Center for Global Development

CGD Brief

March 2005

Double Standards on IDA and Debt: The Case for Reclassifying Nigeria

By Todd Moss, Scott Standley, and Nancy Birdsall*

Summary: Although nearly all poor countries are classified by the World Bank as IDA-only, Nigeria stands out as a notable exception. Indeed, Africa's most populous country is the poorest country in the world that is not classified as IDA-only. Under the World Bank's own criteria, however, Nigeria has a strong case for reclassification. IDA-only status would have two potential benefits for Nigeria. First, it would expand Nigeria's access to IDA resources and make the country eligible for grants. Second, it would strengthen Nigeria's case for debt reduction. With a renewed economic reform effort getting under way and the emerging use of debt reduction as a tool for assisting economic and political transitions, the UK, the US, and other official creditors should support such a move as part of a broader strategy for encouraging progress in one of Africa's most important countries.

Nigeria's Status within the World Bank

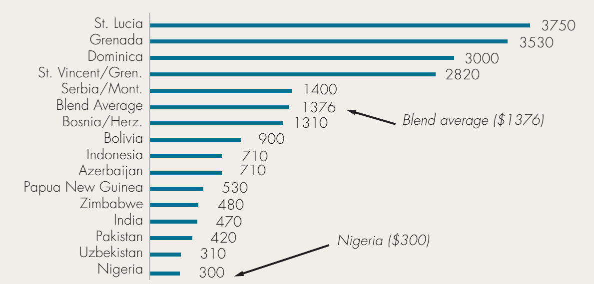
The World Bank Group classifies countries into two major categories. Low-income countries have access to long-term low-interest loans and grants from the International Development Association (IDA). Middle-income countries borrow from the Bank's commercial window, the International Bank for Reconstruction and Development (IBRD). Eligibility for IDA's softer terms is based on three criteria: income (the current threshold is a per capita gross national income (GNI) of $865), lack of access to commercial credit, and "good policy performance."

Nigeria is in a special third category: "blend" countries, which have access to both IDA and IBRD. Blend countries, in contrast to IDA-only countries, cannot receive grants and are not formally eligible for major donor-sponsored debt reduction programs. Under the Bank's own criteria, however, Nigeria's blend status no longer seems appropriate.

- *Income.* Nigeria's per capita income is $300, well under the current threshold and well below that of the other 14 blend countries (Figure 1).
- *Creditworthiness.* Nigeria has virtually no access to private credit today and has not borrowed from IBRD since 1993.
- *Policy performance.* By most measures, Nigeria's performance has been poor, leaving this criterion as the remaining barrier to reclassification. But the standard is not clear, and its application to Nigeria appears arbitrary.

* This brief is based on "Double Standards, Debt Treatment, and World Bank Country Classification: The Case of Nigeria," CGD Working Paper Number 45, Center for Global Development, Washington, DC, November 2004.

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



Source: World Bank
Note: Zimbabwe income data from 2001

Does Basing IDA Status on Policy Performance Make Sense?

There are three problems with the use of policy performance as a criterion for refusing Nigeria IDA-only status.

1. The standard is unclear, and policy performance is not measured against transparent benchmarks.

2. Policy performance already affects countries' access to IDA resources, since it is measured by the Bank's Country Policy and Institutional Assessment (CPIA) scoring system, making its relevance for eligibility redundant. (Nigeria already receives one of the lowest IDA allocations, one-fifth the average among African countries, because of its CPIA score.)

3. Interaction of the policy and creditworthiness criteria creates a Catch-22. Nigeria was once able to access IBRD and private capital markets, but it lost access mostly because of its poor policy performance. Now, the Bank is withholding IDA-only status for the same reason, apparently on the basis that Nigeria should be creditworthy.

Is Nigeria's Policy Performance Being Judged Fairly?

Policy performance appears to be the crucial variable in Nigeria's current classification. How does Nigeria's performance compare with that of three peer groups: Africa's IDA-only countries, Africa's IDA-only reverse graduates, and African IDA-only oil producers?

Nigeria vs. Africa's IDA-only countries. Nigeria is normally considered to be among the poorer performers, as reflected in a CPIA score in the bottom quintile. However, Nigeria is in the middle of the pack in other governance indices, and its recent macroeconomic performance is similar to that of most IDA-only African countries. In fact, its inflation and fiscal indicators have tended to be near or even better than the regional averages (Table 1). It is certainly hard to conclude that Nigeria's macroeconomic performance has been so poor that it warrants special exclusion.

Table 1: Nigeria vs. Africa's IDA-Only Countries

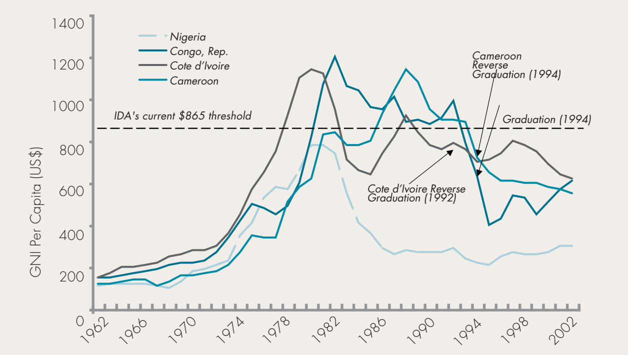
	Nigeria	IDA-Only African Mean
Income (GNI, 2002)	$300	$327
Inflation (1999-2002 average)	11.3%	22.8%
Budget balance (% of GDP, 2001-02 average)	-4.6%	-8.6%

Source: World Bank

Nigeria vs. Africa's IDA-only reverse graduates. Since Nigeria's shift to IDA-only status would imply a "reverse graduation," the other African countries that have successfully moved from IBRD or blend status back to IDA-only status are precedents worth examining. There are three such cases: Cote d'Ivoire in 1992, the Republic of the Congo in 1994, and Cameroon in 1994. Nigeria's per capita income is just one-third that of the other three cases at the time they were reclassified as IDA-only. The three reverse graduates reentered IDA relatively soon after their incomes dropped; Nigerian income levels collapsed twenty years ago (Figure 2).

Nigeria's policy performance is comparable to, and by some measures superior to, that of the other examples at the time of their reverse graduation (Table 2).

Figure 2: Long-Term Income of Africa's IDA-Only Reverse Graduates



Source: World Bank

Nigeria relative to other African IDA-only oil producers. Nigeria's oil income is often cited as a reason for treating it differently than other low-income countries. Nigeria is Africa's leading oil producer and exporter. However, with a population of some 130 million, its per capita oil wealth and income stream are not particularly large (Figure 3). Its performance, moreover, is similar to that of the three African oil producers with IDA-only status and much better than Angola's.

Implications of Reclassification: Grants and Debt

Nigeria has a good case for IDA-only status, and reclassification would confer real benefits. In addition to providing Nigeria eligibility for grants, IDA-only status would strengthen its case for debt reduction. Over the past decade, many low-income countries have gained from debt reduction, but Nigeria has not (see Birdsall and Deese, 2002), partly because the Heavily Indebted Poor Countries (HIPC) Initiative and, until recently, the Paris Club of creditors both required countries to have IDA-only status to qualify for concessional treatment.

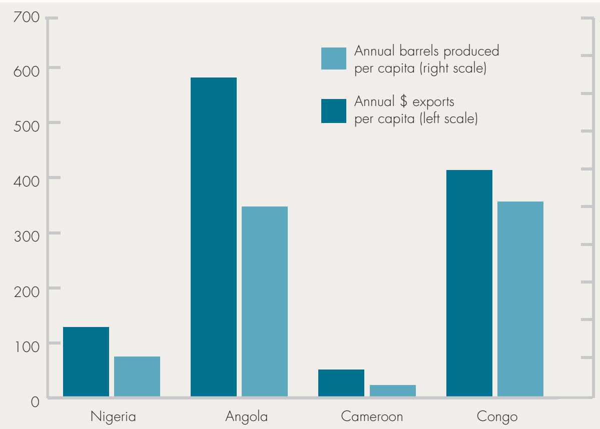
One rationale for debt relief is that debt service should not be so burdensome that it undermines a government's ability to finance basic social services and make critical investments. Nigeria's stock of debt is not high relative to its oil and other exports, especially compared with the debt-export ratios of HIPC—eligible countries. But its annual debt service exceeds 2% of GNP (a threshold proposed in Birdsall and Williamson, 2002) making debt service a substantial burden relative to the huge unmet needs of its citizens for infrastructure and social services.

The case for debt relief for Nigeria is even better made on political and strategic grounds. A low-income country's external debt should not become 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, undermining the current government's ability to convince the public and Parliament to take on economic reforms.

A debt stalemate has also contributed to difficult relations between the government and its donors and creditors. Over 80 percent of Nigeria's external debt stock is held by a few bilateral creditors, and nearly half of that is owed to the UK and France. But the current debt stock, which totals some $33 billion, is based not on heavy borrowing but on relatively small disbursements in the 1980s and then the accumulation of arrears, penalties, and accrued interest over 15 years of military rule (Figure 4). In fact, just $2.1 billion in actual bilateral lending since 1971 has snowballed into more than $22 billion of the current debt stock. This is not to suggest that Nigeria's debt is 'odious' but rather that bilateral creditors have good reason to forgive most of it.

Strategic grounds for debt relief include reduction of the threat that fragile states struggling with weak democratic institutions can pose to global security. Indeed, this was the justification for Iraqi debt relief. Western creditors have a broad strategic interest in encouraging consolidation of emerging democracy in pivotal countries. Nigeria is

Figure 3: African Oil Production and Exports per Capita, 2002



Source: World Bank, OPEC, IMF, authors' calculations.

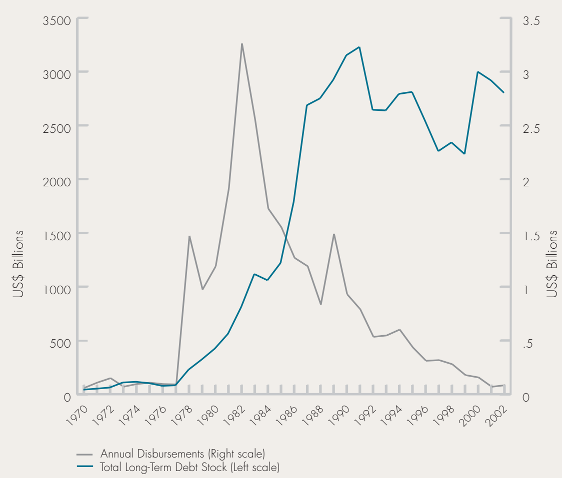
Table 2: Run-up to Reverse Graduation

	Cote d'Ivoire	Cameroon	Rep. Congo	Nigeria
Year of reverse graduation	1992	1994	1994	–
Run-up period	1988–92	1990–94	1990–94	1999–2003
Avg income (GNI, US$)	$818	$872	$840	$283
Avg inflation (annual %)	2.60%	6.60%	8.90%	11.90%
Avg budget balance (% of GDP)	–0.5%	–3.7%	–8.0%	–1.8%

Source: World Bank, IMF.

increasingly vital to energy security, and the country encapsulates nearly all of the major transnational threats: international crime and drug trafficking, Islamic radicalism, and disease.

Figure 4: Nigeria's Total Debt Stock & Annual Disbursements, 1970-2002



Source: World Bank

Why Reclassification Has Not Happened Already

Given the potential benefits to both Nigeria and the global community of reclassifying the country as IDA-only and moving toward a debt deal, why hasn't reclassification occurred?

1. *Concern about corruption.* This is a sensible concern, but it is not clear that the status quo is the preferable option. A favorable debt deal would strengthen reformers within the government attempting to battle corruption.

2. *Potential cost.* Although the face value of Nigeria's debt is large, its actual value is small. Nigeria is not servicing much of its bilateral debt, so a write-off, although difficult politically, would not necessarily take a toll on other aid spending.

3. *Bureaucratic inertia.* For previous reverse graduates, reclassification proceeded with strong support from France. Nigeria needs a major official creditor to champion its cause.

Nigeria's "blend" status has provided a convenient cover for official creditors. But fair treatment and the potential to push along democratic and economic reform suggest that it is time to reclassify Nigeria, if only to ease the way, in Abuja and in Paris, to meaningful debt reduction.

CGD Publications on Debt

Books

Delivering on Debt Relief: From IMF Gold to a New Aid Architecture, Nancy Birdsall and John Williamson, with Brian Deese

Briefs

Delivering on Debt Relief, Nancy Birdsall and Brian Deese

Papers

Policy Selectivity Foregone: Debt and Donor Behavior in Africa, Nancy Birdsall, Stijn Claessens, and Ishac Diwan

HIPC Debt Sustainability and Post-relief Lending Policy, William R. Cline

The Other Costs of High Debt in Poor Countries: Growth, Policy Dynamics, and Institutions, Todd J. Moss and Hanley S. Chiang

Providing New Financing to Low-Income Countries with High Levels of Debt: Some Considerations, Steven Radelet and Hanley Chiang

Beyond HIPC: Secure Sustainable Debt Relief for Poor Countries, Nancy Birdsall and Brian Deese

Double-Standards, Debt Treatment, and World Bank Country Classification: The Case of Nigeria, Todd Moss, Scott Standley, and Nancy Birdsall