

## DEBT RELIEF AND INFRASTRUCTURAL DEVELOPMENT IN NIGERIA: FINDING THE MISSING-LINK

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### ABSTRACT

*The study documented the level of infrastructural development in Nigeria pre-debt relief era and investigated the level of infrastructural development in post-debt relief era. These were with the view to assessing the impact of debt relief on infrastructural development in Nigeria.*

*Both primary and secondary data were utilized. The primary data were sourced through the conduct of structured interview which elicited information from major stakeholders in Nigerian Institute of International Affairs, Ministry of Foreign Affairs, Ministry of Finance, Debt Management Office, Millennium Development Goals Office, Budget Office and Civil Society Organization. These organizations were selected owing to their unique roles in debt management and infrastructural spending. Total samples of forty (40) respondents were purposively selected for interview from relevant experts in South West and North Central Nigeria. Seven (7) officials from the Nigerian Institute of International Affairs, 5 from Ministry of Foreign Affairs, 5 from Ministry of Finance, 5 from Debt Management Office, 8 from Millennium Development Goals, 5 from Budget Office and the remaining 5 from Civil Society Analysts were interviewed. Secondary data were sourced from textbook, journals, internet, conference proceedings and News Magazines. Data collected were analyzed using descriptive method and content analysis.*

*The results showed that 60% of the respondents argued that the heavy burden of debt was the cause of infrastructural underdevelopment in Nigeria during the pre-debt relief era. They contended that unless debt was totally cancelled by our foreign and local creditors, Nigeria would not experience infrastructural development. The respondents also expressed the opinion that government should stop borrowing loans that they thought would not be sincerely used to strengthen economic development. But the results of 40% of the respondents showed that the post-debt relief era reduced the debt stock from US\$ 36 billion in 2004 to US\$ 4 billion in 2006. It was equally observed that debt relief fairly promoted the infrastructural development of Nigeria. The study concluded that debt relief package of Obasanjo administration has to an extent, yielded the desired result for the infrastructural development in Nigeria.*

**Key words:** *Debt, Debt-relief, Infrastructure, Development.*

## **INTRODUCTION**

Over the past two decades, international debt has become a major crisis for both the creditors and the debtors. As a result, several ideas have been suggested as ways of managing the debt, and prominent among these was the issue of relief for the many developing nations that were under the heavy weight of the debt crisis. Nigeria was one of the most affected countries in the world. African states had different attitudes to the debt crisis, even though they agreed generally on the need to push for total cancellation. In the Lusaka Declaration of May 1999, they argued that:

In the context of an African consensus for genuine development, not the neo- liberal Washington context, we endorse the total cancellation of African debt in order that the proceeds got will be used to meet our society's basic needs and the restoring of our environment.

In President Olusegun Obasanjo's inauguration address on May 29, 1999, he called particularly on the Western world, "to help us sustain democracy by sharing with us the burden of debt which may be crushing and destructive to democracy in our land." This call became part of what the then Minister of Foreign Affairs, Sule Lamido, referred to as "the Foreign Policy for Democracy Project" (ThisDay, July, 16, 2000: 10). However, Obasanjo's diplomacy in this regard should be considered a new type of economic diplomacy.

This high level of indebtedness of Nigeria to her creditors could be said to be one of the most serious economic problems that demanded urgent attention. It was seen as a canker-worm that, if not checked, could lead to total destruction of her economy. Obasanjo was conscious of this economic upheaval; hence, he thought that a more realistic approach should be put forward to stamp it out.

In response to this grave situation, a global movements against the debts and for debt relief and outright debt cancellation for these poor nations emerged. These movements, which appeared in several forms, organized several campaigns. In 1998, just before the Obasanjo administration came into office, a huge campaign was organized in

Birmingham, United Kingdom for debt cancellation. The position of civil society activists, who were behind the campaigns, was that the debt is largely unsustainable and, as such, should be cancelled. Some international organizations (including the United Nations, the G77), Non-governmental organizations (like the Jubilee 2000, ActionAid International, Oxfam) and leading economists (like Jeffery Sachs) all agreed that the debt of developing countries is largely unsustainable.

Other several initiatives to ameliorate the negative impacts of the debts included the Baker Plan and the Brady Plan, the Toronto Terms, the London Terms, and the Naples Terms. All these initiatives were aimed at achieving debt reduction. Another debt management initiative was the Heavily Indebted Poor Countries (HIPC) initiative meant to achieve outright debt cancellation or forgiveness for the poorest nations, which have met certain criteria.

Nigeria's debt, at about \$34 billion as at the end of 2004, may not be the highest among developing countries, but it undermines its economic prospects when the repayment is weighed against its income and its huge population of over 120 million. The debt has had a great impact on the country, seriously affecting the chances of socio- economic and political development.

The total debt portfolio of Nigeria was the highest level of indebtedness in Sub- Saharan Africa. Included in this debt was the indebtedness of Nigeria's states, many of which also contracted huge loans from private financial institutions and multilateral organizations like the African Development Bank and the World Bank. It has always been so that, Western banks aggressively extended loans to weak Third World countries as an important component of Western expansionism, acting as a stepping stone either to outright colonial occupation or to the kind of economic and political penetration that laid the foundation for or contributed to the enduring conditions of dependency of peripheral countries on the countries of imperialism (Nwoke, 1990:47).

Successive governments which preceded Obasanjo's civilian regime have been confronted with the challenge of alleviating or removing debt burden as it hampered economic and infrastructural development. Little is known about empirical studies examining whether the debt relief achieved by Obasanjo's economic diplomacy has translated into infrastructural development in Nigeria; hence, there is the need for this study.

### **Research Method**

The study made use of both primary and secondary data. The primary data were sourced through structured interview to elicit information from major stakeholders in Nigerian Institute of International Affairs, Ministry of Foreign Affairs, Ministry of Finance, Debt Management Office, Millennium Development Goals Office, Budget Office, Civil Society Organization, and other related agencies. These agencies were chosen because of their contributions towards the debt relief and the economic diplomacy under Obasanjo administration. In all, forty (40) respondents were interviewed thus: 7 officials from Nigerian Institute of International Affairs, 5 from Ministry of Foreign Affairs, 5 from Ministry of Finance, 5 from Debt Management Office, 8 from Millennium Development Goals Office, 5 from Budget Office and the remaining 5 from Civil Society Organisations. The secondary data were sourced from textbooks, journals, government publications, internet, magazines, and so on. The data collected were analysed using descriptive and content analysis.

### **HISTORICAL ANALYSIS OF DEBT CRISIS IN NIGERIA: The Nature, Trend and Cunning Issues**

There exist two major gaps in the quest for development. The first is the gap between domestic savings and requirements for domestic investment and other needs. The second is the gap which exists between export and import which is generally referred to as the trade gap. As a result of these two gaps, African countries have to look for outside assistance. These helps were calibrated in the garb of loan or aid. Nigeria's case was however different because, even though the country was largely poor, she has a

reasonable income from her oil wealth which, if properly managed, could improve her economic situation. Borrowing is most widely promoted as the inevitable way to bridge resource gap by the gatekeepers of global economic order, the International Monetary Fund (IMF) and other multilateral and international financial institutions. This approach to development, which is built on external financing, through borrowing, was one of the causes of Africa's fall into great debt.

The debt difficulties, as argued by Obadan (2004), also emanated from the nature of the economy's long-standing internal and external imbalances, poor economic policies implemented by governments and other exogenous factors. The industrial sector, which is still in an incipient state, depends heavily on imported input. The economies have therefore been vulnerable to external shocks (Obadan, 2004:169). As Ake (2001) points out, the debt problem was the result of the development strategy that African states have adopted as well as the location of Africa in the world economy and in the prevailing international division of labour. In other words, Africa's debt problem is the inevitable consequence of the global capitalist structure. The result of this is that most of the countries that had embarked on Import Substitution Industrialization (ISI) strategies in the 1960s became casualties of the debt and related macro-economic syndromes (Rodrik, 2003:4).

Many African countries started to fall into indebtedness as a result of the oil crisis in the early 70s. This followed the steep increase in the price of oil by the Organisation of Petroleum Exporting Countries (OPEC) as a result of pressures from the Arab oil producing states during the Arab-Israeli war of 1973. The decade following this oil crisis was particularly harsh for African countries, which had to look for financial assistance to be able to pay the high cost of fuel required by their struggling economies. Between 1970 and 1996, the long-term debt of developing countries expanded 30 times to \$1,726 billion. Short term debt, on the other hand, increased by 216 per cent from US\$146.5 billion in 1980 to US\$463 billion in 1997 (Obadan, 2004:157). By 1984, about a decade after the 1973 oil crisis, there was a seven-fold increase in Africa's debt to \$145 billion

from what it was in 1974. Further, the sub-Saharan African debt stock rose from US\$164.9 billion in 1988 to US\$215.76 in 2000. Total debt service payment increased from US\$6.7 billion in 1980 to US\$15.2 billion in 1999 (Obadan, 2004:161). Thus, whereas developing Africa closed the 1960s and 1970s with trade surpluses of 1.8 and 29.1 billion US dollars respectively, it suffered a massive deficit of 7.7 billion US dollars by the close of the 1980s (Asante; 1991:140).

But while most African countries fell into indebtedness, Nigeria enjoyed a boom because of her oil wealth and membership of OPEC, with rising earnings in billions of dollars. In 1973, her income from Petroleum was \$769.2 million; by 1974, it was \$2,872.5 million; by 1975: \$2,707.5; by 1976: \$3,624.9; by 1977: \$4,330.8 and by 1978, it was \$3,415.7 (Onoh, 1983:73). We should note the dramatic decline between 1977 and 1978 because it had a great impact on the nation's debt history.

By 2000, Africa's debt was US\$350 billion, owed to governments, multilateral, bilateral and commercial creditors. In 1970, the total debt of African nations was US\$10.8 billion; by 1980: US\$113 billion, by 1990: US\$278 billion and by 1994: US\$300 billion. This was almost equal to the region's GNP and three and half times its export earnings (Adejumobi, 2004).

But much of the funds borrowed in the 1970s and early 1980s were used to reduce the decline in rates of savings and to finance capital flights or projects that were not viable. Even in some cases where funds were invested wisely ex ante, unforeseen adverse movements in interest rates and the terms of trade made the ex post rate of return inadequate (Obadan, 2004:169).

For Nigeria, the situation was also dramatic because by 1970, Nigeria's debt was barely US\$1 billion. After 1977, Nigeria began to borrow heavily from private sources and the commercial markets. By 1980, the debt was US\$9 billion; by 1985: US\$19 billion; 1990: US\$33.2 billion; 1991: US\$33.4 billion; 1994: US\$29.5 billion; 1995: US\$32.6 billion, by 2000: US\$30 billion or 70% of the 1999 GDP. According to the Debt Management

Office (DMO), by 2001, the total debt was US\$28,347 million, while in 2002, the debt stock rose to US\$30,991.87 million (DMO, 2002:21).

In the 1960s, Nigeria contracted loans through contractor finance and bilateral sources. The nation was still largely cautious about external loans. The loans were small and easy to service. After the Civil War, the General Yakubu Gowon regime promulgated Decree No.38, known as "The External Loan Decree", which allowed for raising external loans not exceeding one billion dollars for its post war reconstruction programme and for lending to the states. But Chief Obafemi Awolowo, Vice Chairman of the Federal Executive Council and the Federal Commissioner for Finance, was not in favour of the external loans, especially at a time when income from petroleum was rising.

Despite this, from the 1970s, the international capital market became a major source of loans to Nigeria, even though as we already pointed out, the nation's income grew dramatically because of petroleum sales. In 1977, General Olusegun Obasanjo also promulgated Decree 30, which raised the ceiling on the amount of foreign loan that could be taken to five billion US dollars. Immediately following this, in 1978, Nigeria borrowed from the euro-dollar international capital market raising the sum of US\$1 billion. These euro-dollar loans were on commercial terms. It is now generally agreed that going into the international capital market was a wrong step for Nigeria and a very disastrous step at that because market forces largely dominated the market.

But several factors informed this radical change in attitude to external debt. In the first place, the Western nations were facing serious crisis after the 1973 quadrupling of oil prices which caused economic recession across the Western economies. This affected the commodity prices on which developing countries largely depended. There was also a fall in the terms of trade and a rise in interest rates in international capital market at a time when Western banks had in their vaults enormous deposits from OPEC countries and were looking for where to dump this enormous liquid cash. Developing countries, desperate for life-lines, fell easy victims for these loan sharks. The Western bankers

practised what Mansur Muktar (2005: 45), the then Director General of the Debt Management Office called "loan or debt dumping", a practice whereby the petrodollars that they had were given out in order to prevent rates from sliding.

In the 1980s, as the economic crises in Nigeria deepened and as Western creditors refused to extend new credits, industries fell on bad times. The Shagari government sensed the imminent collapse of the economy as a result of the drastic fall in the external reserve from US\$8.5 billion in May, to only US\$2.8 billion in December, 1981. In April 1982, the Administration introduced the Economic Stabilization Act, "which relied mainly on a combination of import restrictions, monetary controls and fiscal policies." This was supported with an import licensing system. Subsequently, the government applied for an IMF Extended Fund Facility of about 2.4 billion naira (Bangura, 1987:99).

Importers were allowed to import almost anything for which they were expected to deposit naira equivalent with the Central Bank of Nigeria (CBN) and these were guaranteed by the Export Credit Agencies, and automatically, these had to be assumed by the government. This added between 4 and 5 billion naira to the debt stock (Muktar, 2005).

By 1982 the debt crisis became a global issue with Mexico's declaration of its inability to continue to meet its debt repayment obligations (Sautter, 1990:3). As the Nigerian economy suffered from deficits and poor market condition for the nation's major export commodity, petroleum, borrowing increased. The IMF mounted pressure on Nigeria to carry out structural adjustment as a precondition for new lines of credit. These were partially accepted by the Shagari regime which was overthrown on December 31, 1983.

The stringent economic measures of the Buhari Military Government (1984-85), included the imposition of more discipline on Shagari's austerity programme, thereby implementing those aspects of the IMF's adjustment measures that did not entail trade liberalization and devaluation (Bangura, 1987:102). The regime had adopted the



Economic Stabilization Act in January 1984 and had also declared in its 1984 budget speech that no new project on which foreign loan was to be obtained will be embarked upon by either the Federal or State governments.

This subsequently led to the adoption of debt equity conversion and debt securitization, a form of debt capitalization, which eventually failed to improve the economy or solve the debt problem. Importantly, the Paris Club rejected the regime's debt management strategy, which was to deal with them individually, bypassing the IMF (Olukoshi, 1990:36). Rather than reduce the debt problem, all these efforts complicated the problem and increased borrowing became inevitable. However, attempts to raise loans from Saudi Arabia were frustrated by the USA on behalf of the IMF (Asobie, 1991:101). The regime also raised debt service ratio to 44 per cent in 1985, a development that generated the resentment which provoked, according to Olukoshi, (1990: 36) the palace coup of August 27, 1985.

General I. B. Babangida, the then new military ruler, reopened negotiations with the IMF to have access to credit facilities to refinance trade arrears and to restore balance in the nation's international payments. The IMF indicated that additional loans would only be based on the acceptance of certain conditionalities. In response to this, the regime organized the famous IMF debate. It also launched a diplomatic offensive under the name of Economic Diplomacy. Later, as a result of the negotiations, some of the trade debts were converted to medium term loans (Fajana, 1990:73).

Borrowing from the World Bank increased from US\$63 to US\$524 million in 1986 and declined gradually thereafter in the late 1980s and early 1990s to US\$264 million in 1993 (Obadan, 2004:243).

The adoption of the Structural Adjustment Programme (SAP) in 1986 allowed Nigeria to borrow for balance of payment support, for procuring imports and for adding to reserves. 1986 was also a crucial year for another reason. The debt stock rose from US\$18.9 billion

in 1985 to US\$25.574 billion in 1986. Unsettled bills accumulated, medium and long-term loans could not be serviced as at when due. These were capitalized. Thus capitalized debt service obligations and penalties on late payments grew from 2.1 percent of the total debt in 1987 to 9.3 percent in 1989. Exchange rate fluctuation and rescheduling pushed the total debt stock up (Obadan, 2004:300). This is what Falegan called the 'rolling-over of the short-term foreign trade debt' which radically altered Nigeria's foreign debt profile, an approach favoured by the Babangida regime, and it was backed with debt servicing and rescheduling agreements with the creditors. When trade arrears were rescheduled into medium amortization periods, they are super-imposed on existing long term debt (Falegan, 1992:175).

A major character of the loans of that era was that they were tied to purchasing the goods and services of the lending country (Obadan, 2004:261). In addition, by the mid-1980s, over 75 percent of the external debt was known to have been borrowed from private sources with short repayment period (Nwoke, 1990:55). Nigeria had embarked on contractor finance in the 1960s. This contractor finance obligation and supplier credit to the public sector was abandoned in the boom years of the 1970s for bilateral (from UK, France, Germany, USA and others) and multilateral loans from the World Bank, European Investment Bank (EIB), and the African Development Bank (Falegan, 1992:175).

The first World Bank loan to Nigeria was for US\$28 million for the Nigerian Railways in 1958. Since then, loans have been used in all sectors of the nation's economy - agriculture, industry, steel, roads, telecommunication, energy, water supply, education, health, transport, forestry and so on. Accordingly, it can be concluded that most external loans have been directed at financing social infrastructural projects and public enterprises than on self-liquidating economic projects (Obadan, 2004:264).

At the global level, in 1990, the total debt of the developing countries was US\$1280 billion, while their total income from export was less than US\$1000 billion. At the same time, while these countries had to "pay back US\$143.5 billion to service the debts in

1990, they received only US\$85 billion in aid and investment from abroad, thus paying the richer countries about US\$60 billion more than they received" (Madeley, 1992).

Another problem of the debt was the wasteful and unproductive investments as well as mismanagement of borrowed funds by inefficient public enterprises. Poor economic management led to the use of borrowed funds to finance consumption, delay adjustment or invest in projects with low rates of return (Obadan, 2004:169).

The debt issue became a crisis also because of several other factors, such as soaring interest rates from the 1970s, the very harsh terms for the inevitable loans and also the very short repayment time granted the borrowing African nations. For example, US\$14 billion of Nigeria's debt of US\$30 billion as at 2000 was made up of arrears of debt servicing payments, a kind of penalty for not paying on time. This is what some Jubilee Plus debt relief campaigners refer to as "phantom debt".

By the mid 1990s, due to General Sani Abacha's diplomatic face-off with the nation's traditional trade partners, Nigeria's commercial creditors were paid more, while the bilateral debts were rescheduled thus leading to the gradual increase in the share of bilateral debt in the total external debt stock to the level of 80 percent by 2002 and 85 per cent by 2004.

The main problem associated with the loans is of course the debt service. As the loans grew, so also was the amount required to service them. These debts could only be serviced with foreign exchange. To achieve this, therefore, a debtor nation should be earning enough foreign exchange through export earnings. This should not ordinarily be a problem for Nigeria with its relatively huge income from petroleum. But as we noted earlier, as the loan portfolio grew, and interest charges rose and with much of the loans now coming from private commercial sources, the amount required servicing them also grew. Unfortunately, at the same time, there was a drastic fall in its export earnings.

Overall, by 2004, Nigeria's debt grew to US\$34 billion and by March 2005 it was already US\$35 billion (Muktar, 2005: 45). Also, 85 percent of this was owed to the Paris Club while 8 percent was owed to multilateral institutions and 7 percent to private commercial interests, the London Club and private banks. According to Okonjo-Iweala, Nigeria does not owe the IMF again (2005:80). Interestingly, the total amount which Nigeria actually borrowed from various sources and for various purposes is now put at about 16 billion US dollars by the former Director General of the Debt Management Office (DMO), Mansur Muktar. Over the years, Nigeria has paid a total of 43 billion US dollars. Yet, by early 2005, she was still owing 35 billion US dollars (Muktar, 2005: 46).

**Table 1**  
**Nigeria's External Debt Service Payments 1994-98 (in millions of \$)**

<b>Official</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Paris	59.20	271.80	359.70	306.10	228.54
Multilateral	758.90	271.80	814.40	800.20	680.54
Others (non-Paris Club)	626.60	109.00	336.40	127.70	19.77
Sub Total	1444.70	1207.70	1510.50	1234.00	928.54
<b>Private</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Promissory Notes	254.80	251.90	238.40	226.80	316.29
Banks (London Club)	143.50	161.00	127.70	35.80	127.71
Sub Total	398.30	412.90	366.10	262.60	344.00
Grand Total	134.00	1620.60	1376.60	1496.60	1272.54

*Source:* Debt Management Office, Abuja. 2003, p.49

**Table 2**  
**Nigeria's External Service Payments 1999-2002**

Official	1999	2000	2001	2002
Paris	644.49	812.67	1273.62	161.55
Multilateral	659.17	623.23	491.48	472.12
"Others (non-Paris Club)	34.80	1.52	33.81	75.86
Sub Total	13338.46	1437.42	1798.91	709.54
Private				
Promissory Notes	258.70	149.52	195.18	192.12
Banks (London Club)	127.74	129.07	134.08	266.75
Sub Total	388.44	278.59	329.26	458.87
Grand Total	1724.90	1716.01	2123.17	1163.40

Source: Compiled from DMO, Abuja, 2003. p.49

### **Obasanjo's Diplomacy of Debt Forgiveness**

President Olusegun Obasanjo led a sustained diplomatic effort in the campaign for debt forgiveness including personal contact at the highest levels with the leadership of the G8, the European Union and multilateral institutions. The campaign naturally flows from the agenda for improved relations, which had deteriorated in the Abacha years, with the international community, the pursuit of the democratic project and the achievement of poverty alleviation and socio-economic and political progress and development. In these efforts, he was an advocate of a negotiated solution to the debt burden with the creditors. Before the Fourth Republic, successive Nigerian leaders have tried different approaches to manage the debt. Debt management in this regard is the process of administering the national debt, providing for the repayment of the principal, payment of interest and arranging the refinancing of maturing debt (Sogoteni, 1999:324). There was debt restructuring, which involves the rescheduling of both principal and interest payments on

official medium and long-term debt falling due in a given period including the arrears (Falegan, 1992:175). Over time, traditional debt rescheduling has proved the most popular among the approaches, which Nigeria has adopted. It allows the country to spread the repayment of the principal and the interest over a longer period with or without some interest rate and moratorium concessions. This was the result of the initial response to the debt crisis. While it preserves the contractual present value of the debt and provision of new money, it does not resolve the problem of the debt; it only postpones the repayment.

Early 2005, Debt Repudiation was tabled as a debt management strategy. It was proposed, as an option, by members of the nation's House of Representatives. The legislators observed that a total debt of about 16 billion dollars had jumped to 35 billion dollars by 2005, even though Nigeria has paid over the years more than 40 billion dollars to the creditors. The legislators therefore passed a resolution urging the Federal Executive Council (FEC) to repudiate the debt (*The Guardian*, March 8, 2005). This, of course, was not the favoured option for the Obasanjo administration. Besides, it has never been successfully applied anywhere. Again, at the April 2005 Conference of the Inter-Parliamentary Union (IPU) in Manila, Philippines, the Nigerian delegation appealed to the parliamentarians from the creditor nations to pressure their governments to oblige Nigeria with debt relief (*The Guardian*, April, 2005). Unilateral action on debt has never been successful. When the Ghanaian government of General Acheampong, on coming to power in 1971, announced a unilateral but selective repudiation of about 218 million dollars of Ghana's debt and a unilateral rescheduling of much of the rest in 1972, the nation suffered serious consumer shortages and inflation (Payer, 1974:203).

Brazil also attempted debt repudiation by announcing in February 1987 the suspension of repayment of interests on its foreign debt. She was also gradually and severely sanctioned (Alli-Balogun, 1990:124). Because of these experiences, Alli-Balogun recommended that a debtors' cartel should be put in place before a collective decision to default or repudiate the debts is made. Nigeria was able to secure debt-rescheduling agreement with the Paris Club in 1986, 1989, and 1991. Between 1999 and 2004, under the leadership of President

Obasanjo, Nigeria has paid about US\$7 billion to show a new level of seriousness in the management of the debt. This, no doubt, was why rescheduling agreements were reached with the Paris Club in 2000 and 2003. Despite this, the debt service of US\$1.8 billion in 2004 was actually more than six times the Federal Government's recurrent budget on education and 13 times the recurrent budget on health (Nwankwo, 2005:12).

In all negotiations, the Debt Management Office (DMO), created in 2000 as a new agency under the Presidency, played very crucial role. Through lengthy and painstaking bilateral negotiations with creditors, the DMO succeeded in re-negotiating applicable interest rates for rescheduling the consolidated Paris Club debts down to an average five per cent compared to the historic level of 12 per cent (DMO, 2003:4). Again, through debt buy back, the Par Bond debt stock was reduced to US\$1,441 billion from US\$2,043 billion yielding a saving of US\$601.4 million. Nigeria, through the DMO, was following the activities of the creditors, particularly the Paris Club, and the changing attitude of the IMF and the World Bank and their input, and was adjusting its campaign accordingly. At a point, the government targeted the Houston Terms and did get some rescheduling on those terms.

After the G8 meeting in France in 2003 brought out the Evian Approach, the debt relief diplomacy was also accordingly adjusted. Eventually, with the IMF coming out with a study in 2003 pointing out that Nigeria's debt was not sustainable and that some rescheduling on Naples Terms reducing the debt by 67 percent could make the debt sustainable and with the commitment of government to an IMF supported reform agenda, the hope remained that Nigeria could still get some relief notwithstanding the fact that the IMF came out in May 2005 with another study indicating that Nigeria's debt was sustainable. In addition, Nigeria negotiated with the Paris Club to pay US\$1 billion a year instead of the US\$2.3 billion required to service her debt to the Club. An Agreement was also reached with the multilateral institutions to pay US\$0.7 billion. Thus, the total debt repayment for 2005 would be US\$1.7 billion or 56 percent of the expected debt service of US\$3.0 billion per year (Okonjo-Iweala, 2005). However, Nigeria's refinancing or

rescheduling schemes have not only increased the cost of debt servicing, but have also made the country vulnerable to disruptions in her capital earnings, all of which, as argued earlier by Falegan (1992:176) could erode confidence and credit worthiness.

## **DATA PRESENTATION AND ANALYSIS**

### **Introduction**

This chapter involves the analysis of the field work conducted in Abuja, Lagos and Ibadan. It is a combination of series of interviews conducted to feel the pulse of the people concerned and expert opinion on: “*The Impact of Debt Relief on Infrastructural Development in Nigeria*”. Specifically, extracts of interviews conducted were presented and analysed under the following headings:

1. Issues of Nigerian debts.
2. The impacts of debt relief on infrastructural development in Nigeria.

### **Issues with Nigerian Debt**

Since interview method has been adopted as the method of gathering data, extracts of the interview conducted was of necessity to be analysed in order to enliven the work and make it as pragmatic as possible. On the issues with the Nigerian debt, experts adduced a number of reasons for debt servicing strategies adopted by the various administrations.

**Extract 1:** In-depth interview with Joshua Olusegun Bolarinwa, a Senior Research Fellow with the Nigerian Institute of International Affairs (NIIA), Lagos.

“I think that Nigeria does not have any real need for the public borrowing let alone borrowing from the international economic rich institutions like Paris club, London club and the rest that is swelling the national debt profile. Though Mrs. Ngozi Okonjo—Iweala will forever be known as the woman who shepherded Nigeria out of one of its heaviest debt burdens. During the tenure as Minister of Finance in November 2005, Nigeria secured a Paris club debt relief deal under which \$18 billion of the country’s debt was written off in exchange for the payment of \$12 billion. I vividly know that by



this deal, \$30 billion of the country's total external debt of \$37 billion at the time was discharged.

Okonjo-Iweala resigned from the administration of former President Olusegun Obasanjo in August 2006 following her sudden removal as head of the country's Economic Team. But in 2011, President Goodluck Jonathan reappointed her as Minister of Finance and Coordinating Minister for the Economy. Ironically to me and to concerned Nigerians, the woman who had headed negotiations that led Nigeria out of debt is today superintending what has been described as the country's notorious emergence as a borrowing giant. The country is said to have taken a total of \$4.4 billion in external loans in the past seven years, although, it remains comfortably within the internationally accepted 40 percent debt/Gross Domestic Product ratio and the 25 per cent country specific threshold for debt stock levels. I doubt if Nigeria really belongs to this class of countries judging by huge surplus earnings from oil. But the question I actually keep asking is what Nigeria is borrowing for. The federal government's debt management office wanted to justify the borrowings, saying they are tied to capital projects and human capital development. But it is hard for me to feel the physical impact of such loans in the state of the country's infrastructure and human capital". (Field Survey, 2012).

In his analysis, he brought to the fore the fact that, Nigeria is one of the blessed countries in the world in terms of human and natural resources. He also analysed that he did not see the usefulness of debt relief to Nigeria on the infrastructural development.

**Extract 2:** In-depth interview with Omotola Ilesanmi, a Research Fellow with the Nigerian Institute of International Affairs (NIIA), Lagos. "Honestly, I must tell you, when former President Olusegun Obasanjo's administration negotiated Nigeria's exit from the Paris Club of creditors in June 2005, I breathed a sigh of relief. To my delight as a Nigerian, the 19-member cartel cancelled 60 per cent or \$18 billion of the \$30 billion Nigeria owed, the biggest debt write-off ever for a sub-Saharan African country. For one, the huge debt relief at the time meant that more money would be available to fund critical

priority sectors such as health, basic education, water, power, road network and other infrastructure to stimulate the economy. Essentially, the debt relief improved Nigeria's credit worthiness building credible financial confidence for transactions, as the country was no longer classified as a bad and doubtful debt country. It was largely expected for me that the federal government would channel the money usually earmarked for debt servicing into funding infrastructure, thereby bringing the huge infrastructure gap in all the nook and cranny of the country, and in the process encourage private sector- driven job creation". (Field Survey, 2012).

Her contention is that, the Nigerian government will use the money usually set aside for debt servicing in funding infrastructural development in this country. She opined that both the federal and the state governments should utilize the advantage of debt relief for job creation for the teeming unemployed Nigerian graduates.

**Extract 3:** In-depth interview with Chinasa Ugwuanyi, Research Fellow with the Nigerian Institute of International Affairs (NIIA), Lagos. "I think that the borrowings being undertaken by the country are not doing it any good, not least when the country constantly boasts excess funds. By international standards, a country ought to have foreign-exchange reserves enough to stabilize its currency for a minimum of six months. Nigeria is said to have foreign reserves enough to shore up the naira for between 10 and 12 months. I think and suggest that earnings above what is enough to stabilize the country's currency for 12 months should be devoted to infrastructural development. But it seems Nigeria's economic managers prefer borrowing to any such proposals. I fear that Nigeria may be repeating the mistake of 1978, when it went for "jumbo loans" that had dire consequences for the country. Just some few months ago, the central bank of Nigeria governor, Mallam Sanusi Lamido Sanusi, warned that Nigeria was borrowing too much and accumulating debts that could create unmitigated hardship for its future generations." (Field Survey 2012).

For this scholar, who went down the memory lane to trace the 1978 “jumbo loans” that Nigerian government then borrowed. She opined that it was the loan that caused economic austerity to Nigerian environment. Drawing from the flow of the agreement of this respondent, the Nigerian currency needs to be strengthened.

**Extract 4:** In-depth interview with Abraham Nwankwo, Director-General (D-G), Debt Management Office (DMO), by TELL Magazine, November 12, 2012 edition.

“I projected that governments’ debt would hit a new height of \$25.2 billion between 2012 and 2015”. The administrator disclosed that the projected debt consist of domestic and foreign borrowings. A breakdown of the projected domestic debt shows that while an estimated \$6.48 billion is for 2012. \$7.125 billion is for 2015. Another sum of \$7.792 billion and \$8.444 billion is to be borrowed for 2014 and 2015 respectively.

“The D-G said that the loans will be provided by a consortium of banks led by the World Bank, which will advance \$2.975 billion; African Development Bank, \$731.23 million; the Islamic Development Bank, \$672.85 million; French Development Agency, \$56.61 million; and export and import, EXIM, Bank of China, \$3 billion. Besides the new loans being pursued, there is the existing \$45 billion public debt with \$39 billion or N6.3 trillion as domestic debts as at September. Going by the projection, it means that the country will be saddled with a new public debt burden of over \$70 billion or N10.8 trillion by 2015”.(Field Survey, 2012).

### **The Impacts of Debt Relief on Infrastructural Development in Nigeria**

The socio-economic impacts of the \$12.124 billion Paris Club debt relief leaving the economy are self-evident. The social cost as usual is being transferred to the poor citizens. It is important to point out that since Nigeria started being in the debt crisis, the national economy has been in complete ruins. The pains and burden over the years, are transferred to members of the underclass, especially, “the poorest of the poor”, women and other vulnerable members of the Nigerian society.

Today, over 70 percent of Nigerians live below the poverty line. The country in 2004 UNDP HDI report was ranked 151 out of 177 countries in terms of socio-economic development while between 105 and 159 children die out of every 1000 born (Human Development Report, 2004). Nigerians labour daily under crushing neo-liberal policies of International Monetary Fund and World Bank which preach liberalization, deregulation, cuts in social welfare, and withdrawal of government subsidies to education, health, agriculture and privatization of national institutions. The IMF and World Bank imposed neo-liberal agenda, rather than alleviate poverty as the government claims to be doing, impose poverty on the majority of the Nigerian people. Thousands of the citizens are daily loosing their jobs to government's "down-sizing" or "right-sizing" policies of job cuts. The majority poor Nigerians are bearing the brunt of Nigeria's unguarded, if not irresponsible borrowings of the past years and the greed of the country's creditors.

**Extra 5:** In-depth interview granted Ngozi Okonjo-Iweala, Minister of Finance, by TELL Magazine, November 12, 2012 edition.

"The Honourable Minister explained that the loans have been negotiated on highly concessionary terms of zero interest rate, a 40-year repayment period, 10 years of moratorium and 0.7 per cent commitment charge. The economist further said that the Loans were necessary for the Nigerian economy to grow, as they would be used to fund infrastructural development. She noted that Nigeria needed about \$10billion yearly to tackle infrastructural challenges." (Field Survey, 2012).

This economist knows that foreign debt, which was in the past viewed as an instrument of economic development and international trade became an impediment to global trade and cooperation. The factors responsible for the current debt overhang have been clearly elucidated in the previous section, but one must not lose sight of the fact that it varies from country to country as do the processes of debt management itself. In the case of Nigeria, in spite of such known factors as the fall in primary commodity prices, the indiscriminate external borrowing, and fault domestic economic policies, the country's debt crisis was also impacted upon by the mismanagement of the economy, which set the

country on the path of economic decline. These factors made the economic analyst to introduce highly concessionary terms of zero interest rate on how to repay Nigerian debt.

**Extract 6:** In-depth interview with Alaba Olusemore, a public analyst and fellow, Chartered Institute of Bankers of Nigeria (CIBN), Ibadan.

“I am worried that the federal government may not use the loans being pursued for the good of the common man. Indeed, there are fears that rather than the new debts putting the economy back on track as promised by Okonjo-Iweala, the country may slide back to the inglorious years of debt overhang with attendant negative consequences for the economy and the welfare of Nigerians. Although, he agreed that borrowing in itself is not a bad thing, as some of the most financially buoyant and prudent nations borrow, he however argued that unlike many of these countries, Nigeria has over the years earned an unenviable record for bad management of loans. I emphasized that loans on their own are not bad depending on utilization. All nations borrow both in the domestic and international markets” (Field Survey, 2012).

The Banker is wary of Nigeria’s past experiences with public borrowings. He said often in Nigeria, loans are obtained due to generous terms and because they provide opportunities for public officers to steal the funds. He noted that over the years, loans obtained by the federal and state governments are not tied to specific projects that could pay them off within the duration specified in the agreement. Often such loans are either misapplied or misappropriated. To him, there is nothing to show for the loans government has so far obtained. He went further by saying that the borrowings have not impacted on our economic development; standard of living is comparatively low and this has produced a number of social problems that we are currently grappling with.

**Extract 7:** In-depth interview with Biodun Adedipe, Chief Executive Office, B.A. Adedipe and Associates, Lagos.

“I must quickly say that if we are borrowing for the purpose of infrastructure, then, it should be structured in such a way that the investment is able to pay the debt. “He went further to say that we should not borrow just because we have the capacity to borrow and there are people willing to lend us. (Field Report, 2012).

The stockbroker’s intention is that if the state and federal governments want to borrow, they should use the loans obtained from their respective creditors to strengthen infrastructural development in this country.

**Extract 8:** In-depth interview with Henry Boyo, an Economic Analysts, by TELL Magazine, November 12, 2012 edition.

“I am aware that the government bonds are presumably raised to finance deficits in the budgets or infrastructure. But why did we borrow to cover a deficit when, indeed, in every one of those years when those debts were accumulated we actually earned more income than we spent. Curiously, despite borrowing from the bond market at between 15 per cent and 17 per cent interest, the Nigerian government often stocks up surplus funds, like the now defunct Excess Crude Account, which is shared among the three tiers of government”. The analyst said that a surplus is supposed to be that which is over and above what you require. You cannot have a surplus and say you are taking it to an escrow account or excess crude account or sovereign wealth account or you are dividing it in some way among the three tiers of government, when at the same time you are borrowing to cover a deficit. That is the major component that defines the debt structure we have at the moment” (Field Survey, 2012).

In his analysis, he assumes that government should borrow with treasury bills at over 12 per cent interest to mop up excess cash in the system. But the researcher said the excess liquidity is self-inflicted by the same Central Bank of Nigeria that applies the mop-up at enormous cost to the country. To him, the measure which involves giving the banks

money and borrowing it again has been criticized as hardly making economic sense. The measure should be seldom applied.

**QUALITATIVE DESCRIPTIVE AND CONTENT ANALYSIS ON THE IMPACT OF DEBT RELIEF ON INFRASTRUCTURAL DEVELOPMENT IN NIGERIA**

**Table 3:** Qualitative Descriptive and Content Analysis of the Impact of Debt Relief on Infrastructural Development in Nigeria

<b>S/n</b>	<b>Responses</b>	<b>Abuja</b>	<b>Lagos</b>	<b>Ibadan</b>
1	Debt relief being the method to infrastructural development	++	+	-
2	Contribution of Nigerian Government to Servicing of debt	-	-	-
3	Debt burden so heavy that debt relief should be given a high priority	++	++	++
4	Nigerian people seeking urgent attention	-	++	+

Source: Field Survey 2012.

**Key:** ++ where a particular opinion was expressed by at least 2 of the 3 respondents.

+ Where a particular opinion was expressed by at least 1 of the respondents.

- Where a particular opinion was not expressed at all.

Table 1 clearly shows the opinions gathered with regard to issue relating to impact of debt relief on Nigerian economy. From the responses, majority of the respondents argued that the heavy burden of debt is the cause of infrastructural underdevelopment in Nigeria. They contended that unless debt is totally cancelled by our foreign and local creditors, Nigeria will not experience infrastructural development. They also expressed the opinion that government should stop borrowing loans that they thought will not be sincerely used to strengthen economic development. However, nobody expressed opinion as per whether servicing of debt by government contributed to development of infrastructure.

**Table 4**

<b>S/n</b>	<b>Responses</b>	<b>Abuja</b>	<b>Lagos</b>	<b>Ibadan</b>
1	Economic implication of debt relief	++	-	++
2	Government key role in infrastructural development	++	++	++
3	Possibility of benefits of debt relief to Nigerian infrastructural development	-	-	-

Source: Field Survey, 2012.

Survey from Table 2 shows that there are indeed economic implications of debt relief on infrastructural development in Nigeria. In their words, the debt relief implicates on Nigeria social and economic development because the money used to service Nigerian debt will now be judiciously used to provide all infrastructural amenities Nigeria needs to develop. Opinion was also expressed to the effect that government has the key role in infrastructural development. Both the state and federal governments should be faithful in applying the loans obtained for developmental projects like road, health, education, agriculture, water and the rest. In their words if the loan is applied favorably, the Vision 20: 2020 will be achieved by the central government. Opinion was not expressed in relation to benefits of debt relief to infrastructural development.

**Table 5**

<b>S/n</b>	<b>Responses</b>	<b>Abuja</b>	<b>Lagos</b>	<b>Ibadan</b>
1	Amount of Nigerian debt	++	-	+
2	Nigerian creditors	-	+	-
3	Measure putting in place to prevent repeat of past mistakes	-	+	-
4	Agreement that Nigeria reached with her creditors	-	+	-

Source: Field Survey, 2012.

Table 3 shows clearly that out of the 3 interviewee in Abuja, 2 of them expressed opinion on the amount of Nigerian debt. Debt Management Office and Ministry of Finance both expressed their opinions on how much the country is owing her creditors while 2 respondents from Nigerian Institute of International Affairs expressed opinion about inactive and negligible attitude of government to develop this country with the borrowed money obtained from her creditors.

Finally, a big question arises- Is there any meaningful impact of debt relief on infrastructural development of Nigeria?

## **INFRASTRUCTURE**

### **1. Power**

#### **Policy Framework**



In 1999, average annual available and installed generation capacities were 1750MW and 5906MW, respectively. Of the 79 generation units in the electricity system, only 19 were operational. This led to frequent system collapses and widespread national outages. By 2000, available capacity had plummeted to about 25 percent of total installed capacity. Electricity supply was falling in the face of growing demand, which was estimated at 4,500MW.

It was against this backdrop that the Obasanjo Government adopted a two-pronged approach to addressing the problems of the electricity industry. Namely: addressing the electricity supply gap by rehabilitating existing plants and constructing new plants; and implementing a holistic reform of the industry. The first aspect of the two-prong approach, termed “short-term action plan (STAP)” required the rehabilitation of existing plants (a goal of 4000MW available generation capacity was set) and the construction of new capacity to be contracted under IPPs (800MW in 2001 and 700MW in 2002).

The second aspect of the two-pronged approach is the holistic reform of the industry. Quintessentially, this is comprised of restructuring of the industry (vertical and horizontal unbundling of NEPA into successor companies, establishment of a regulatory commission, and instituting wholesale electricity market), liberalisation of industry (encouragement of private sector participation and investment),<sup>23</sup> and privatisation of the PHCN successor companies.

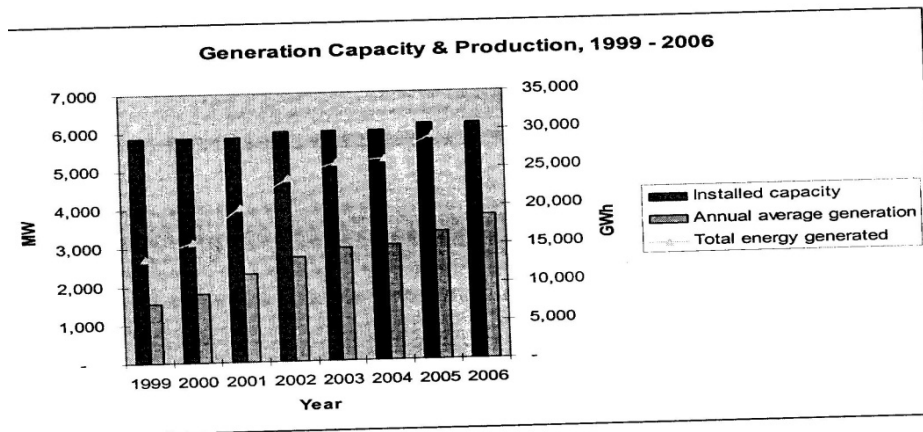
The cardinal thrust of the reform programme is the introduction of competition and choice to improve efficiency in operations and electricity supply. The reform commenced in 2001 with the legal and regulatory review, which culminated in the preparation of the National Electric Power Policy and Electric Power Sector Reform Bill. These documents were adopted and enacted in 2001 and 2005, respectively. In the intervening period, BPE with the mandate to undertake the reform, worked with NEPA/PHCN and the erstwhile Federal Ministry of Power & Steel in ensuring the successful unbundling of NEPA,

institution of shadow wholesale trading arrangement, and the establishment of the regulatory commission.

**PERFORMANCE**

STAP was only partially successful. Firstly, there were considerable improvements in available generation and electricity supply – see figure below. These improvements, however, were constrained as the majority of the rehabilitated plants were existing plants that were aged (between 18 and 43 years old). Secondly, the fragile and unstable transmission and distribution network only received a fraction of the investment required for reinforcement and expansion. Thirdly, apart from the controversial 270MW ENRON (later AES) project, no additional IPP capacity was added to the system until 2005 when the 450MW AGIP Okpai Plant was commissioned.

**Figure**



**1:**

**Generation capacity & production, 1999-2006**

By 2002, the failure of private investment to materialise in electricity generation led the Federal Government to directly fund the construction of new host plants (Afam V, Papalanto, Omotosho, Geregu, and Alaoji – some of which are only being commissioned now). The recent oil revenue windfall is facilitating a renewed drive in electricity infrastructure expansion in generation (target of 10,000MW installed capacity), transmission, distribution and gas supply tagged National Integrated Power Projects (NIPP).

Construction of NIPP commenced in 2005 and is expected to be completed in 2008. The nameplate capacities of the (7) generating plants range between 188MW and 561MW and are expected to add an additional 2743MW to the national grid. Installed generation capacity is expected to exceed 10,000MW by end of 2008. In addition to NIPP, government is also committed to the construction of Mambilla, Zungeru and Dadinkowa hydroelectricity plants.

## **2. TRANSPORTATION**

### **Policy Framework**

**Roads:** Road networks are limited and in poor condition, with only 31 percent of them paved. In the Roads Vision 2000 strategy, the government recognizes the need to totally overhaul the sub-sector. This document provides the basis for the way forward, including a proposal for the establishment of an autonomous Highway Authority. Establishment of a Road Fund dedicated to the maintenance of the strategic road network is also underway. Further policy improvements were made in 2005 with the enactment of the Infrastructure Concessioning Regulatory Commission Act to better regulate and enhance the participation of the private sector in the financing, construction, maintenance and operation of infrastructure. In 2006, the Federal Government of Nigeria adopted the National Policy on Rural Travel and Transport which gives priority to the core rural road network with private sector participation as one of its key objectives.

**Railways:** Nigeria has recently embarked on a railway revitalization programme. A milestone in this programme was the signing of a \$8.3 billion agreement contract with the Chinese government. The planned project of railway modernization was signed in two tranches which includes the main contract covering the first rail that would connect the nation's economic capital Lagos to the largest commercial city in the north, Kano which would be concluded in five years by a Chinese firm and an Italian consultancy outfit.

The railway project is a part of an integrated transportation system for the country covering land, air and maritime transport. The construction of the new standard gauge track north south is only the first phase of a modernization programme that would cover two major longitudinal lines. The second would link Port-Harcourt and Jos and another would link all the 36 states' capitals in Nigeria.

**Aviation:** A cursory look at the Nigerian aviation industry suggests that some degree of liberalization has taken place since the collapse and final liquidation of the national carrier-the Nigerian Airways. This is characterized by the entrance of a couple of private operators. It is important to note that, poor investment, weak regulatory oversight has over the years rendered the Nigerian Airspace unsafe. Some progress has been made in policy reforms. In 2006, the Federal Government enacted the Civil Aviation Act with the aim of making the Nigerian Civil Aviation autonomous with increased funding. An accident investigation Bureau was also created. Another forward-looking decision in the transport sector was the concessioning of Abuja Airport in November, 2006.

#### **PERFORMANCE ANALYSIS**

**Roads:** There has been a noticeable scale-up in terms of funding road maintenance projects over the last few years. There was also appreciable progress in handling road maintenance over the country. This helped to reduce the level of road accidents which claims lives higher than the AIDS/HIV pandemic.

**Railways:** Modernization work on the Western line has made some progress. About US\$10 billion was earmarked planned for the execution of the project, with some 35% external funding.

**Aviation:** The Nigerian Civil Aviation Authority has been undertaking internal capacity building by partnering with international organizations. It has also embarked on retrenching unqualified staff and has also prepared a Safety Management System. The

rehabilitation of Part the Harcourt runway is equally nearing completion. In terms of improving their capabilities for proper air traffic surveillance.

### **CURRENT CHALLENGES**

**Roads:** Poor roads and weak regulatory environment with respect to transport infrastructure and services have made Nigerian roads unsafe in the past. This also leads to vehicle overloading which damages roads prematurely.

The present condition of Nigerian roads is such that, despite the higher spending levels, the impact of this higher expenditure has been limited partly due to:

- i. weak strategic planning, oversight and regulatory functions on the part of the public sector.
- ii. weak contracting procedures, quality control and regulatory functions.

**Railways:** The Nigerian Railway policy is characterized by high dependence on public sector subsidies. The rail system consists of only two narrow gauge lines originating from the coast in the South down to the North, the West and Eastern lines, and an unfinished standard gauge Central line. The infrastructure is highly dilapidated and there is a lack of serviceable locomotives and rolling stock.

**Aviation:** Nigeria has a total of 20 airports and 62 airstrips spread all over the country. Many of them, including the international airports are in a poor state of disrepair. These airports are equally supported by inadequate and non-state-of –the art visual and navigational aids. This situation led to the frequent air crashes. Part of the problems highlighted is directly linked to lack of a well-articulated national air transport policy and weak enforcement of current policies.

### **POLICY OPTIONS**

#### **Roads:**

- (a). A mechanism to ensure adequate, timely and predictable funding for road investments as well as maintenance of the existing assets needs to be put in place

with dispatch. This could involve the adoption of a user-charge operating under a revised legal and institutional arrangement. The funds generated should be managed by an independent entity –for example, Road Fund Board.

- (b). Another policy that should be vigorously perused is ensuring facility upgrades and scale up. This would involve the adoption and utilization of modern methods and technologies for better efficiency and effectiveness in Road maintenance. A strong and professionally managed Highway Authority is necessary to be able to handle road planning, designing, implementation and maintenance. Other tiers of Government should be involved in the process.

**Railways:**

- (a) Present efforts to revive the railway system should be sustained. Private sector involvement is crucial, while the Nigerian Railways Corporation should be streamlined functions and should operate in a commercially oriented manner.
- (b) The Federal Government should consider renegotiating the overall cost of modernizing the Western line by the Federal Government. All other future similar engagements should be thoroughly backed by vigorous feasibility studies to ensure value for money for the public.

**Aviation:**

- (a) Government should give the highest priority to the establishment of an autonomous and technically competent NCAA as it is the cornerstone of any reform in the aviation industry.
- (b) Recertification project should be undertaken seeking the assistance of the Banjul Accord specified in Cooperative Development of Operational Safety and Continuing Airworthiness Program (COSCAP).

A cross cutting policy option with respect to transport in general is that the effort to provide platforms for Public-Private –Partnership arrangements covering infrastructure should be sustained and fast- tracked. All legal and institutional arrangements should be completed with dispatch to allow for private sector participation. This will require massive capacity building for PPP implementation across ministries and agencies.

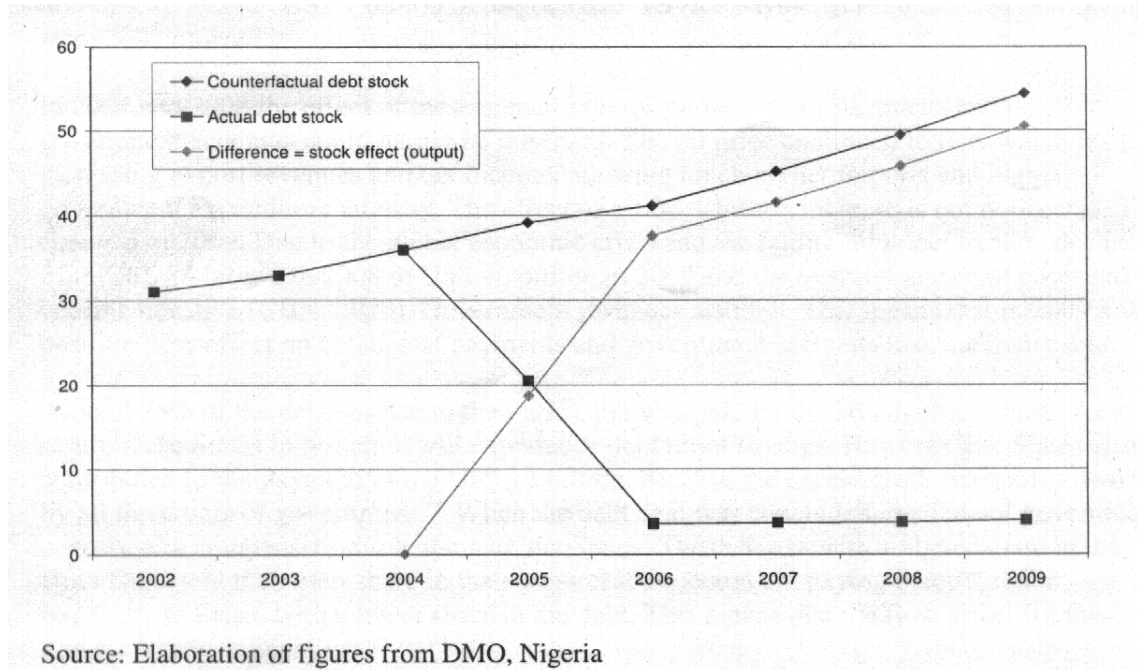
### **Debt Relief Outputs**

Here, there is need to carefully examine the outputs, or the immediate effects of the debt relief deal in the stock, flow and conditional channels. The first part looks at the effects on debt stock and debt service and traces the effects of a reduced debt service on government accounts and on the balance of payments. The second part looks at changes in policy and governance as a result of the deal, including changes in poverty reduction policies and the Virtual Poverty Fund (VPF).

By eliminating the full debt to the Paris Club, the debt relief agreement reduced the debt stock from US\$ 36 billion in 2004 to US\$ 4 billion in 2006. However, the effect of the debt relief agreement on the debt stock depends on the extent to which debt service to the Paris Club creditors would have been paid in the absence of the agreement: the counterfactual.

Although most people in Nigeria, including government officers, questioned the legitimacy of debt payments to Paris Club creditors, those in office were convinced that it was important to maintain good relationships with the creditor countries. For this reason, interviewed stakeholders agreed that Nigeria, in the absence of the agreement, would have continued to pay something, but not all debt service due to the Paris Club. The most likely counterfactual is that the country would have continued to pay around US\$ 1 billion annually, against a debt service due of around US\$ 3 billion. This would have meant that the debt stock with the Paris Club would have continued to increase, most likely at around the same pace as it increased in the years 2003 and 2004. Under these assumptions, the debt stock would have increased from US\$ 36 billion in 2004 to US\$ 54 billion in 2009, while the actual total foreign debt was US\$ 4 billion in 2009 (Figure 1). This gives a net gain (stock output) of the agreement of around US\$ 50 billion.

Figure 11: Actual and counterfactual external debt stock, in USS billion, and stock output of the deal



Given the most likely counterfactual on debt service payments, the agreement produced an annual debt service gain of USS 1 billion. However, Nigeria had to pay US\$ 12 billion first, spread out over 2005 and 2006. This means that the net flow effect by the end of 2009 was still negative and will only become positive after 12 years, so in 2020. As a result, and all else equal, government spending and imports were negatively affected by the debt deal. However, "all else" was not "equal". The US\$ 12 billion was paid from reserves on the excess crude account, and did not constrain imports or government expenditure at the time. The excess crude account was the result of the oil-price based fiscal rule established by the economic management team in 2003. Due to the rising oil price from 2003 onwards, reserves on the excess crude account stood already at US\$ 17 billion in 2004 and, as will be further argued below, it can be assumed that without the anticipation of debt reduction, these reserves would have been much lower. In Nigeria, the payment of the US\$ 12 billion is seen as an investment, and the USS 1 billion in forgone debt service payments is considered real savings from 2007 onward.



In 2007 and 2008, the effect of these annual savings on balance of payments and on government accounts could hardly be observed. The oil price continued to rise, which led to increasing export revenues and tax income, allowing much higher imports and higher government expenditure anyway. The effect of a US\$ 1 billion increase is not noticeable. This changed in 2009. Due to the global economic crisis and the falling oil price, exports declined from US\$ 84 billion in 2008 to US\$ 46 billion in 2009 and the overall balance of payments became negative (CBN, 2010). Government revenues also fell. This means that in 2009 a positive flow effect on balance of payments and government accounts became noticeable.

Around 25% of the debt service to the Paris Club was paid by the 36 Nigerian States. As a result, these States in principle will experience debt relief savings. However, the States also contributed to the payment of the US\$ 12 billion, because the excess crude account is owned by all three tiers of government.<sup>10</sup> When the debt deal was concluded, the federal government negotiated a compensation scheme with the States. Those States with a higher share in the Paris Club debt than their share in the excess crude account are paying compensation payments to States with a lower share in the debt. This means that the flow effect for these States actually is negative.

### **Summary**

It can be conveniently deduced that the Nigerian debt relief had a modestly positive effect on economic growth and poverty reduction, especially through the stock and conditionality channels. Strictly speaking, the flow channel was negative, as debt service paid as part of the agreement was higher than the subsequent annual debt relief savings. But this negative flow did not harm economic growth. The conditionality channel was already effective before 2005: the prospect of debt reduction helped to improve macroeconomic and other policies. However, there were also conditionality effects after the deal. The IMF programme attached to the Paris Club agreement helped to maintain quantitative fiscal and monetary targets in the years after the debt deal. And the debt relief agreement put in place a Virtual Poverty Fund (VPF), which not only made

additional resources available for achieving the MDGs but also had important institutional effects. In order to access VPF resources, implementing agencies and States must comply with planning, costing and procurement requirements and the implemented projects and programs are subject to a monitoring and evaluation system in which civil society and the private sector participate. These institutional changes are beginning to have an effect beyond the activities financed from the Virtual Poverty Fund. The reduction of the debt stock was one of the factors influencing improved credit-worthiness of the country, along with improved policies. This led to increases in foreign capital inflows and foreign direct investment.

The sustainability of these outcomes over the medium term varies. The effect of the conditionality on macroeconomic and other policies is gradually waning. In the area of combating corruption, the institutions such as the EFCC and the ICPC are well established, but their effectiveness depends on the political situation. Corruption indicators suggest a slight deterioration in 2008 and 2009. The oil price based fiscal rule has been implemented much less prudently in recent years. While the use of the excess crude account in 2009 was justified to stabilize expenditure in the face of falling revenues, this is much less the case in 2010. Nevertheless, the authorities are currently planning for a redesign of the excess crude account into a Sovereign Wealth Fund, which suggests that they intend to maintain the basic principle of the oil-price based fiscal rule. The public debt situation is favourable and will remain so in the near future. It can be expected that debt management capacities in the country will further improve, especially at state level where there is still room for improvements.

The VPF is still in operation and the flow of funds budgeted for the VPF has been maintained in real terms. The VPF is likely to continue because the OSSAP-MDG has managed to create vested interests among a broad group of stakeholders, state and local governments, through the COS, members of Parliament, and civil society. Some positive VPF-induced institutional changes in federal ministries and in State governments are

already visible and more can probably be observed over time. This will lead to a greater achievement of the MDGs in the future.

The results of this Nigerian study are more positive than those of most other studies and evaluations of debt relief. One reason for the more positive results for Nigeria is that the full Paris Club debt stock was eliminated so that the country could make a fresh start. More importantly, the conditionality effect was much stronger than in other cases. Although there were also some effects of the conditionality of the agreement itself, this was weaker than the effect of the "carrot". This confirms that conditionality *ex post*, or selectivity, is more effective than conditionality *ex ante*, or promises to implement good policies (Dijkstra, 2002). The Nigerian debt relief proved instrumental in breaking the political deadlock that had so long prevented economic growth in the country from taking off (Iyoha and Oriakhi, 2008). The debt deal also helped in establishing more serious poverty reduction policies. Although the situation is far from perfect, it is clear that progress has been made.

### **Conclusions**

From the foregoing, the following conclusions can be drawn from the above findings:

1. The debt relief package of Obasanjo administration has not yielded the desired result for the infrastructural development in Nigeria.
2. Nigerians have not benefited from debt relief owing to insincerity and corruption of our political leaders.
3. The Nigerian debt is too heavy on the neck of government and this has hindered Nigerian government from developing her economy.

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