nigeria clearly qualifies as IDA-only on at least two out of three variables (section 3). Though a definitive judgment of the third criterion is less clear, we conclude—based on equitable treatment and performance relative to other IDA-only countries including oil producers and other reverse graduates—that there is a good case for IDA-only status (section 4). We then explore the implications of reclassification, focusing on Nigeria's debt problem (section 5). In section 5 we also discuss why creditors and donors should support such a reclassification and immediate debt relief, and consider some reasons why these have not yet occurred. We draw conclusions in section 6.

2. What is IDA Eligibility?

The International Development Association (IDA), established in 1960, is the arm of the World Bank Group that provides long-term low-interest loans and grants to the poorest developing countries. It is now the single leading provider of finance for African governments. The underlying objective of IDA "is to help poor countries to reduce poverty by growing faster, more equitably and on a sustainable basis" (World Bank 2001a, para. 3). Operationally, IDA views its lending as a "transitional instrument of concessional support," from which countries should over time graduate to a more "robust engagement in the world economy" and "correspondingly normal relationships with international financial markets" (ibid). IDA is thus viewed as a temporary soft financing source for low-income countries until governments are able to borrow on commercial terms from private capital markets and the World Bank's regular credit window, the International Bank for Reconstruction and Development (IBRD). Once countries no longer

[3] Nigeria was initially listed in HIPC, but later dropped from the list. There is speculation this was politically motivated (see, e.g., Sachs 2003; Nigeria High Commission 2000), but the Bank maintains it was because of the country's IDA status (see www.worldbank.org/html/extdr/spring99/hipcts042399.htm).

need IDA financing, they are deemed to 'graduate,' a process completed by 32 countries so far, nine of which have since at least partly re-entered IDA.

IDA uses three criteria to determine which countries are eligible to borrow its resources, detailed in the 2001 World Bank document *IDA Eligibility, Terms, and Graduation Policies*:

- *Income*. The first requirement for IDA eligibility is a country's relative poverty, using per capita income calculated by the World Bank Atlas methodology as the basic indicator. In order to qualify, a country's per capita income must be below an annually updated operational threshold. In 2004, the cutoff was $865 GNI per capita (www.worldbank.org/ida).

- *Non-access to private capital markets*. The second requirement for IDA eligibility is a lack of creditworthiness to borrow on market terms, both from the IBRD and from private creditors. In general, IDA defines creditworthiness as "the ability to service new external debt at market interest rates over the long term" (World Bank 2001a, para. 10).

- *Policy performance.* The final criterion for IDA eligibility is a record of "good policy performance," defined by the Bank as "the implementation of economic and social policies that promote growth and poverty reduction" (www.worldbank.org/ida).

The first two criteria are relatively concrete and identifiable measures whose application is readily transparent to external observers and member governments. The third policy performance requirement is much more subjective and there has not yet been a clear definition of 'good policy performance' that can be used as a standard evaluative mechanism across countries. Instead, this criterion appears intentionally ambiguous: "appropriate standards of performance—of which macroeconomic stability is an important one—would need to be decided according to individual country circumstances" (World Bank 2001a, para. 15).

The underlying reason for the inclusion of a performance criterion in the IDA eligibility framework is based on a reasonable concern over moral hazard. Specifically, by including a policy performance requirement, IDA management hopes to "avoid an outcome in which concessional IDA funds seemingly become a 'reward' for economic mismanagement" (ibid, para. 14). In its current application, however, the policy performance requirement has created several other potential tensions.

First, the standard and process of classification are sufficiently vague to undermine the transparency and credibility of the eligibility decision-making process. This raises the prospect that the motivation of the Bank staff charged with determining IDA status may be questioned or at least be under implicit pressure from some board members. At the very least, the ambiguity of the criterion, combined with possible unequal application, can potentially create perceptions of politicization of the process. This is compounded by confusion and uncertainty over the difference between overall IDA eligibility and the specific IDA-only classification. Official IDA eligibility criteria does not explicitly address this difference, but both World Bank and IMF documents frequently equate the two (examples of this in Nigeria's case to be discussed below.)

Second, IDA's resource *allocation* process is explicitly based on policy performance criteria through the IDA rating comprised primarily of the Country Policy and Institutional Assessment (CPIA) score. The *disbursement* process also uses a performance element through the use of IDA triggers. Thus, if the actual allocation and distribution of resources is already based on year-by-year policy performance (determined through a deliberate and systematic, if still somewhat secretive, process), then it may not be necessary to also use this criterion for *ex-ante eligibility* which is likely to be viewed over a longer-term horizon.

Lastly, the policy performance requirement may at times be in direct conflict with IDA's purpose of providing finance to governments that are not creditworthy. This is because the lack of access to private markets may itself be directly based on a country's poor policy performance. According to the World Bank, "good policy performance is a necessary…condition for creditworthiness" (World Bank 2001b, para. 8). Some countries could thus find themselves in a position where poor policy performance precludes lack of access to private markets *and* makes them ineligible for IDA. Therefore the judgment appears based on an undefined yet pre-determined notion of who the Bank believes should be creditworthy if their policy environment was enhanced. This suggests that some countries may be considered *ex-ante ineligible* for IDA-only status because of some undetermined characteristic or variable (e.g., substantial oil production; to be addressed below).

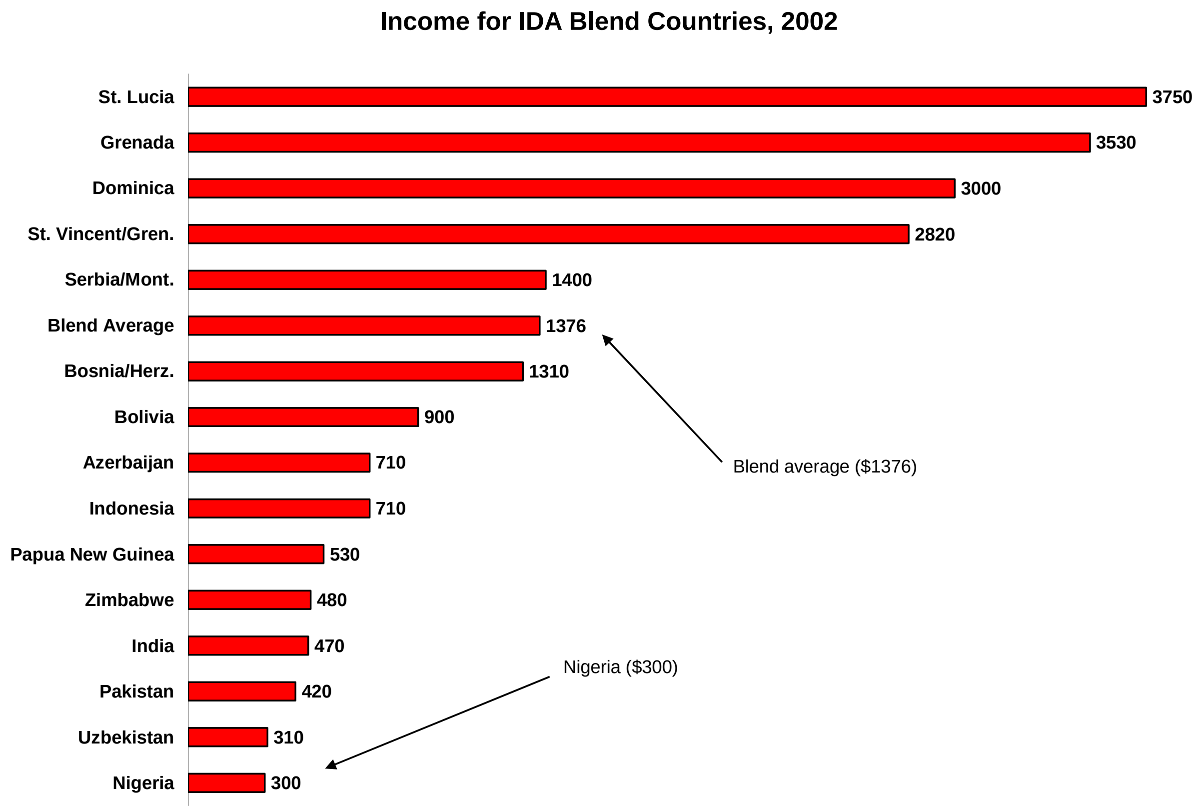
3. Does Nigeria's Blend Status Still Make Sense?

In addition to IDA-only status, the World Bank has a special category of countries with access to both IDA and IBRD lending resources. These 'blend' countries are "IDA-eligible on the income criterion, but which have also been creditworthy for limited IBRD lending" (World Bank 2001a, para. 12). Nigeria graduated from IDA in 1965, but re-entered as a blend country in 1989. Despite this technical access to both facilities, Nigeria has not been able to borrow from IBRD for more than a decade. This has put Nigeria into another sub-category known as a 'notional blend,' a special group of blend countries that retain "blend status but are de facto IDA-only borrowers with no access to IBRD borrowing due to lack of creditworthiness" (World Bank 2001b, para. 8).

Based on the three IDA eligibility criteria, the paper now assesses Nigeria's position and asks whether its blend status still makes sense. On two of the criteria, Nigeria appears clearly qualified for IDA-only status. Nigeria's qualification on the third criterion remains open to interpretation and depends on the standard; several comparators are considered below.

Income. Nigeria's low per capita income is well below the poverty threshold for IDA eligibility. In 2002, per capita income in Nigeria was $300, easily under the current IDA operational cutoff of $865 per capita (World Bank 2004b). Nigeria's relative poverty is even more pronounced when compared to the fourteen other blend countries, as illustrated in Figure 1 which gives 2002 per capita income for all blend countries. Nigeria's extreme position relative to the other blends is also notable given the Bank's view regarding the economic position of IDA blend countries. According to the Bank "the continuing blend status of the notional blend countries reflects their stronger economic position and development prospects compared to the majority of IDA-only countries" (World Bank 2001b, para. 14). Specifically, the Bank contends that these blends are "better off than the majority of IDA's borrowers—the IDA-only countries, among which two-thirds have per capita incomes below $450 and experience deeper and more pervasive poverty" (ibid, para. 13). Yet, Nigeria's income is very much in the range of IDA-only African countries, standing some 10 percent *below* the average income for the group. Table 1 gives 2002 per capita incomes for all IDA-only African countries.

Figure 1: Income for IDA Blend Countries, 2002
(current US$; Atlas Method)



Source: 2004 World Development Indicators
Note: Zimbabwe income data from 2001.

Table 1: Income for IDA-Eligible African Countries, 2002
(current US$; Atlas method)

	GNI per capita
Cape Verde	1250
Angola	710
Cote d'Ivoire	620
Congo, Rep.	610
Cameroon	550
Lesotho	550
Zimbabwe [ab]	480
Senegal	470
Guinea	410
Comoros	390
Benin	380
Sudan	370
Kenya	360
Zambia	340
Nigeria [a]	**300**
Sao Tome and Principe	300
Tanzania	290
Mauritania	280
Gambia, The	270
Ghana	270
Togo	270
Burkina Faso	250
Central African Republic	250
Mali	240
Uganda	240
Madagascar	230
Rwanda	230
Chad	210
Mozambique	200
Eritrea	190
Niger	180
Malawi	160
Liberia	140
Sierra Leone	140
Guinea-Bissau	130
Burundi	100
Congo, Dem. Rep.	100
Ethiopia	100
Somalia	n.a.
Sample Average	**331**

Source: 2004 World Development Indicators
[a] IDA Blend Country. [b] 2001 figure.

Access to private capital. Nigeria currently has virtually no access to credit on the international market. The government has not received funds from the IBRD since 1993 and the Bank has publicly referred to Nigeria as "not currently creditworthy for IBRD assistance" (World Bank 2002, p. ii). The IMF offered a similar assessment in 2003, describing Nigeria as having the "creditworthiness characteristics of an IDA-only country" (IMF 2003a, para. 222). The situation is similar on the international private credit market. According to the 2004 Global Development Finance database, Nigeria did not receive disbursements of any kind from private creditors between 1992-2002 (World Bank 2004c). Nigeria's poor credit standing is also illustrated by the lack of a sovereign commercial credit rating by any of the major international rating agencies. A recent UNDP/Standard & Poor's report (2004) provides sovereign ratings for eleven African countries, including six classified as IDA-only (Benin, Burkina Faso, Cameroon, Ghana, Mali and Senegal), but it does not include Nigeria. Similarly, both Fitch and Moody's provide sovereign credit ratings for many developing counties, though neither has issued coverage for Nigeria.

Policy Performance. The final criterion for IDA eligibility is to achieve a sustained record of 'good policy performance.' In absolute terms, Nigeria's policy performance is likely to be deemed poor. However, the interpretation of this criterion, its current applicability, and equal treatment across countries, suggests that Nigeria should not be disqualified based on its policy performance.

Nigeria has a long record of rocky relations with the international financial institutions related to their negative view of the country's policy performance. The late 1980s marked a period of increased lending by the World Bank, though weak economic results led the Bank to significantly curtail lending activities by the early 1990s. Due to consistently poor economic management and outcomes, the Bank "scaled back lending from about US$1 billion per year in the late 1980s to US$200-$250 million during 1992-1993" and "lending ceased altogether from 1994 until 2000" (World Bank 2002, para. 52). The Bank's re-engagement with Nigeria at the end of the decade coincided with a political transition from military to civilian rule. The current administration took office in May 1999 "following almost three decades of military rule, gross mismanagement and a virtual destruction of the civil service and public institutions" (IMF 2003b, para. 3). Despite high expectations, Nigeria's economic performance in the first few years after the transition had been generally disappointing. For FY02, for example, the Bank scaled back its lending envelope from the base case of $400 million to a low case of $200 million (ibid, appendix II). In FY03, Nigeria again borrowed about $230 million from IDA. This may appear a large total allocation for an African country, but is only about $1.75 per capita, or about one-fifth the average IDA allocation to Africa.[4]

The IMF has a similar view of Nigeria's performance. The government signed Stand-By Arrangements with the Fund in 1989 and 1991, but no funds were disbursed owing to poor economic performance and a consistent failure to meet operational targets. In July 2000 another 12-month Stand-By Arrangement was agreed with the new government, but despite an extension no funds were disbursed and the Fund allowed the program to expire in October 2001 because "key program objectives for end-June 2001 had been missed" (IMF 2003b, p. 5). An informal staff-monitored program replaced the Stand-By Arrangement for a six-month period starting

[4] Calculations based on tercile averages in World Bank (2004d), p. 80.

October 2001, but again Fund staff assessments found in March 2002 that targets had been missed and there was an "insufficient basis for continuing the informal monitoring of economic policies" (ibid, p. 5).[5]

Despite these tensions with both the Bank and Fund, there are some recent indications that Nigeria's economic performance is improving and relations with international financial institutions are warming. A July 2004 Article IV consultation with the Fund noted several positive changes, especially that, "structural reform efforts have been positive since mid-2003…[and] confidence in the Nigerian economy has improved since the elections and with the appointment of the new economic team" (IMF 2004a). The overall assessment was, however, "mixed" and prospects for a new Fund program in 2005 remain slim (see Appendix 2 for more details on the recent reform program). Nevertheless, our case for an IDA status change is not based on recent policy initiatives, but rather on Nigeria's relative performance to other countries even prior to the latest round of reforms.

There is documented evidence that the lack of demonstrated 'good policy performance' has prevented Nigeria from moving to IDA-only status. For example, in 2003 the IMF claimed, "Nigeria has the income and creditworthiness characteristics of an IDA-only country…but its ability to maintain a track record of adequate policy performance remains to be demonstrated" (IMF 2003a, para. 222). In the next section we question whether keeping Nigeria as a notional blend based on its policy performance makes sense, either on the grounds of strict applicability of the performance criterion or in terms of relative treatment across countries.

4. Does it make sense to withhold Nigeria's IDA-only status because of its policy performance?

While economic management in Nigeria has been disappointing, we argue that the country's performance record alone should not preclude IDA-only status. The application of the policy standard in Nigeria's case raises some fundamental questions about its use and interpretation. More importantly, Nigeria's economic management indicators compare less unfavorably when viewed in the context of other IDA-only African countries, of other countries that have made the transition back to IDA-only, and of other major IDA-only African oil producers. We consider each below.

Application. As outlined above there are three tensions in the current application of the policy performance criterion, all of which apply to Nigeria's case. First, the standard to which Nigeria is being held is sufficiently vague and subjective that it may undermine the Bank's justification for maintaining the country's notional blend status. Nigerian officials already suspect that this criterion is being used to prevent a reclassification because of other unstated concerns of some members of the board of directors. The ambiguity over the differences between overall IDA eligibility and the specific IDA-only classification has added further confusion.

[5] In addition to missing some of the quantitative targets (especially M2 growth), the IMF program failed to disburse or be renewed because of the failure to reach other non-quantitative targets, including an effort to address corruption and an agreement that the government would make efforts to save any budgetary windfall from higher-than-expected oil prices. Given that the inflation target was nearly reached and the budget and current account targets were reached, these non-quantitative targets may have been the primary reason for program failure.

Second, Nigeria currently receives a relatively small amount of IDA resources per head, mainly because of its low CPIA score and also because of in-built small-country biases in the allocation formula. If Nigeria's actual receipt of IDA resources is already being dictated largely owing to its perceived policy performance, then it may not make sense to also use this criterion to justify its ineligibility for IDA-only status.

Third, Nigeria is clearly one of the cases where the interaction of the policy performance criterion and the creditworthiness criterion are creating a circular trap. On the one hand, Nigeria was once able to access the IBRD and private capital markets, but has lost that access largely because of its poor policy performance. At the same time, the World Bank is insisting that to be eligible as IDA-only, which is intended to give access to credit to those unable to tap the private markets, it must show a good policy performance, *among the evidence of which would be creditworthiness*. This suggests that Bank officials believe that Nigeria *should* be able to tap IBRD and private markets, so it is withholding IDA-only status until it is able to do so, thus making it simultaneously ineligible for IDA-only status. This, in turn, suggests that there is an ex-ante decision that Nigeria cannot qualify for IDA-only status no matter what it does in terms of improving policy.

Fair treatment. In addition to these inherent problems with the application of the policy performance criterion, there are much larger questions about Nigeria receiving fair treatment. Here we compare some policy variables for Nigeria with three peer groups: all of Africa's IDA eligible countries, the three African reverse graduates, and the three African IDA-only oil producers.

Comparator Group 1: Nigeria relative to other IDA-only African countries

Nigeria's recent macroeconomic performance is similar to that of many IDA-only African countries. Table 2 gives recent average inflation figures for all IDA-eligible African countries. While failing to meet the specific inflation targets set by the IMF, Nigeria's ability to control inflation is in the same range as many of its IDA-only counterparts, particularly since the political transition in 1999. As illustrated in the table, for 1999-2002 Nigeria averaged an inflation rate of 11.3 percent, a better record than observed in Angola, the Democratic Republic of the Congo, Ghana, Malawi and Zambia. During this period, the unweighted average annual rate of inflation across all IDA-only African countries was over 24 percent.[6] Meanwhile, though IMF targets called for Nigeria to keep inflation in single digits, nine other IDA-only African countries in addition to Nigeria failed to maintain such a target between 1999-2002. Based solely on inflation, Nigeria is near the bottom, but does not seem substantially different from most IDA-only African countries.

[6] Excluding Angola and the DRC drops the average rate to 9 percent, still not unreasonably far from Nigeria's inflation rate.

Table 2: Inflation and Budget Balance for all IDA-Eligible African Countries

Inflation	Average 1999-2002	Budget balance [a]	Average 2001-02
Ethiopia	0.5	Mauritania	1.0
Burkina Faso	1.5	Congo, Dem. Rep. [d]	0.5
Cameroon	1.7	Cote d'Ivoire	-0.6
Senegal	1.7	Rwanda	-1.1
Cape Verde	1.8	Cameroon	-2.0
Niger	1.8	Burundi	-2.1
Rwanda	1.8	Togo	-2.8
Mali	2.1	Kenya [c]	-3.4
Central African Republic	2.1	Angola [d]	-3.7
Togo	2.2	Benin	-3.9
Congo, Rep.	2.3	Senegal	-4.0
Cote d'Ivoire	2.7	Lesotho	-4.3
Guinea-Bissau	2.7	**Nigeria** [b]	**-4.6**
Uganda	2.7	Congo, Rep.	-4.8
Benin	2.7	Ghana	-5.0
Chad	3.7	Tanzania	-5.4
Gambia, The	3.8	Guinea [d]	-5.5
Mauritania	4.0	Chad	-5.7
Kenya	5.9	Madagascar	-6.2
Tanzania	5.9	Gambia, The	-6.8
Sierra Leone	8.0	Niger	-7.0
Burundi	8.9	Central African Republic	-7.8
Lesotho[e]	10.1	Mali	-8.9
Mozambique	10.4	Uganda [d]	-9.3
Madagascar	11.2	Comoros	-9.7
Nigeria [b]	**11.3**	Cape Verde	-10.0
Ghana	21.3	Ethiopia [d]	-10.0
Zambia	24.1	Burkina Faso	-11.3
Malawi	29.1	Sierra Leone	-11.5
Zimbabwe [b]	82.8	Zimbabwe [b]	-11.6
Angola	208.3	Zambia	-13.5
Congo, Dem. Rep.	297.6	Malawi	-15.0
Comoros	n.a.	Mozambique	-16.2
Eritrea	n.a.	Guinea-Bissau [d]	-16.4
Guinea	n.a.	Eritrea	-32.1
Sao Tome and Principe	n.a.	Sao Tome and Principe	-47.4
Liberia	n.a.	Liberia	n.a.
Somalia	n.a.	Somalia	n.a.
Sudan	n.a.	Sudan	n.a.
Sample Average	**24.3**	**Sample Average**	**-8.5**

Sources: 2004 World Development Indicators; www.worldbank.org/data.
[a] % GDP, including grants. [b] IDA Blend Country. [c] Kenya budget figures from IMF Public Information Notice No. 03/83, July 9, 2003. [d] Data for 2001 only. [e] 1999 data missing.

In terms of fiscal performance, Nigeria also does not appear far out of the norm, at least by the crude measure of the budget balance including grants. Nigeria's average fiscal balance for 2001-02 was -4.6 percent of GDP, roughly in the middle of the group and well below the unweighted group average (See Table 2). Notably, Nigeria's fiscal deficit is smaller than many of the World Bank's top performers, including Tanzania, Uganda, and Cape Verde, which all score in the top quintile of the 2003 CPIA ratings. (Additionally, Nigeria's fiscal position has strengthened somewhat in 2003, when the budget deficit shrank to 1.3 percent of GDP.) Clearly, Nigeria's budget indicators reflect the country's sizeable oil-related revenue base, and the Bank and Fund argue that because of this unique strength the country should be able to do even better. Nevertheless, as with inflation, it is hard to conclude that Nigeria's fiscal balance is substantially worse than the IDA-only group.

Lastly, we turn to the three measures of policy performance and governance: the World Bank's own CPIA ratings, the World Bank Institute's Aggregate Governance Indicators Dataset (KK), and the governance components of the International Country Risk Guide (ICRG).[7] The results suggest that Nigeria has performed near the bottom, but not outside the range of the rest of the sample (see Table 3). Using the publicly-available quintiles for 2003 CPIA ratings, Nigeria placed in the bottom quintile along with nine other IDA-only African countries.[8] The results are similar within the CPIA Economic Management cluster, as 10 IDA-only African countries join Nigeria in the bottom quintile.[9] While this confirms the Bank's negative overall view of Nigeria's policy performance, it may not necessarily suggest such extremely poor policies that might justify its complete exclusion from the IDA-only group. At the same time, Nigeria's CPIA ratings have improved significantly since the 1999 political transition. A comparison of Nigeria's average CPIA rating for 1999-2002 yields a 0.5-point higher score than the average score for the previous four-year period 1995-98. Given that nearly all African countries cluster in the narrow range between about 2.5-4.0, this half-point increase represents a substantial improvement.

Overall, the inflation and fiscal policy variables cited above do not suggest that Nigeria is extraordinarily worse than the rest of the African IDA-only countries. For the CPIA and two governance measures, Nigeria comes out poorly, but perhaps not to the degree that might warrant special exclusion from the IDA-only classification. Based on these conclusions, it is difficult to argue that Nigeria does not fall within the policy performance range of the rest of the IDA-only countries on the continent.

[7] The WBI and ICRG are commonly-used measures of governance (see, e.g., Knack and Keefer, 1995; Burnside and Dollar, 2004). The former dataset is compiled by Bank economists Daniel Kaufmann and Aart Kraay (and thus widely known as "KK"). ICRG is a broader measure of political and economic risk, but here we used the average of three components: the rule of law, government corruption, and effectiveness of the bureaucracy scores. This is also commonly-used, for example in Roodman (2004).

[8] Angola, Burundi, Central African Republic, Comoros, Guinea, Guinea-Bissau, Sao Tome and Principe, Sudan, and Togo. Of these nine, three have sufficiently good policy environments to have already reached the HIPC decision point and the Fund recently listed five others as possible HIPC candidates in 2005 (IMF 2004d).

[9] http://siteresources.worldbank.org/IDA/Resources/Quintiles2003CPIA.pdf

Table 3: Policy and Governance Measures for all IDA-Eligible African Countries

ICRG	Average 1997-2001	**KK**	Average 1996-2002	**CPIA**	Overall 2003
Gambia, The	5.67	Cape Verde	0.22	Cape Verde	1
Malawi	5.00	Lesotho	0.01	Mauritania	1
Tanzania	4.67	Benin	0.00	Senegal	1
Ethiopia	4.56	Ghana	-0.15	Tanzania	1
Madagascar	4.56	Mali	-0.22	Uganda	1
Guinea	4.52	Sao Tome & Princ.	-0.22	Benin	2
Uganda	4.44	Madagascar	-0.24	Burkina Faso	2
Zambia	4.44	Mauritania	-0.29	Ghana	2
Ghana	4.11	Senegal	-0.30	Madagascar	2
Senegal	4.11	Gambia, The	-0.30	Mali	2
Burkina Faso	4.10	Eritrea	-0.32	Rwanda	2
Zimbabwe [a]	3.97	Malawi	-0.34	Cameroon	3
Kenya	3.89	Burkina Faso	-0.36	Ethiopia	3
Congo, Rep.	3.78	Zambia	-0.39	Kenya	3
Cote d'Ivoire	3.78	Tanzania	-0.43	Lesotho	3
Mozambique	3.78	Mozambique	-0.46	Malawi	3
Angola	3.62	Cote d'Ivoire	-0.54	Mozambique	3
Cameroon	3.54	Uganda	-0.56	Zambia	3
Sierra Leone	3.47	Ethiopia	-0.57	Chad	4
Nigeria [a]	**3.00**	Niger	-0.62	Congo, Dem. Rep.	4
Mali	3.00	Central Afr. Rep.	-0.66	Congo, Rep.	4
Togo	3.00	Comoros	-0.67	Cote d'Ivoire	4
Guinea-Bissau	2.33	Guinea	-0.73	Eritrea	4
Sudan	2.33	Kenya	-0.74	Gambia, The	4
Niger	2.00	Chad	-0.75	Guinea	4
Liberia	1.96	Togo	-0.76	Niger	4
Somalia	1.78	Zimbabwe [a]	-0.80	Sierra Leone	4
Congo, Dem. Rep.	1.49	Cameroon	-0.81	Angola	5
Benin	nc	Guinea-Bissau	-0.86	Burundi	5
Burundi	nc	Rwanda	-0.92	Central African Rep.	5
Cape Verde	nc	**Nigeria [a]**	**-1.12**	Comoros	5
Central Afr. Rep.	nc	Sierra Leone	-1.13	Guinea-Bissau	5
Chad	nc	Congo, Rep.	-1.16	**Nigeria [a]**	**5**
Comoros	nc	Burundi	-1.20	Sao Tome & Princ.	5
Eritrea	nc	Angola	-1.45	Sudan	5
Lesotho	nc	Sudan	-1.46	Togo	5
Mauritania	nc	Liberia	-1.61	Zimbabwe [a]	5
Rwanda	nc	Somalia	-1.83	Liberia	nc
Sao Tome & Princ.	nc	Congo, Dem. Rep.	-1.93	Somalia	nc
Sample Average	3.60	Sample Average	-0.68		

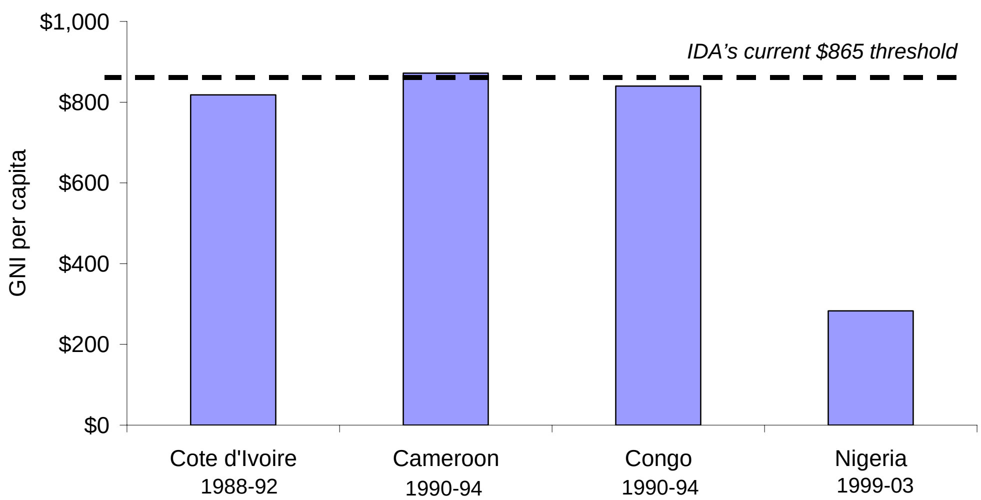
Sources: ICRG; www.worldbank.org/wbi/governance/govdata2002/; http://siteresources.worldbank.org/IDA/Resources/Quintiles2003CPIA.pdf.
Notes: The ICRG score is an average of three governance-related components on a 10-point scale. The KK score is an average of 6 measures of governance on scale from -2.5 to 2.5. The CPIA is based on 20 measures of policy performance and institutional quality and released in quintiles by relative rankings within the region. nc no coverage. [a] IDA blend country.

Comparator Group 2: Nigeria relative to other African reverse graduates

Since Nigeria's shift to IDA-only would mean a completion of the reverse graduation process, it is also useful to compare the country's current economic performance with historical examples of other African countries that have reverse graduated to IDA-only status Cote d'Ivoire in 1992, the Republic of the Congo in 1994, and Cameroon in 1994. These examples arguably provide the best precedent for the standard to make such a transition. In terms of relative income, the different treatment is striking: Nigeria's income level is just one-third of the other three cases at the time they were reclassified as IDA-only (Figure 2). It is also illuminating to look at long-term income trends in the four countries, where the three successful reverse graduates re-entered IDA relatively soon after their incomes began to drop, while Nigerian income levels collapsed about twenty years ago (see Figure 3).

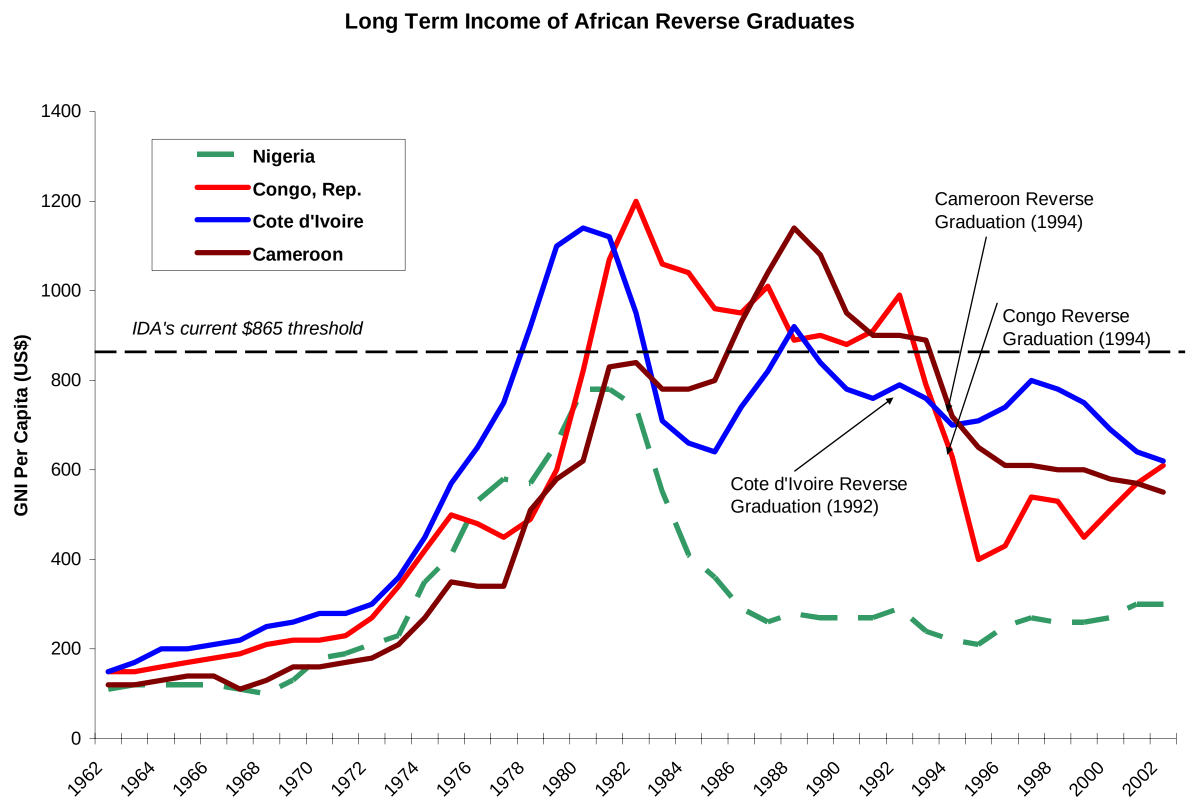
Figure 2

Relative Poverty: Nigeria and Africa's Reverse Graduates



Source: 2004 World Development Indicators

Figure 3



Source: 2004 World Development Indicators

Table 4 gives relevant economic and policy indicators for the last five years in Nigeria (1999-2003) compared to the transition year and previous four years leading to change in IDA status for the three reverse graduates. Nigeria's economic performance for two common indicators of macroeconomic performance—control of inflation and fiscal discipline—over the relevant time period is not significantly different from the performance of the other transition countries prior to their move to IDA-only status, particularly in the case of the two most recent examples in Cameroon and Congo. Nigeria's 11.9 percent average inflation over the period is higher than all three, but not by an unreasonable margin.[10] On fiscal policy, Nigeria averaged a deficit of 1.8 percent of GDP, smaller than Cameroon and Congo, but larger than Cote d'Ivoire over the relative periods.

[10] The inflation comparison with three Franc zone countries may also be somewhat misleading since all three comparator countries have ceded monetary policy control to a regional central bank, while Nigeria has not. At the same time, the large increases in inflation in 1994 for Cameroon and Congo, which skews upward their average rates, is largely owing to the devaluation of the CFA franc that year rather than any policy changes at the national level.

Table 4: Selected Indicators for Africa's Reverse Graduates

Cote d'Ivoire (1992 reverse graduation)	**1988**	**1989**	**1990**	**1991**	**1992**	**5-yr av**
GNI per capita, Atlas method (current US$)	920	840	780	760	790	818.0
Inflation, consumer prices (annual %)	6.9	1.1	-0.8	1.7	4.2	2.6
Overall budget balance, including grants (% of GDP)	0.7	-0.4	-2.9	0.0	0.0	-0.5
ICRG rating	6.1	6.1	5.3	6.0	6.1	5.9

Cameroon (1994 reverse graduation)	**1990**	**1991**	**1992**	**1993**	**1994**	**5-yr av**
GNI per capita, Atlas method (current US$)	950	900	900	890	720	872.0
Inflation, consumer prices (annual %)	1.1	0.1	0.0	-3.2	35.1	6.6
Overall budget balance, including grants (% of GDP)	-5.9	-5.2	-2.5	-1.7	-2.9	-3.7
ICRG rating	5.6	5.4	5.0	5.0	5.3	5.2

Congo, Republic of the (1994 reverse graduation)	**1990**	**1991**	**1992**	**1993**	**1994**	**5-yr av**
GNI per capita, Atlas method (current US$)	880	910	990	790	630	840.0
Inflation, consumer prices (annual %)	2.9	-1.7	-3.7	4.7	42.5	8.9
Overall budget balance, including grants (% of GDP)	0.0	0.0	-14.1	-12.6	-13.2	-8.0
ICRG rating	3.9	3.9	3.9	3.9	4.1	3.9

Nigeria (Current)	**1999**	**2000**	**2001**	**2002**	**2003**	**5-yr av**
GNI per capita, Atlas method (current US$)	260	270	300	300	na	282.5
Inflation, consumer prices (annual %)	4.8	14.5	13.0	12.9	14.4 [a]	11.9
Overall budget balance, including grants (% of GDP)	-5.1 [b]	6.4 [b]	-3.3 [b]	-5.8 [b]	-1.3 [a]	-1.8
ICRG rating	2.2	2.8	2.8	na	na	2.6

Sources: All data from 2004 World Development Indicators except ICRG ratings and where noted.
[a] Figures from IMF Country Report No. 04/239, August 2004.
[b] Figures from IMF Country Report No. 03/03, January 2003.

Nigeria's ICRG rating is indeed lower than the other three during these time periods. In terms of relative CPIA, however, Nigeria comes out very well. Its 2002 CPIA score is a full 0.5 points above any in this group in their year of reverse graduation. Additionally, Nigeria's four-year average (1999-2002) is also 0.5 points above Cote d'Ivoire (1989-92) and even more for Congo and Cameroon (1991-94). In other words, by the World Bank's own internal measure of policy performance, Nigeria is substantially better than any of the other three reverse graduates prior to their transition to IDA-only.

In sum, weighed against the other African reverse graduates, Nigeria's relative policy performance is comparable, and by some measures is superior, to their policy performance at the time of their graduation. If Congo, Cameroon, and Cote d'Ivoire are providing any precedent, then Nigeria's case for IDA-only status appears strong.

Comparator Group 3: Nigeria relative to other African IDA-only oil producers

The vast potential oil wealth in Nigeria has been cited as a possible factor that makes the country a special case requiring differential treatment in analyzing its relative poverty. This view is alluded to by the Bank: "Nigeria has sufficient resources of its own to achieve sustainable development and that the resources brought by the donor community including the World Bank are always going to be relatively small compared to the resources which Nigeria has available to it" (World Bank 2002, executive summary). If there is indeed a special exception for oil-producing countries, then it seems appropriate to also evaluate Nigeria vis-à-vis Africa's major oil producers that are also IDA-only.

Table 5: Selected Indicators of IDA-Eligible African Oil Producers, 2002

	Nigeria	Angola	Cameroon	Congo
Population (million)	132.8	13.1	15.8	3.7
Crude Oil Production (1,000 b/d)	1969.0	894.2	74.6	255.2
Petroleum Exports (current US$ billion)	17.1	7.6	0.8	1.5
Oil reserves (IEA 2000 estimates, million bbl)	29,300	11,400	300	2,000
GNI per capita, Atlas method (current US$)	300	710	550	610
Inflation (annual %; 99-02 av)	11.3	208.3	1.7	2.3
Budget balance, incl grants (% of GDP; 99-02 av)	-2.0	-3.7 [a]	-1.3 [b]	-3.5
ICRG Rating (97-01 av)	3.0	3.6	3.5	3.8
WBI Governance Rating (96-02 av)	-1.12	-1.45	-0.81	-1.16
CPIA (2003, quintile)	5th	5th	3rd	4th
Barrels Produced per capita	5.4	24.9	1.7	25.5
US Dollars of Oil Exports per capita	$128.65	$576.25	$51.49	$413.45
Reserves per capita	221	869	19	547

Sources: 2004 World Development Indicators; OPEC 2003 Statistical Summary; www.worldbank.org/data; IMF Country Reports; World Energy Outlook 2001; ICRG; www.worldbank.org/wbi/governance/govdata2002/; http://siteresources.worldbank.org/IDA/Resources/Quintiles2003CPIA.pdf.
[a] 2001 only.
[b] 2000 data missing.

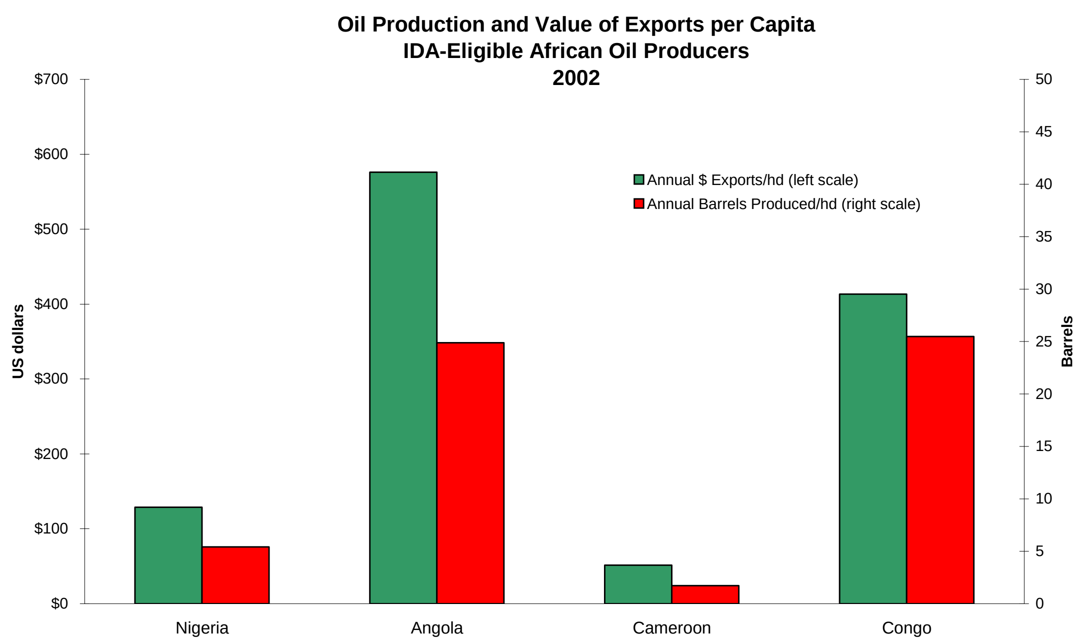
Table 5 compares the economic and policy position of Nigeria to the three African IDA-only oil producers, Angola, Cameroon, and Congo.[11] While Nigeria's overall oil production and volume of exports dwarfs its African counterparts—Nigeria alone accounts for about a third of total African oil production—its huge population acts as a powerful counterweight to its oil wealth. Since the Bank's view is that oil resources can be used to provide social services for the population and other development-related expenditure, thus justifying Nigeria's blend status, then it also makes sense to compare its oil revenue relative to the population as a whole. As shown in Figure 4, when viewed in per capita terms, the statistical dominance of Nigerian oil production on the African continent drops dramatically. Nigeria produces far less oil per capita than either Angola or Congo. Both Angola's and Congo's 2002 per capita oil production were approximately five times that of Nigeria. The results are similar in terms of the financial returns of oil exports. While Nigeria exported far more oil in absolute dollar terms than any of the African comparison countries, it received far less on a per capita basis. This pattern is again

[11] Gabon and Equatorial Guinea are also large oil producers, but both are IBRD.

repeated with estimated reserves, one indicator for long-term production potential, where Nigeria is relatively smaller than Angola and Congo on a per capita basis. This does not diminish the importance of oil as a source for development financing or as potential collateral for private market borrowing, but merely illustrates that Nigeria's perceived oil wealth is not necessarily as vast when viewed in the context of the population those resources are meant to serve. In the very least, this suggests that the oil production of Angola and Congo should be viewed as similarly unique.

While Nigeria's oil wealth appears less dominant when taken relative to the country's population size, we can also compare Nigeria's macroeconomic variables with these other oil producers. In terms of inflation, Nigeria is well below Angola, which has been coping with triple-digit inflation for years. Cameroon and Congo have experienced very low inflation in recent years, at least partly owing to their membership in the Central African Franc zone which delegates monetary and exchange rate policy to a regional central bank. Although fiscal data is limited, it also does not appear that Nigeria is vastly different from the others in terms of fiscal performance over the period. On the two governance measures, Nigeria is at or near the bottom of the sample, but not exceptionally so. In terms of the CPIA, Cameroon is reported in the third quintile in 2003, Congo in the fourth quintile, and Angola joins Nigeria in the bottom quintile. Over the 1999-2002 period, Nigeria's average CPIA was slightly lower than Cameroon, slightly higher than Congo, and much higher (more than a full point) than Angola.

Figure 4



Sources: Table 5 and authors' calculations.

Table 6: Angola versus Nigeria

	Nigeria	Angola
Status	Blend	IDA-only
Income (GNI, 2002)	$300	$710
Oil production (bbl per capita, 2002)	5.4	24.9
Oil production growth (%, 2003-05 forecast)	9.6%	41.9%
Inflation (1999-2002 av)	11.3	208.3
Budget balance (% GDP, 1999-2002 av)	-2.0	-3.7[a]
CPIA (2003, quintile)	5th	5th

Sources: World Bank; EIU
[a] 2001 only.

Overall, Nigeria's oil wealth does not appear to be uniquely large when viewed in the context of its large population, nor do its performance variables seem far out of line with the three African oil producers with IDA-only status. Compared with Angola (see Table 6), it is substantially better.

5. Implications of Reclassification

While our analysis concludes that Nigeria should be considered IDA-only, it is worth noting the potential real benefits to Nigeria of formal reclassification. First, a change in IDA status would expand Nigeria's potential access to a greater amount of IDA resources, including low-interest loans and IDA grants. Nigeria would probably be eligible for a slightly higher portion of the limited IDA allocations than it currently receives. (Nigeria's allocation would of course still be subject to performance measures—CPIA, portfolio ratings, governance ratings, and the cap on countries with large populations—and the normal disbursement triggers that other IDA-only countries face.) Perhaps even more importantly, IDA-only status would allow Nigeria to be eligible for IDA grants for special programs, such as AIDS prevention.

Second, IDA-only status would strengthen Nigeria's case for debt relief. Typical Paris Club arrangements for IDA-only countries use so-called 'Naples terms' which carry 67% debt stock reductions. The recent switch to 'Evian terms,' which allows case-by-case flexibility, was presumably introduced to allow Paris Club consideration of special cases, such as Iraq. This removes the formal requirement for IDA-only status to receive Naples terms, but would certainly provide a starting point for Nigeria to negotiate concessional treatment along similar lines.

The Debt Issue

From an economic perspective, Nigerian debt is not excessively high using the standard now applied to other low-income countries under the HIPC program, i.e. a debt stock to export ratio exceeding 150%. At the end of 2003, Nigeria's debt stock was 120% of exports and, with rising oil prices in 2004, that ratio is now probably closer to 90% or even lower. There are real questions, however, about whether this metric best captures the threshold of sustainable debt. One rationale for debt relief is that debt service should not be so burdensome that it preempts the ability of a government to finance delivery of the most basic social services and critical development investments. If the fundamental concern is about a country having to divert resources from these to debt service, then it makes sense to limit the amount that poor countries spend on debt service as a percent of their total resources. Elsewhere one of us has argued that a limit of 2% of GNP going to debt service provides a useful benchmark, taking into account that governments in low-income countries generally are able to collect little more than 20% of GNP in tax revenue, and that limiting external debt service to 10% of a government's revenue makes political as well as economic sense (Birdsall and Williamson 2002). For a country such as Nigeria, whose debt stock is not high in relation to its exports because oil exports are high relative to other production, this alternative metric might better reflect the annual budget pressures from debt service. This reasoning has led Nigerian officials to argue that their debt service obligations strain their ability to address their country's fundamental needs (Nigeria High Commission 2000). Whether there is indeed such a strain in Nigeria's case or not is debatable, but in 2003 the country's debt service paid amounted to 4.2% of GNP. This year, even with the effects of high oil prices, the ratio is still likely to remain well above the proposed 2% limit.

Despite these potential and arguable economic effects on a very poor country, the case for debt relief for Nigeria is perhaps better argued on two other grounds. First, there is a political economy argument in the context of supporting reform. A low-income country's external debt should not become politically so costly to a reforming government that it inhibits the very reforms that would bring growth and the ability to finance a reasonable amount of debt. In Nigeria, the external debt has in fact become a major political sticking point, inhibiting the ability of the current government to move forward on economic policy change. Politically, the unresolved debt issue has created a high level of resentment within Nigeria and exacerbated existing tensions between the President and the National Assembly, and between the federal government and the states. Indeed, it appears to have been largely parliamentary resistance that has prevented the new government from meeting its recent debt service obligations (Economist Intelligence Unit, various dates). This has limited the implementation of domestic reforms and, in turn, has helped to sustain tensions with donors.[12] With a new technocratic economic team now in place and a reform program getting underway, creditors have a strong interest in helping to create conditions for those reforms to be implemented and to eventually succeed.[13] This seems particularly relevant given Nigeria's constitutional provisions that constrain the ability of the federal government to manage fiscal affairs. Some movement on the debt issue is likely necessary in order to accelerate much-needed economic reforms at home and, in turn, to allow resumption of normal relations with creditors. IDA reclassification could be an important step in that direction.

The debt stalemate has also contributed to difficult relations between the current government and Western donors and creditors. Nigeria's current external debt stock of some $33 billion is heavily dominated by a few bilateral creditors which account for over 80 percent of the total, nearly half of which is owed just to the United Kingdom and France. The current debt stock is based not on heavy borrowing, but on relatively small disbursements in the 1980s and then the accumulated effects of arrears, penalties, and accrued interest built up during the 15 years of

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[12] For an overview of the costs of high debt on policy dynamics and institutional growth, see Moss and Chiang (2003).

[13] See Appendix 2 for more detail on Nigeria's economic reform program.

military rule (1984-99). Just $2.1 billion in actual bilateral lending since 1971 has snowballed into over $22 billion in current bilateral debt stock.[14] Thus the majority of Nigeria's current obligations are arguably not based on excessive borrowing, but rather on the mismanagement and political decision taken by previous (and mostly military) governments.[15] This is not to suggest, as some others have, that Nigeria's debts are odious, but rather that creditors have some solid reasons to consider a more lenient stance.[16]

Such political difficulties in turn create economic constraints. The failure to find a comprehensive debt solution precludes significant new external borrowing by the public sector and constrains private borrowing (adding to the irony of non-IDA-only status due to past ability to borrow on private markets). As a result the debt is likely to be affecting investment patterns and investor perceptions as well as the prospects for policy reform.

A final rationale for more favorable debt treatment has arisen recently, in the context of increasing concern about the threat that weak and fragile states pose for global security. Normally, substantial debt relief is delayed until governments demonstrate a stable macroeconomic policy framework and begin undertaking structural reforms agreed with the international community, usually via an IMF program. But there is also a case for providing a signal of support to reform-minded leaders in post-conflict and post-transition environments, in the form for example of an immediate halt in the further accumulation of arrears (Commission on Weak States and U.S. National Security, 2004, p. 28). This is one rationale for the proposal of immediate debt reduction for Iraq.

The case is less obvious for Nigeria, which is more than four years into its democratic transition. At the same time, creditors do have a broad strategic interest in encouraging consolidation of what is a fragile democracy in Africa's most populous country. This is especially critical when considering that Nigeria encapsulates nearly all of the major transnational threats facing the US and Europe: international crime and drug trafficking, Islamic radicalism, and disease. Western energy security is also closely tied to West Africa, with Nigeria already accounting for 10% of US oil imports. Nigeria has also played a pivotal role in stabilizing the subregion, including through its peacekeeping contributions and leadership in Liberia, Sierra Leone, and most recently in Sudan. A weakened or collapsed Nigeria would threaten not only West Africa, but much of the world as well. The UK, France, Germany, the US and others thus have a large stake in Nigeria's future, which in turn largely depends on Nigeria's ability to implement economic

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[14] Part of this stunning growth in bilateral debt stock is also due to the conversion of publicly-guaranteed commercial credits into official bilateral debt.

[15] See Appendix 1 for more detail on Nigeria's external debt profile.

[16] There have been proposals for radical approaches to Nigeria's debt. Some debt relief campaigners have advocated a total write off (e.g., Pettifor 2003). This is probably not a good idea in Nigeria for many of the same reasons it should be avoided in other countries: moral hazard concerns, the impact on broader economic reforms, the negative effects on financing of the international aid system, inequitable treatment for low-income countries without unmanageable debt, and, most importantly for Nigeria, the bearing on future borrowing and creditworthiness. Another drastic proposal has been for Nigeria to invoke the odious debt doctrine. While there is certainly a case to be made that some lending to Nigeria's more notorious leaders such as General Sani Abacha may be odious, there are legal and practical reasons this is unlikely to be a successful or effective strategy. See Appendix 3 for more detail on Nigeria and the odious debt doctrine.

reforms and get on a sustainable growth path. Creditors can encourage this dynamic through positive engagement, part of which must be resolution of the debt question.

Why reclassification has not happened already

Given the potential benefits—to Nigeria and to the global community—of a formal reclassification of Nigeria, it is reasonable to ask why that reclassification has not already happened. Three reasons are apparently important.

First, creditors are concerned about how a government still plagued by corruption would use resources generated by more concessional aid and by debt relief. On the one hand, this is appropriate as resource shortages are not necessarily the primary constraint in Nigeria and other countries may be able to use additional resources more effectively. On the other hand, such reasoning does not appear to apply across countries equally. Treatment of some countries, such as Cameroon which is HIPC but arguably faces even worse corruption problems, strongly suggests a double-standard at work. Moreover, IDA-only status does not automatically qualify countries for debt relief (or higher aid); it merely makes them eligible for consideration of certain conditions. Our argument is thus that Nigeria ought to be considered for aid and debt relief in the same way and through the normal channels and processes as other low-income countries, particularly since such considerations might enhance the ability of the government to push through its reform agenda more quickly and effectively.

Second is the large absolute size of Nigeria's debt and the associated costs for donors of more concessional treatment. Naples terms for Nigeria would 'cost' creditors billions in terms of writing down their booked assets and might be awkward to propose given that there are ongoing pressures for additional bilateral contributions (in real money) to finance current HIPC shortfalls on IDA's books (Sanford 2004). Additionally, Nigerian debt reductions through the Paris Club would fall disproportionately on certain countries and would not be easy for aid agencies to explain to their legislatures. For instance, the 'cost' on paper to the UK for writing off a majority of Nigeria's debt (even after a heavy discount on the face value) probably exceeds its annual cash aid to all of sub-Saharan Africa. At the same time, the reality is that Nigeria is not servicing much of its bilateral debt, so the write-off, though difficult politically, would not necessarily need to reduce other aid spending.

In short, Nigeria's IDA status has been providing a convenient cover for creditors and for the World Bank to avoid difficult decisions. As long as the Paris Club or the Bank could point to Nigeria's blend status as a reason for ineligibility, issues of fair treatment or potential cost did not have to be considered or rationalized. Surely, a more transparent process would better serve both donors and Nigerian officials trying to interpret creditor intentions.

Finally, there is an element of bureaucratic inertia. The experiences of Cote d'Ivoire, Congo, and Cameroon, which all reverse-graduated with strong support from France, suggest that Nigeria requires a large creditor to champion its cause within the World Bank and the Paris Club. This implies that the United Kingdom, Nigeria's former colonial power and its single largest creditor, may have to take the initiative to bring other creditors and donors on board. Nigeria's fellow commonwealth member Canada or even the US are other possible champions but probably less likely than the British. What is clear, however, is that absent a push from a major power, reclassification or a meaningful debt deal are unlikely to occur.

6. Conclusions

We conclude that Nigeria is facing a double standard when it comes to World Bank country classification. There is a strong case for formal reclassification of Nigeria as IDA-only in terms of IDA's own eligibility criteria, recalling especially that Nigeria is the poorest country in the world that is not IDA-only. Nigeria also has grounds for reclassification given its relative income and performance compared to other IDA-only countries, Africa's previous reverse graduates, and Africa's oil producing IDA-only countries. We note that the benefits of reclassification include the possibility of increased access to concessional and grant resources, and the incentives that such increased access might create for undertaking the steps to receive actual loans; and the fact that IDA-only status would set the stage, domestically and internationally, for negotiating a sensible package of debt reduction. There are good reasons why such a reclassification has yet to happen. But with the opportunity a renewed reform effort within Nigeria presents, and the new logic of regional and global security, the time may be right for that change. Indeed Nigeria and its creditors have compelling political economy and strategic reasons for working together toward such a change as part of a broader strategy for encouraging progress in Africa's largest country.

Appendix 1: Nigeria's External Debt Profile

Debt Stock

For many years there had been little agreement over the exact scale and composition of the Nigeria's external debt stock. In particular, internal Nigerian debt figures typically differed from those reported by the international financial institutions, partly as a result of differences in reporting by Paris Club creditors and the government (Okonjo-Iweala, Soludo and Muhtar 2003). This now appears to have been largely resolved. Table A1 below compares the most recently available estimates from the Nigerian Debt Management Office (DMO), the World Bank's Global Development Finance (GDF) Database and the latest IMF Nigeria country report.

Table A1: Nigeria's Long-term External Debt Stock
(current US$ billion)

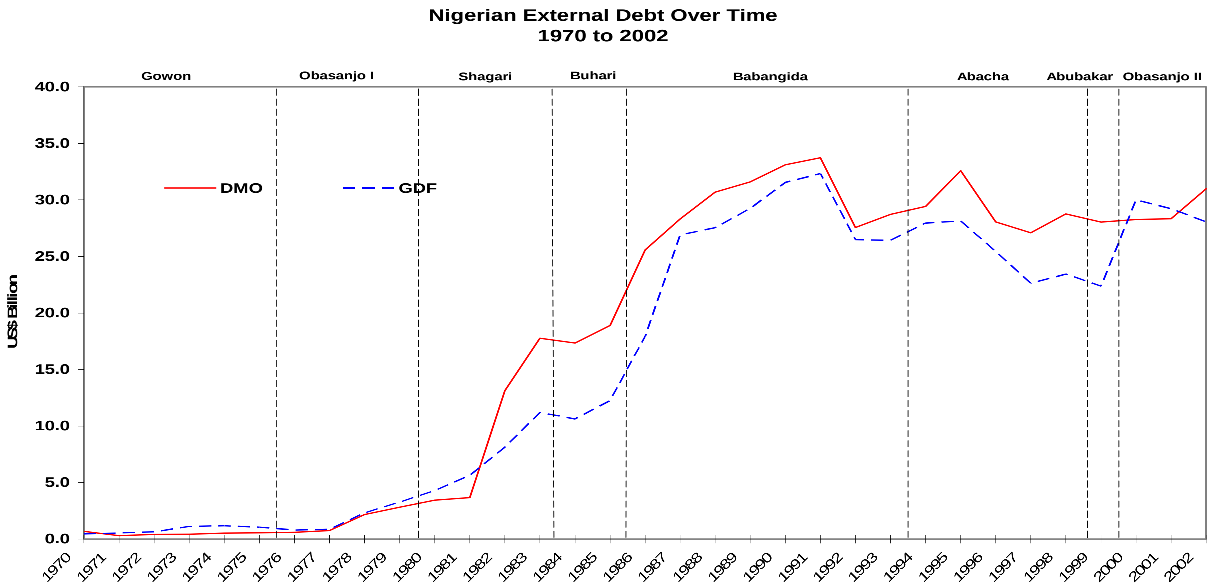
	DMO (as of Dec, 2003)		GDF (as of Dec, 2002)		IMF (as of Dec, 2003)	
Creditor type	**Debt**	**Share**	**Debt**	**Share**	**Debt**	**Share**
Bilateral	27.5	84%	22.6	81%	27.4	84%
Multilateral	3.0	9%	2.9	10%	3.0	9%
Private	2.4	7%	2.5	9%	2.4	7%
Total Debt	**32.9**	**100%**	**28.1**	**100%**	**32.8**	**100%**

Sources: Nigerian Debt Management Office; 2004 Global Development Finance Database; IMF Country Report No. 04/242, August 2004.

Figure A1 details changes in Nigerian total debt stock over time.[17] For comparison, the chart gives estimates from both the GDF and DMO. As illustrated, while estimates of the absolute debt stock numbers have varied—sometimes by as much as $7 billion—the overall trends largely mirror one another. At the beginning of the 1970s, despite emerging from the end of a costly civil war, Nigerian external debt was only $452 million. While the total stock grew throughout the 1970s, it was not until the 1980s that debt rose significantly. Total debt reached just over $1 billion by end-1975, but it reached $18 billion by end-1986 and $32 billion by end-1991.

[17] All debt figures used below refer to public and publicly guaranteed long-term debt as reported by the 2004 World Bank GDF Database unless otherwise noted.

Figure A1

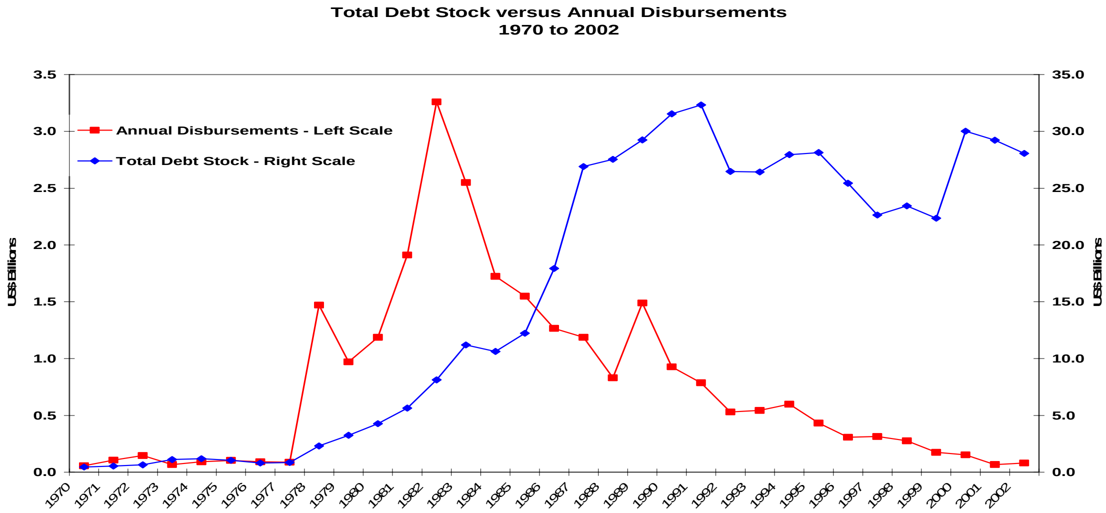


Source: 2004 Global Development Finance Database and Nigerian Debt Management Office

Disbursements

Figure A2 adds public and publicly guaranteed disbursements to the Nigerian government between 1970 and 2002 to the total debt stock figures from Figure A1. Corresponding to the dramatic increase in debt stock that occurred in the 1980s, this period also witnessed major increases in lending disbursements to Nigeria, peaking at $3.3 billion in 1982. However, while debt stock continued to grow following this initial spike, disbursements have been on a steady decline since the mid-1980s and more recently are very near early 1970s levels.

Figure A2

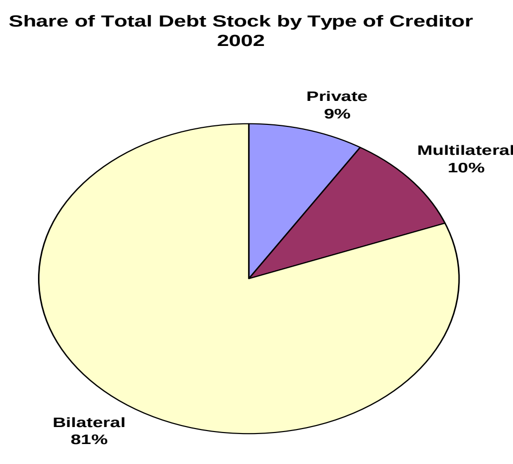


Source: 2004 Global Development Finance Database

Debt Stock by Creditor

Figure A3 gives the share of total debt stock owed to each type of creditor. As of 2002, the vast majority of debt was due bilateral creditors, who were owed $22.6 billion (81% of the total). Meanwhile, multilateral and private creditors were due $2.9 billion and $2.5 billion, respectively (10% and 9% of the total debt stock). Nigeria's internal Debt Management Office figures offer a roughly similar share breakdown.

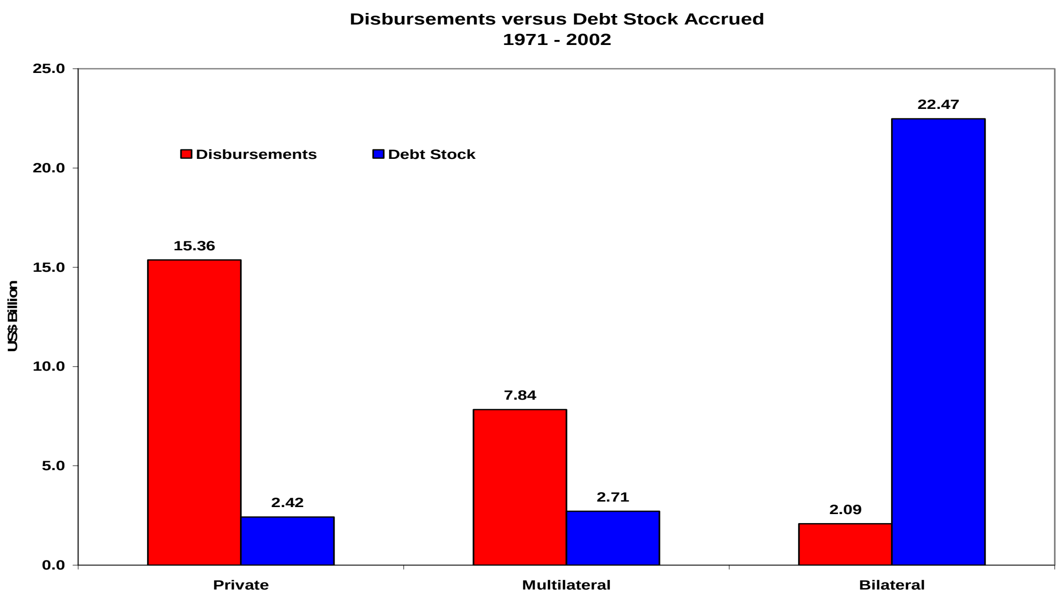
Figure A3



Source: 2004 Global Development Finance Database

The dominance of bilateral debt is especially relevant considering the flow of actual disbursements from each creditor. Figure A4 below gives total cumulative disbursements and debt stock accrued between 1971 and 2002.[18] Over this period, bilateral creditors disbursed a total of $2.1 billion, far below private disbursements of $15.4 billion and multilateral disbursements of $7.8 billion. Despite accounting for 81% of current debt stock, bilateral creditors were responsible for only 8% of total disbursements over this period. Some of this apparent discrepancy lies in the conversion of commercial credits into official bilateral debt through export credit guarantee agencies. (Unfortunately, no data is available to confirm how much of the current bilateral debt stock has accumulated though these provisions.)

Figure A4



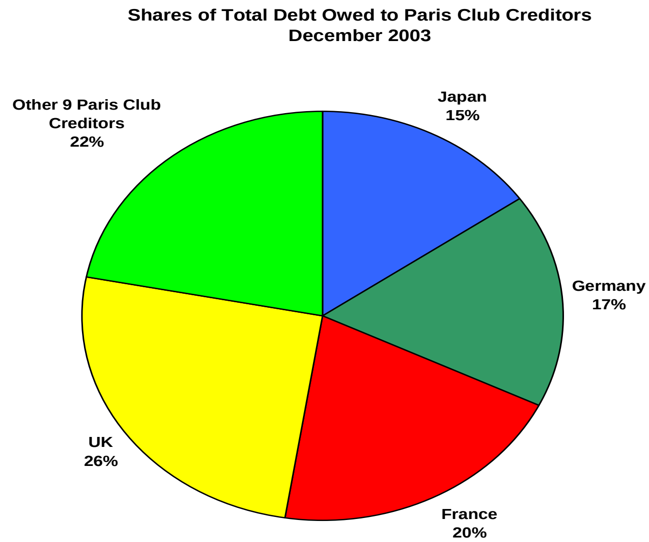
Source: 2004 Global Development Finance Database

Breakdown of Bilateral Creditors

Both the DMO and the IMF have reported Paris Club members dominating Nigeria's bilateral debt stock (GDF does not break down bilateral debt by individual creditor). According to the DMO, $27.5 billion is owed to Paris Club creditors and just $52 million is owed to non-Paris Club bilaterals. The IMF reports similar figures (IMF 2004c). According to the DMO, the UK is the single largest creditor, due just under $7 billion. Other major creditors include France ($5.6 billion), Germany ($4.6 billion) and Japan ($4.2 billion). Figure A5 below shows the share breakdown of Paris Club creditors by country.

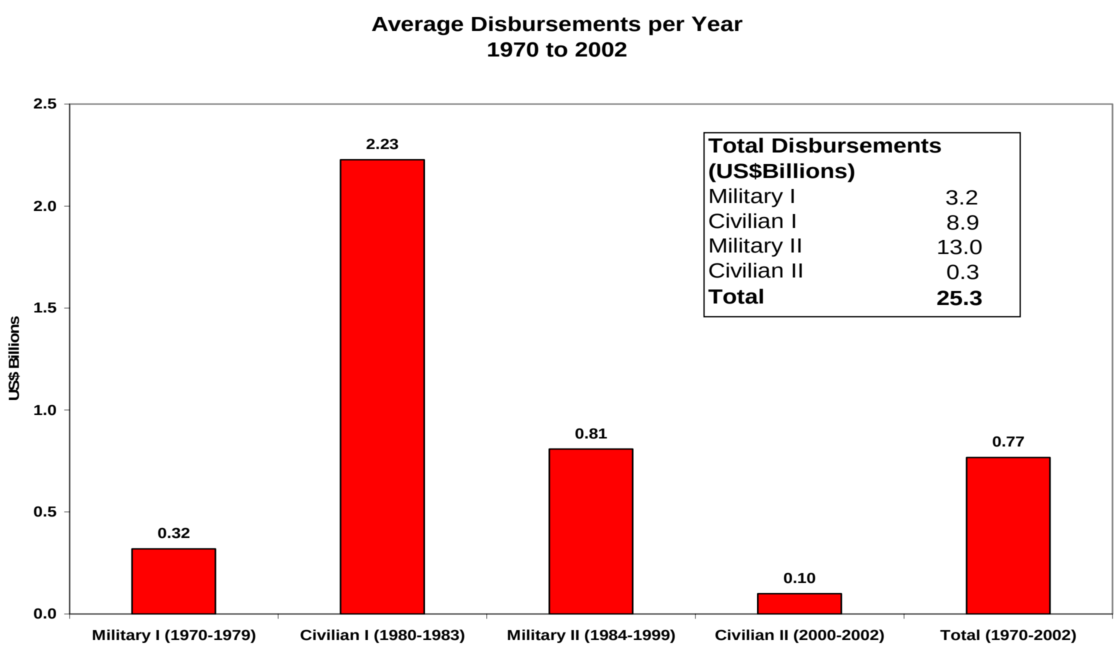
[18] The debt stock figures represent the net change in total debt stock between the end of 2002 and the end of 1970.

Figure A5



Source: Nigerian Debt Management Office

Figure A6



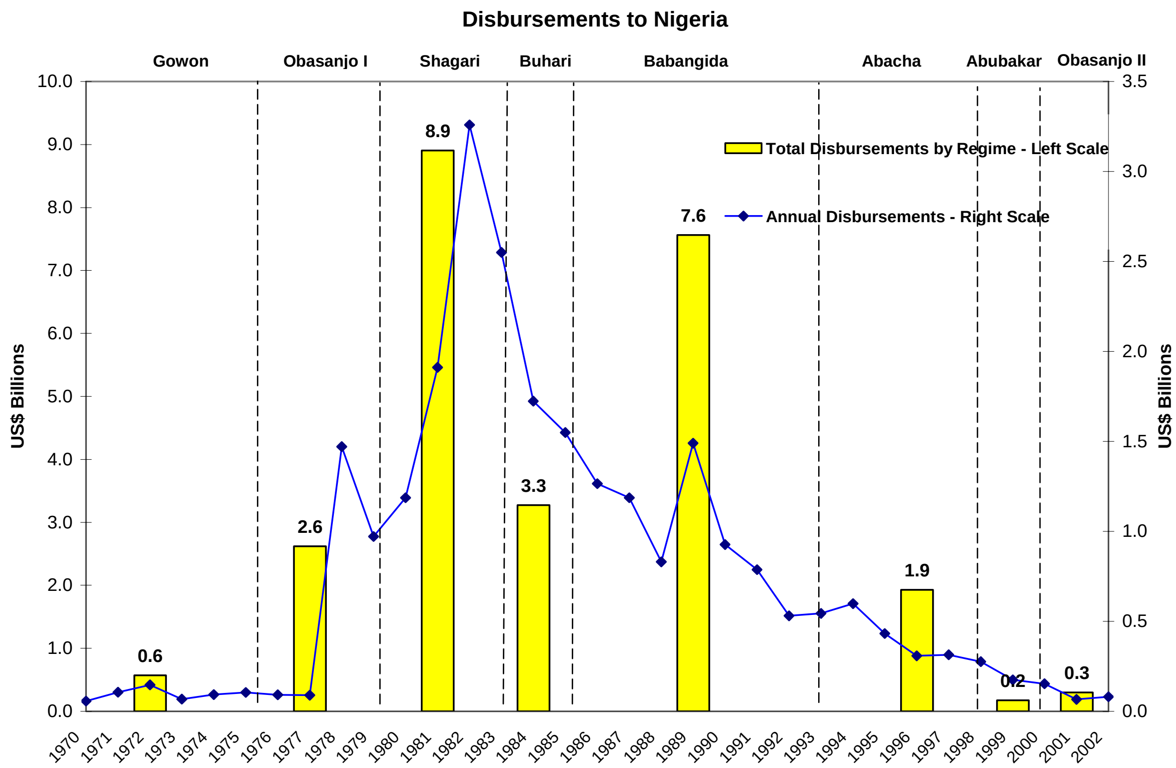
Source: 2004 Global Development Finance Database; authors' calculations

Creditor Disbursements by Regime

Figure A6 gives creditor disbursements by type of regime, broken into 4 periods. The Shagari administration (1980-83) received by far the highest level of annual disbursements, well over $2 billion per year. No other period received over $1 billion, and the average total over the entire period was $0.8 billion. While average annual disbursements were much higher under the civilian regime, total disbursements over the time period were predominantly received by military governments. Indeed, the majority of lending occurred during the second military period between 1984 and 1999 ($13 billion and 51% of total lending).

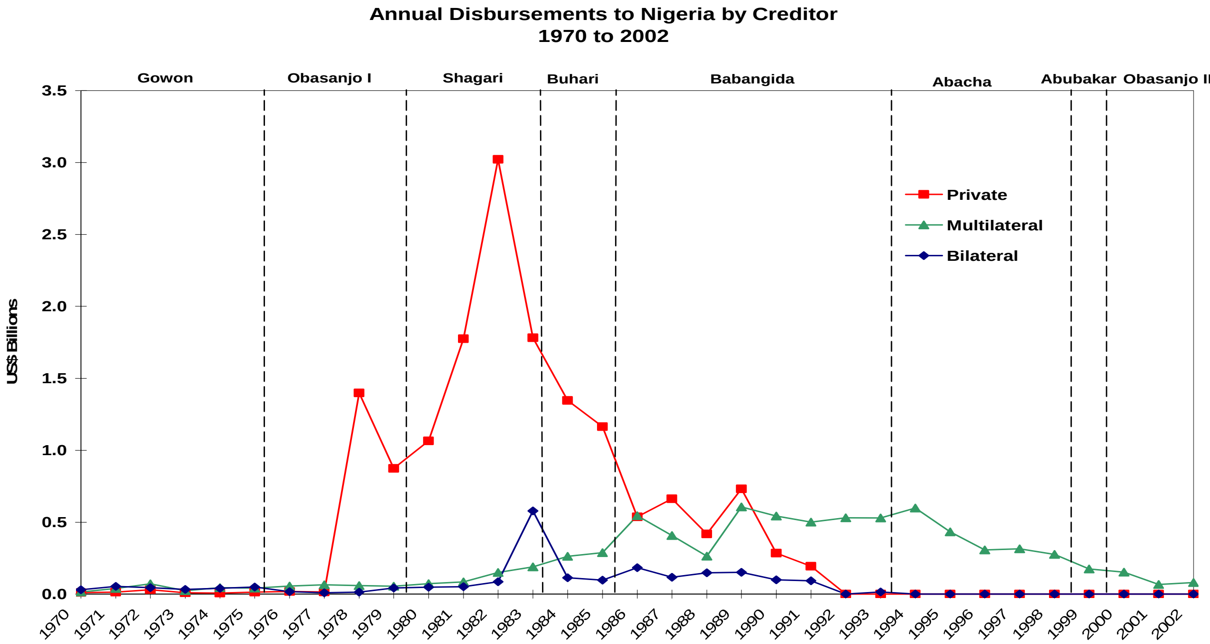
Figure A7 gives both annual disbursements over time and total cumulative disbursements by regime. Almost $9 billion of loans were disbursed during the civilian Shagari administration. Lending did not stop, however, when civilian rule ended. The Babangida regime (1986-93), for instance, received a further $7.6 billion worth of new loans. Nevertheless, overall lending has been on a steady decline since the end of the Shagari government and has yet to resume in any significant way.

Figure A7



Source: 2004 Global Development Finance Database

Figure A8



Source: 2004 Global Development Finance Database

As seen in Figure A8, private creditors were by far the most active lenders over the time period. Most notably, the Shagari government received the highest annual levels of lending with $7.6 billion of private disbursements. Following the return of military rule, private disbursements dropped dramatically and ceased altogether by the time Abacha took power. Bilateral lending has been significantly smaller than either private or multilateral lending. Similar to private creditors, the 1980s saw an increase in bilateral lending, as the Shagari and Babangida regimes account for 74% of total disbursements. However, bilateral lending dropped sharply at the end of the democratic era and ceased upon Abacha's coup.

Multilateral lending to Nigeria was different. Like bilateral and private creditors, multilaterals were not very active in Nigeria throughout the 1970s. Lending did increase during the Shagari administration ($500 million), but the most significant activity occurred during the Babangida era, when almost $4 billion was disbursed to Nigeria. Unlike the other two types of creditors, however, multilateral lending continued during the Abacha regime as a nearly $2 billion further was disbursed.

Debt Rescheduling

Given the dominance of Paris Club debt, Nigerian authorities have agreed to several non-concessional reschedulings with Paris Club creditors beginning with an initial agreement in 1986. Subsequent agreements have taken place in 1989, 1991 and 2000, each in conjunction with Stand-By Arrangements with the IMF. However, according to the IMF, a combination of weak oil prices and Nigerian authorities' payment priorities caused the reschedulings to have little effect on the debt stock, as each agreement was followed by renewed arrears and accumulation causing the overall debt stock to continue to rise as late/penalty interest was added (IMF 2003a, para. 208).

Nigeria reached another agreement with the Paris Club in December 2000 on a fourth non-concessional rescheduling of almost the entire stock of Paris Club debt outstanding (arrears of $21.3 billion, representing over 90 percent of the total debt to the Paris Club). As of August 2004, there was another ongoing round of Paris Club negotiations, with reported agreements with all members, save Italy.

Appendix 2: Nigeria's Current Reform Program

The Nigerian government has recently undertaken a series of economic and structural reforms to try to break with the country's history of poor economic performance and endemic corruption. A new economic management team has been put in place and since late 2003 the administration has begun to implement the National Economic Empowerment and Development Strategy (NEEDS), a comprehensive set of reforms covering all aspects of the Nigerian economy including macroeconomic policy, government institutions, the private sector, and social policy.[19] The IMF has noted progress in four particular areas:

- *Improving Public Sector Transparency and Accountability.* Nigeria has voluntarily agreed to participate in the Extractive Industries Transparency Initiative, the African Peer Review mechanism of NEPAD, and the G8 Transparency Initiative. Internal structural reforms include the establishment of the Economic and Financial Crimes Commission and the Independent Corrupt Practices Commission.[20]

- *Strengthening the Financial Sector.* Steps have been taken to strengthen the financial sector, such as enhancement of banking supervision, adoption of stricter insider lending regulations, raising the minimum capital requirement for banks, and the establishment of the Financial Intelligence Unit to bolster anti-money laundering efforts.

- *Oil market liberalization.* Despite considerable domestic political pressure, the government has taken steps to reduce public subsidies on oil and fuel.

- *Budget reforms.* Several changes in the budgetary process include greater involvement of stakeholders, the introduction of oil price-based fiscal rules, and a new Cash Management Committee. A Fiscal Responsibility Bill, designed to tighten fiscal control over federal agencies and state and local governments, was also introduced to parliament in September 2004.

NEEDS and the recent reforms have generally been well-received by the international community. The IMF "supports the overall thrust and direction of current policies, and believes that with sustained implementation of NEEDS…Nigeria will be in a better position to realize its considerable growth potential."[21] While the Fund notes "that economic reform in Nigeria faces serious risks and challenges, owing primarily to weak institutions, limited technical capacity, and resistance of entrenched vested interests," the NEEDS program of reforms is consistent with past IMF Article IV consultations and represents "a clear break from the policies of the past" (IMF 2004a). The EIU is also positive, but has raised questions about whether the political system will allow reforms to be enacted: "Although NEEDS looks promising on paper, poor policy implementation will continue to be one of the government's biggest weaknesses, particularly given the range of vested political interests in the country and if animosity reappears between the executive and the legislature" (EIU, September 2004, p. 3).

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[19] http://www.nigeria.gov.ng/eGovernment/Needs.PDF

[20] See IMF (2004b), Box 3 for a detailed overview of Nigeria's transparency and anti-corruption reforms.

[21] IMF Managing Director Rodrigo de Rato's Statement at the Conclusion of his Visit to Nigeria, August 2-3, 2004, IMF Press Release No. 04/166, August 3, 2004.

Appendix 3: Nigeria and Odious Debt

Overview of odious debt doctrine

Any country seeking to invoke the odious debt doctrine must first prove that the debt in question is 'odious' and also untangle its obligations to determine which portion is owed to which creditor and under what conditions were those original loans contracted. In practice, both of these conditions have proved difficult.

There are legal ambiguities that complicate the doctrine. Odious debts are not considered illegal under international law, but rather a legal qualification to the rule of repayment. "Practically, this means trying to show that in cases of odious debts, there is no settled international law requiring repayment" (Khalfan et al. 2003, p. 2). Currently, there are three accepted conditions for debt to be considered odious:

(1) absence of consent. To establish an odious debt under international law the absence of consent of the state (population) needs to be assumed or proved;
(2) absence of benefit. For debt to be considered odious the proceeds must be *used* contrary to the interest of the state, <u>and</u> the debt must be contracted contrary to the interest of the state;
(3) creditor awareness. This condition requires that the creditor must be aware of both the absence of consent and the absence of benefit to the population at the time of the transaction for a debt to be considered odious.[22]

Just as importantly, there are many practical barriers to implementing the odious debt doctrine: untangling the original sources of debt after multiple restructurings; treatment of secondary market holders of debt; and fear of exclusion from future lending.

Precedents

The first widely recognized application of the doctrine of odious debt was the 1898 case following the US seizure of Cuba from Spain. The US argued that it and Cuba were not liable for repayment of the debt incurred by the Spanish while ruling Cuba as this debt did not benefit the population and there was absence of consent. Spain was made responsible for the Cuban debt under the Paris peace treaty.

The 1922 case of Costa Rica v. Great Britain is the *only* applicable judicial decision of the doctrine of odious debt. Costa Rica refused to repay loans made by the Royal Bank of Canada to the former dictator Federico Tinoco, citing the absence of benefit to the population and creditor awareness. US Supreme Court Chief Justice William Howard Taft, the sole arbitrator of the case, found that while Tinoco's government was legitimate and thus able to contract debt on behalf of the state, the bill enacted by the new Costa Rican government repudiating the debt "did not constitute an international wrong" as the borrowed funds were not used in the interest of the

[22] The current economic definition sometimes excludes the last condition, creditor awareness; see Kremer and Jayachandran (2003) and Birdsall and Williamson (2002).

population but for personal enrichment and as a result there was no legal obligation to repay the debt (Khalfan et al. 2003, p. 41).

Odious debt has attracted renewed interest for Iraq, where Saddam Hussein contracted loans that were mainly used for the military and personal enrichment. Some debt relief campaigners, such as the Jubilee USA Network and Jubilee Iraq Network, argue that the country's debts did not benefit the Iraqi people, were not made with their consent, and the creditors who lent to Saddam Hussein were aware of the uses of these loans. Moreover, there is currently a bill in the US Congress, H.R. 2482, also known as *the Iraqi Freedom from Debt Act* that calls for the cancellation of loans made to Iraq by multilateral financial institutions such as the World Bank and the IMF. According to the bill, odious debt is "debt incurred by dictatorships for the purposes of oppressing their people or for personal purposes."[23] The bill, which as of August 2004 remains stuck in committee, also calls upon the US administration to use its influence at the Paris Club to ensure that major bilateral creditors to Iraq, such as Russia and France, cancel their debts. Other countries that are commonly mentioned as possibly having odious debt include Nicaragua, the Philippines, Argentina, the Democratic Republic of Congo, Haiti, and Liberia.

Nigeria and the Odious Debt Doctrine

Any claim by Nigeria of odious debt will be difficult to prove for all of the legal and practical reasons outlined above. While it could be argued that lending during particular military regimes could be considered odious based on the absence of consent criterion, high levels of corruption under both military and civilian rule make such a distinction less clear. For the absence of benefit criterion, it is probably impossible to show that there were no benefits of any kind for the population, as some borrowing led to public goods, such as road construction. The creditor awareness criterion may only be satisfied if it is shown that creditors knew of both the absence of consent and absence of benefit to the population. In practice, this is extremely difficult to demonstrate. More practically, repayments on individual loans that might be able to meet all three criteria would have to be traced over time and distinguished from non-odious borrowing. Given Nigeria's substantial debt restructuring, buybacks, and debt consolidation over the past two decades, such a process is unlikely to be feasible. This is further complicated by the substantial amount of current debt stock based on arrears and penalties, and how such debt would be considered. Lastly, any odious debt claim for Nigeria, particularly one based on a blanket assumption of military-incurred debt as being odious, would have severe consequences on the global system of lending to developing countries. In sum, invoking odious debt is a strategy unlikely to succeed for Nigeria, suggesting that other mechanisms for dealing with its debt burden need to be found.

[23] Iraqi Freedom from Debt Act, H.R. 2482 available at www.house.gov/maloney/Iraqi_Free_From_Debt_Act.pdf

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