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Nigeria and Paris Club's Debt Relief

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Abstract

This paper examined debt relief and economic development in Nigeria. The methodology of this research was based on content and qualitative analyses. The paper argued that Nigeria obtained and managed its external debt to finance trade, support balance of payment and achieve economic development. Despite the management of it external debt, debt crisis became manifest. This resulted from poor lending and inefficient loan utilization, mismanagement of external loans, unequal trade, accumulation of arrears and penalties, increase in interest and exchange rates, and poor debt management. Others include the import dependent industrialization, lack of effective feasibility studies on project to be financed with external debt and the adoption of Structural Adjustment Programmes (SAPs). The paper also argued that the debt crisis has affected budgetary allocations for the provision of social services; discouraged foreign investment and contributed to the crisis of development in Nigeria. In addition, the paper argued that the state requested for debt relief from the international financial institutions on the grounds that the country's debt was unsustainable; that the debt burden imposed on the country was too high and has affected budgetary allocation for the provision of social services; and the magnitude of the country's debt was illegitimate and odious. Despite this, the paper argued that the IMF, World Bank and Paris Club refused to granted debt relief for Nigeria because it debt was sustainable, it is a middle income country that could not be granted debt forgiveness and that the burden of Nigeria's debt should not be shouldered by the creditors but the country itself. The paper concluded that Nigeria was only granted debt relief after it has expressed its commitments to pay the sum of $12.4 billion in a year under a debt-buy back scheme. Despite the debt relief, the save resources were not properly channeled into poverty reduction strategies hence attainment of economic development becomes a mirage.

Keywords: External Debt, Debt Crisis, Debt Burden and Economic Development etc.

Introduction

Between 1965 and 2001 Nigeria obtained the sum of $13.5 billion loan facility from the Paris club but paid $41.273 billion by December 2001. Despite this it owed the Club $22.092 billion in 2001 (Debt Management Office, 2003). Arguably, the powerful club is not a debt reduction association but debt enhancing one because it exploited the debt relief initiatives for the maximization of its profit.

Thus, Nigeria has been confronted with external debt overhang and debt burden. The external debt overhang could be attributed to poor lending and inefficient loan utilization, mismanagement of external loans, unequal trade and exchange rate policies, accumulation of arrears and penalties, increase in interest rate, poor debt management; and increase in exchange rate. Others include the import dependent industrialization, the decline in the prices of oil between 1981 and 1982, lack of effective feasibility studies on project to be financed with external debt, the conspiracy of IFSs/West in assisting the corrupt leaders to misappropriate external loans and the adoption of Structural Adjustment Programmes (SAP), (Ojo, 1989). For instance, in the early 1970s the International Financial Institutions charged 4 percent interest rate but in 1989 it reached 12 percent. This has increased Nigeria's debt overhang to $28 billion in 1991 (National Planning Commission, 2003).

The devaluation of Naira has also contributed to Nigeria's debt crisis because between 2002 and 2003 the country's external debt increased by $4 billion due to depreciation in the exchange rate of the Naira to Dollar. Giving the magnitude of Nigeria's external debt and its effects on the political economy and sovereignty of the country scholars, personalities and civil society organizations called for the outright cancellation of the debts by the creditors. Therefore, this paper examines Nigeria and Paris

Club's debt relief.

Literature Review: Promoting Debt Relief for Nigeria:
Iweala, one time Minister of Finance during the civilian administration of Obasanjo in her contribution to Nigeria's debt cancellation stated that:

> Nigeria owes $34 million, much of it in penalties and compound interest imposed on debts that were not paid by the military dictatorships of the 1980s and early 1990s. We make annual debt payments of more than $1.7 billion, three times our education budgets and nine times our health budget. We have every intention of continuing to fulfill our obligations to creditors but this debt is unsustainable. Nigeria cannot meet the MDGs without debt cancellation (Iweala, 2005).

The argument presented by Iweala for cancellation of Nigeria's external debt was further substantiated by the United Nations Development Programme (UNDP) report (2004) when it affirmed that the country does not have sufficient resources to finance MDGs. According to the report Nigeria's investment rate was only 16 percent of its GDP and the figure was below the minimum 30 percent of GDP requirement to achieve the least 7-8 percent growth rate to meet the MDGs in 2015 (UNDP, 2004). This resulted from the allocation of huge resources for debt payments that affects investment in the country. Thus, the UNDP demanded the creditors to cancel Nigeria's external debt without attached conditionalities.
The Federal House of Representatives unanimously agreed to adopt repudiation as a debt management strategy for Nigeria during the fourth republic. Repudiation refers to:

> The radical approach to debt management, it entails refusal by the debtor country to carry out her financial obligation to the creditor countries. It is a willful act of cancellation of external debt by the debtor country based often on grounds perceived by the debtor country as legitimate retaliation for wrongs perpetrated by the creditor countries against her at a particular period in her historical evolutionary development (Magbadelo, 2006) [15].

Proponents of debt repudiation argue that since third world nations were exploited by the creditor countries at a point of their historical development through colonialism, imperialism, and neo-colonialism, repudiation of the debt owed by the debtor nations is a one of the strategies for retaliation. In addition, they argue that since most of the external debts that were incurred by third world nations were negotiated by the corrupt military ruling class and misappropriated the resources, repudiation becomes a necessity for addressing the debt overhang and debt burden (Magbadelo, 2006) [15]. For instance, in 1861, Benito Juarez repudiated Mexico's external debt because it was odiously incurred by Antonio Lopez de Santa Anna. On 18 June 1883, the Mexican parliament enacted a law called "Settlement of the National Debt" that repudiated the odious debts that were incurred between 1857 and 1860 and 1863 to 1867 respectively (CADTM, 2004). On the basis of the above argument, the lower chamber of the legislative arm of government passed a resolution for the repudiation of Nigeria's external debt (*Punch*, 2005) [30]. To reinforce their collective action the leadership of the House made a follow up campaign to the Presidential Villa to influence the president to take immediate action. In justifying their arguments for debt repudiation, the House of Representatives was worried over the intensity of Nigeria's debt overhang. They argued that despite the huge repayments of country's external debt, it was $19 billion in 1985 and rose to $35 billion in 2005 (*Punch*, 2005) [30]. The leadership of the House further argued that:

> …The huge debt of $35 billion was dubious and must be jettisoned, especially as much of the loans ended up in private bank accounts abroad (*Punch*, 2005) [30].

In relation to the above, the Deputy Speaker of the House argued that the allocation of 20 percent for debt repayments had negative implications on Nigeria's quest for development. He emphasized that the percentage was greater than the allocation for education, health and agriculture. The Deputy Speaker further argued that since IMF admitted that Nigeria needs 67 percent debt reduction to achieve sustainable development *This Day* (2005), the only solution to address the debt burden was to repudiate its external debt.
The speaker of the Federal House of Representatives of the fourth legislative session Alhaji Bello Masari believed that Nigeria's external debt was unsustainable. He argued that if the Nigerian creditors refuse to cancel the country's debt, it should be repudiated. Supporting his argument he stated that the House had passed a motion to refrain the president from paying the debts. He was against the insistence of creditors that Nigeria owed them $35 billion and Senate approval of N 355 billion in the 2005 appropriation bill for debt payment (Masari, 2005) [16]. He also stated that:

> Our statement is simple and categorical. It is not that we do not want to pay. It is that we cannot pay this debt because we believe we have paid. It is wrong to continue to pay this debt under the present arrangement. It is impossible. There is no way we want the survival of the nation and continue to commit 30-40% of our foreign earnings to servicing of debts.

In response to the speaker's and House's motion on Nigeria's debt repudiation, Obasanjo pleaded that more time need to be given to enable the country continue to negotiate with bilateral and multilateral creditors. He stated that it was not yet time for Nigeria to default and demanded the creditors to take concessional ways of addressing the country's debt overhang (Obasanjo, 2005).
Professor Charles Soludo, one time Chief Economic Adviser to President Obasanjo and former Governor of Nigeria's Central Bank supported debt forgiveness for Nigeria. He admitted that the country was in economic doldrums because of debt burden. He wonder why Britain, the World Bank and the Paris Club only wanted to grant debt forgiveness to the country subject to Nigeria implement public sector and budget reforms, expenditure cut, rationalization, privatization and attainment of transparency, good governance and public accountability. Soludo expressed dissatisfaction over Paris Club's demand of $4.9 billion debt payments annually before it was renegotiated to $1.7 billion (Soludo, 2003) [26].

The Heritage Foundation is an American lobby group and think thank that requested for the cancellation of Nigeria's external debt on economic and political grounds. The think thank stated that Nigeria's external debt was unsustainable and imposing such debt burden on the country would further put the economy in recession. The foundation argues that West Africa, Africa, the United States, United Kingdom and the world in general needed an economically-strong Nigeria to enable it play its strategic and political roles in the world (*Weekend Observer*, 2005). The organization believes that Nigeria is opportune to perform its economic and political roles in the world because it accounts for 47 percent of West Africa's population and 41 percent of Africa. In addition, the foundation emphasizes that Nigeria is the most populated country in Africa and one in five black people in the world is a Nigerian. Therefore, the foundation stresses that Nigeria's economic growth, development and stability through a comprehensive debt relief become imperative to enable it carries both domestic and international roles in world politics (*Weekend Observer*, 2005). Furthermore, the foundation maintains that:

> Nigeria merits US attention because it is a major non-Middle Eastern oil producer-accounting for 3% of global oil production in 2001, and was America's fifth largest (9.6) source of crude oil imports in 2003 (*Weekend Observer*, 2005).

Civil Society Organizations in Nigeria in collaboration with global platform of Jubilee South and anti-West/IFIS supported for the cancellation of Nigeria's external debt. The organizations denounced debt payments by Nigeria to its creditors because it was odious and illegitimate. Odious debt was first introduced by the United States of America in 1900. The circumstance surrounding its introduction was related to the peace negotiations between Cuba and its colonial master, Spain. Cuba won the war over Spain because the US supported Cuba. In this regards, the Spanish argued that the USA that held the Cuban sovereignty should repay the debts. The USA on its part argued that the debt was incurred with the consent of the Cuban therefore against their wishes and aspirations and ought not to be repaid (Raffer, 2010) [25]. Therefore, the CSOs argued that creditors should cancel the outstanding external debts without attached conditionalities because it was morally reprehensive since the debts had been paid several times. In addition, the imposed adjustment programmes by the International Financial Institutions (IFIs) as conditionalities for external debt had caused conflicts, political unrest, insecurity, poverty and damaged social and environment in the debtor nations, therefore the debts should not be paid. They suggested that Nigeria needed to be reparated due to its many years of colonial and neo-colonial exploitation by the West and creditors. The CSOs concluded by rejecting the creditors calls for Nigeria's debt rescheduling and restructuring because it could compound Nigeria's debt crisis and create an avenue for the continuous exploitation of Nigeria's economy.

The argument for debt unsustainability in Nigeria was reported by Financial Times, a London based Newspaper. The paper reported that in 2005 Nigeria defaulted in debt payments that amounted to $30 million based on the 1992 restructured London Club commercial debts. It was the first default in the last 10 years (*Financial Times*, 2005). The default resulted from the insufficient resources to pay the debt. The paper believes that Nigeria's foreign reserves increased from $7.1 billion in 2003 to $16 billion by October 2004. The increase was due to the rise in the Nigeria's Bonny Light Crude oil above $30 per barrel in 2004. Also, the Nigerian economy grew at 4.5 percent in the same year (*Financial Times*, 2005). By implication, these indexes were not enough to proof Nigeria's debt was sustainable because of the fluctuations in the prices of crude oil on which the country is heavily dependent. Therefore, the debt was unsustainable and needs to be cancelled.

David Angell, a High Commissioner of Canada also considered Nigeria's debt as unsustainable. He believes that Africa requires a buoyant and strong economy from Nigeria that is capable of making it to take a leadership role in Africa. But the dream was shattered down by the debt burden that requires debt relief (*The Guardian*, 2005). Given the Nigeria's debt overhang it becomes unsustainable. Thus, like David Angell, Richard Gozney, British High Commissioner in Nigeria considered Nigeria's debt as unsustainable. He pleaded the creditors to grant debt relief to Nigeria because the debt burden poses a serious problem to the country in its march to economic development (*The Guardian*, 2005). Chris Mullin, British Minister for Africa concords with the arguments presented by David Angell and Richard Gozney but added that Nigeria needs to ensure transparency, accountability and openness in the commercial transaction before it could be granted debt relief (*Guardian,* 2005). The attainment of these governance indexes perhaps may prevent the looting and mismanagement of Nigeria's resources.

The Economic Commission for Africa (ECA) was an initiative of Tony Blair, British Prime Minister. It was set up prior the G-8 meeting in Gleneagles, Scotland to investigate the level of debt burden that confronted individual African countries and recommend appropriate measures to address it. With particular reference to Nigeria, the Commission recommended 100 percent debt cancellation for the country to meet the target of MDGs in 2015 (*Weekend Observer*, 2005). The recommendation was based on the grounds that Nigeria only receives a very low per capita foreign aid of $2 each year; 79,500 Nigerian children die before the age of five every month; 70 percent of Nigerians live on less than $1 a day; less than 60 percent children attend primary school; and Nigeria's oil was only 50 Cents a day per Nigerian (*Weekend Observer*, 2005). Arguably, the per capita foreign aid received by Nigeria was lower than what was obtained by other countries in Africa with exception of Libya. This economic condition of the country calls for the immediate cancellation of Nigeria's debt overhang.

Ann Pettifor assumes that it was a misconception to believe that Nigeria could repay its outstanding external debt because of it assumed oil revenue. She substantiated her argument when she compared Nigeria and Iraq in terms of oil production and population. The assumption was based on the $47 oil price per barrel. Nigeria produces an average output of 2.08 million barrel per day while Iraq produces an average oil output of 2.37 million barrel per day. In addition, Nigeria's population was estimated at 136 million and Iraq's at 25 million. Base on these assumptions, the following were arrived at: Iraq oil revenue stood at $40 billion per annum and it per capita income was $1,648. On the other hand, Nigeria's oil revenue stood at $35 billion per annum and it per capita income was $2,577. From the above, Ann Pettifor maintains that:

> It is clear from these scenarios that Nigeria's oil revenue, even of maximum prices and maximum production, are spread far more thinly over her much greater population than are Iraq… The decisive difference between the two countries is population. Iraq has a population estimated at 25 million, Nigeria is estimated to be 136 million, almost three times that of the UK half that of the US and more than five times of Iraq. It was this hard reality of Nigeria's oil revenue that the Commission for Africa report referred to when it recommended that Nigeria deserves debt cancellation because "Nigeria's oil is worth only a negligible 50 Cent a day per Nigerian" (*Weekend Observer*, 2005).

Despite the reasons advanced above for the need to cancel Nigeria's external debt the US, World Bank, IMF and creditors agreed that Nigeria's debt was a heavy burden but refused to support debt forgiveness for Nigeria. For instance, the US argues that the liability of Nigeria's debt lies on the country and not the creditors. It therefore advised the country to implement the IMF and World Bank reform agenda to enable it repay its outstanding debt (*The Guardian*, 2005). In connection to Nigeria's debt overhang Michael Ronnerberger US Undersecretary for African Affairs remarked that:

> We are very sympathetic to Nigeria's course but it is not just for us to forgive. What Nigeria has to do is to convince the creditor nations that proceeds from debt cancellation will be used for the welfare of the people for health, education and other needs (*The Guardian*, 2005).

Paul Woiffowitz, President of the World Bank shares the US view that Nigeria did not qualify for debt cancellation. He believes that Nigeria is Africa most populated country and heavily indebted nation but argues that its debt was sustainable because it is the 7th world largest oil exporter (*The Guardian*, 2005). It therefore, possesses enormous resources to repay its creditors. He further stated that Nigeria did not meet the World Bank's definition of "a low income country". According to him the eighteen countries that got debt cancellation did not only meet the definition but also institutionalize good governance reforms that ensure savings from debt cancellation were not looted and misappropriated. He argues that Nigeria's debt crisis was due to misgovernance and looting of public funds either external debt or earned from abroad or raised at home. Furthermore, the president argues that it was not the resource gap that hinders the country to repay its debt but the deep-rooted corruption in the country (*The Guardian*, 2005).

The IMF in the debt sustainability analysis of Nigeria it conducted in 2002 reported that for the country's debt to be sustainable it requires a reduction of 67 percent debt payments (*The Guardian*, 2005). By implication, the Fund did not support 100 percent debt cancellation for Nigeria.

On the part of the creditors they argue that forgiving Nigeria's and other third world debts on humanitarian ground was not justifiable because the burden of repaying falls on the Western taxpayers; forgiving the debt gives the third world leaders and elites the impression that corruption pays and could devise methods of securing fresh loans; third world leaders would exploit debt forgiveness to over stay in power; and commercial banks would loose the integrity, stability and legitimacy of their credit policies (Adams, 1991) [1]. Therefore, the Paris Club did not agree with debt cancellation for Nigeria. The Club concluded that it could only reschedule Nigeria's debt. Considering their position, Dr. Ngozi Okonjo Iweala, emphasized that:

> Rescheduling their debts enable them (The Paris Club of creditors) to collect payments and have assured stream of income from the rescheluled debts for many years. Anyone who has dealt with any moneylender knows that they are not interested in letting a debtor go free (Iweala, 2005).

Paris club is a profit maximization organization and could not forgive Nigeria's debt on humanitarian ground. Before the club granted relief to Nigeria in 2005, it has been the only source of the country's external finances and Nigeria had paid it greatest proportion of its debt. Therefore, it had contributed to Nigeria's debt crisis. Lex Rieffel, a visiting fellow at the Global Economy and Development Centre, Brooking Institute, America also admitted the Club contributed to Nigeria's debt crisis when he asserted that:

> Nigeria's Paris Club creditors opted for political reasons not to restructure their claims on Nigeria in 1992 when the Nigeria's commercial creditors agreed to do so. During the past twenty years, Nigeria has met debt service obligations to its multilateral creditors (the World Bank, the ADB and others) without any restructuring; to its commercial creditors after negotiating an exchange of bank debt at 60% discount; and to its non-Paris Club bilateral creditors in return for varying degrees of debt relief. Except on its Paris Club debt, Nigeria has, in fact, been a perfect debtor. This is a unique case of non-performing creditors (Adams, 1991) [1].

Debt Relief and Economic Development:

On 29th July 2005, representatives of the Paris Club of creditor countries met in Paris and expressed their readiness to write of US $18 billion Nigeria's external debt under a buy back arrangement. The arrangement granted Nigeria 60 percent debt relief from the Club. This resulted from the implementation of National Economic Empowerment and Development Strategy (NEEDS), the renewal of Nigeria's relations with the IMF and the World Bank, the eligibility to International Development Assistance (IDA) which it obtained from the IMF, and Nigeria's preparedness to pay by November 2005 $6 billion as the first payment and the payment of $6.4 billion by the first quarter of 2006 (Agbese, 2005) [4].

The Paris Club debt relief granted to Nigeria has positive and negative consequences on the political economy of Nigeria. The significance of this debt relief to Nigeria is that it is likely to ensure debt sustainability because the US $30 billion loan agreed to pay in 23 years, $18 billion was wrote-off under the debt buy back agreement (Agbese, 2005) [4]. Therefore, the sum of $2.3 billion allocated every year for debt payments could be channeled in the provision of social services to the citizens (Iweala, 2005). This has addressed the heavy debt burden on the country. To buttress this argument Iweala (2005: 12) averred that:

> The alternative (to the Paris debt deal) is, of course, to pay more than $25 billion to $30 billion, if we do not pay off the debts. So, it is better to latch on this opportunity so as to be free. It is better to exit the Paris Club now.

> Sachs (2005:5) asserts that:
> … to extract $12 billion immediately from a country with an annual budget of $14 billion is callous. Why would they be demanding so much from a country where children are dying, millions are not in school and hunger and disease pervade?

Global Monitoring Report (2005) was very critical about Paris Club debt relief to Nigeria because the debt payments did not leave sufficient funds to finance development projects in the country. The report stated that Africa could now properly utilized development aids because of the institutionalization of good governance. Therefore, the report calls for the disbursement of substantial developmental funds to Africa and granting debt relief from the year 2005. The report opposed the huge debt payments demanded by the Paris Club and argued that for Africa to halve poverty, the 7 percent economic growth needs to be doubled in the next decade. This could only be realized through sufficient allocations to all sectors of the economy. However, the debt relief in Nigeria only drained the available resources for socio-economic development in the country.
Professor Jeffery Sachs stated that:

> The debt forgiveness is less good than it could be. The creditors are nasty and stingy to be extracting $12 billion cash immediately from a country with $3 to $4 billion annual budget. The $18 billion cancellation is a great achievement but it is not enough. Why should they demand so much from a country when so many children are dying of hunger and diseases, millions are not in school? It is appealing for creditors to be demanding $12 billion cash … I would like to see creditors do more than they have done in terms of debt forgiveness (AFRODAD, 2005).

From the above Sachs supported favourable debt forgiveness because extracting $12. 119 billion did not met Nigeria's debt sustainability needs for eradicating poverty in the country. In a similar vain, Professor Sam Aluko, considers Paris Club debt relief as an avenue where Nigeria was economically exploited through high debt payments. He condemned the debt relief because it was unfavourable to Nigeria. Aluko asserted that:

> If you pay $12 billion in one year, which the Federal Government has paid, there is virtually little or no gain because if you put that $12 billion in a bank at about 10 percent rate of interest you get $1.2 billion in a year. In effect, we gained virtually nothing (from the debt deal). So, over the next 10 years if we (Nigerians) invested $12 billion, we would have got about $24 billion. So, the white man is very clear. He does not loose in either way. We may feel that we gained momentarily but in the long run, we gained virtually nothing (*Comet*, 2006: 14).

Base on the argument presented above Aluko stressed that debt cancellation would have been more suitable than debt relief granted to Nigeria. He believed that the debt should have been converted into what he termed as "Marshall Aid for the Country" because the figure was equivalent to what United States invested in Europe to restructure their economies from the devastating effects of the Second World War. Okongo averred that extracting $12.119 billion for debt payments shows that Nigeria saves its crude oil revenue only to be drained by Paris Club of creditor nations (AFRODAD, 2007). This is an element of capitalist exploitation and conditions Nigerians to wallow in abject poverty.
For Kolawole Simon the debt relief was selfish and unrealistic. He argues that:

> Contrary to speculations in Nigeria that the debts cannot be written off, they actually can be. Pakistan was a pariah state after the coup of Pervez Musharraf but the moment he supported the invasion of Afghanistan by the US forces, its debts were written off. I need not mention the countries, which supported the war in Iraq and got favourable debt treatments. It is political as it is financial and nobody should be deceived about that. I am more interested in the political aspect of it, not classroom theories and indices (*This Day*, 2005).

The CSOs were very critical of Paris Club debt relief to Nigeria because refunding the huge figure undermined the country's ability to realize MDGs. They argued that demanding the repayment of debt with such huge resources indicated that they ignored the fact that 80 million of Nigeria out of 130 million live on less than $1 a day; that NEEDS has been introduced to restructure the economy of the country; the World Bank in 2005 ranked Nigeria as the second poorest country in the world; and UNICEF reported that Nigeria was the third world most HIV/AIDS infested country after India and South Africa. The CSOs also argued that the debt relief down played the reality that Nigeria's oil revenue in 2004 was a net $25 billion and translated to 53 Cent or N 70 per person when the oil revenue was shared among 130 million Nigerians. This goes contrary to what was obtained in Venezuela that was $3.4, Kuwait $27.3 while Iraq $2.4. Base on the above the CSOs demanded for total debt relief to Nigeria to enable it achieve economic development. They argued that savings from the debt relief would be invested in the non-oil sector in a bid to restructure the economy that heavily depended on oil. They concluded that without total debt relief Nigeria would not be able to promote political stability in the West African sub-region.
The impact of debt burden could be seen from the expensive nature of the negotiations. Elendu reported that the negotiations cost the Nigerian government about $250,000 million monthly. But the Debt Management Office (DMO) stated that the government only paid $100, 000 million monthly to Lazard Freres, a debt consultant for all the levels of the Paris Club debt negotiations. The MDO further stated that:

> It is a standard operating procedure for all countries seeking debt relief to appoint a consultant. The

> consultant asked for a range of $200,000 to $250,000 million a month. But the figure was negotiated downwards. This is because Nigeria also had handy the technical expertise of Dr. Ngozi Okonja-Iweala (Minister of Finance) and Dr. Mansur Muhtar (Director-General, Debt Management Office) (DMO, 2002:7).

The tours made by Obasanjo from one country to another canvassing for the support of creditor nations to write off Nigeria's debt counts to the expensiveness of the Paris Club debt negotiations. The tour was criticized from many angles. For instance, *Tell Magazine* (2000:18) reports that:

> The president has been criticized for his frequent trips abroad those who frown at this would want him to stay at home to tackle the problem confronting the country. There is renewed hope of confidence within and outside the continent. More so, when most world leaders and investors see the president as one capable of turning the country around and in droves they have been visiting for one possible relationship or the other.

The above shows that Obasanjo was criticized because of his many trips abroad. The critics argued that there are numerous problems bedeviling the country that need to be addressed rather than embarking on frequent travels abroad. The ordinary Nigerian citizens are confronted with problems such as poverty, unemployment, lack of shelter etc. These problems need to be tackled domestically than making endless trips under the pretext of canvassing the support of creditor nations to grant Nigeria debt relief. However, no nation could live in isolation when it wants to achieve economic growth and development. To this end, the pursuance of debt relief is necessary and expedient.

The criticisms leveled against the tours made by Obasanjo made Akinyemi (2004) to counteract the argument that it becomes:

> Necessary for a head of state to demonstrate the control of foreign policy or demonstrate the mastership of foreign policy by actually becoming the main implementer of the foreign policy… They now want to demonstrate a personal involvement of the president before they embark on a state visit.

Due to the debt relief Nigeria was able to save $1 billion annually. These accumulated resources were allocated to various poverty reduction programmes in the country. A total of $750 million was allocated to Millennium Development Goals initiative in 2006. Similarly, $161.5, $135.0, $145.6, $128.9, $75.1, $66.0 and $37.9 millions were allocated to health, education, water, power/rural electrification, public works agriculture and other programmes ie gender, youth and environment respectively (Iweala and Kwaako, 2007) [14]. Despite this the distributive function of the Nigerian state in terms of provision of social services is below the expectation of most Nigerian citizens because the infrastructural facilities were akin to what was obtained in the pre-debt relief.

Despite the criticism leveled against the 2005 Paris club debt relief granted to Nigeria from many angles, Iweala (2005) [11] argues that the debt relief was considered as Nigeria's second political independence because it gives the country the freedom not to pay $1 billion per annum to creditor nations. In addition, the debt relief has de-classified Nigeria as a "bad and doubtful country". This encourages foreign direct investment in the country. Export Credit Guarantee Agencies become confident and restore insurance cover for importer of goods and services as well as investment capital to the Nigerian private sector. It also brings psychological and emotional relief to all Nigerians (DMO, 2005).

As part of the conditionalities for debt relief Nigeria paid its arrears to the creditor nations. This motivated the IMF staff to conduct the first review of Policy Support Instrument (PSI) and recommended the Executive Board of the IMF to approve it. The approval took effect on 17th April, 2006. Despite the approval of the structural reform of the economy, the Executive Board warned the government for the dire need for the continuous implementation of the economic reform. The completion of the first review prepared ground for Nigeria's final payment which was made on 21st April, 2006. The final payment serves as the Nigeria's exit from the Paris Club debt. It coincided with the time Nigeria's foreign reserves had reached $36.1 billion. It looks like an irony that Nigeria obtained major debt relief when oil prices were high during the second tenure of President Obasanjo than during the first tenure. Therefore, the politics of debt relief is that oil windfall was the most important factor that made the granting of debt relief to Nigeria possible. As Okonjo-Iweala puts it:

> Nobody believed that at the time of high oil prices Nigeria would ever be given debt relief. But it happened (Okonjo-Iweala, 2007) [14].

Farouk Lawan, a key member of the National Assembly delegation at the final Paris Club meeting noted that:

> In a way you can say the oil resources contributed in getting Nigeria to where it was in the past because of the kind of bad leadership we had, but also it has given us another opportunity to exit from the circle of debt (Farouk, 2005).

During the 50th Anniversary of the Paris Club Okonjo-Iweala made an assessment of the October 2005 debt relief granted to Nigeria thus:

> Nigeria is probably a "poster child" for all the good things that have been said about the Paris Club: the case-by-case approach, flexibility, even innovation. In obtaining debt relief for us, the Paris Club exhibited all of these characteristics…. We were happy with the deal we got (Okonjo-Iweala, 2006).

Table 1: Nigeria's External Debt Burden, 2002-2005 ($ Million)

Creditors	2002	2003	2004	2005
1. London Club	266.8	90.2	90.2	169.9
2. Paris Club	161.6	1.202.2	994.4	496.6
3. Multilateral	472.1	509.2	487.3	471.7
i IBRD	-	-	264.8	265.2
ii EIB	-	-	11.4	4.7
iii ADB & Others	-	-	211.1	201.7
4. Promisory Notes	192.1	176.4	171.2	213.5
5. Others	75.9	13.3	11.6	15.8
Total	1,168.5	1,809.3	1,754.8	1,367.5

Source: Debt Management Office (2005)

Table 1.1 above indicates Nigeria's external debt payments. The debt burden has grave implications on the political economy of Nigeria and welfare of its masses. The repayments of huge external debt have limited the allocation of resources for socio-economic development and poverty reduction in the country. For instance, debt repayment due in 2001 was over $1.8 billion representing 14.5 percent of export earnings excluding arrears of $19.6 billion owed to Paris Club. The debt payment was translated to about 4 time federal government budgetary allocation to education and 12 times to health (Arikawe, 2003). The two critical sectors of the economy require substantial allocation of resources to upgrade their facilities and services to compete with other developing countries yet debt burden has drained the available resources. Similarly, in 2005 expected debt payment was $7.8 billion but the sum of $1.3 billion was paid to the powerful external debt creditors (*Punch*, 2005) [30]. According to Obasanjo the US $1.8 billion paid to Nigeria's external creditors in 2004 was therefore:

> Translated to about 11 time the recurrent budgetary allocation to health and about five time the recurrent budgetary allocation to education. Similarly, the USDI billion paid to Paris club alone represents over 85% of the total Federal Government's recurrent-plus-capital budget for health and education or over 280% of the capital budget in these sectors. Even then, the actual debt service payment of USD1.8 billion made to all categories of external creditors was much less than what was due for the year, which was USD2.95 billion. This excluded arrears amounting to USD3.36 billion. This clearly illustrates that Nigeria's debt is unsustainable (Obasanjo, 2005).

The situation makes Nigeria to be classified among the poorest and least developed countries in the world. Nigeria's socio-economic growth and debt overhang were comparable to the Heavily Indebted Poorer Countries (HIPC). Its per capita income was $853 in 2003 although in 2007 it rose to $1,188 (UNDP, 2007). The rise in the per capita income resulted from the increase in GDP growth between 2003 and 2007 that averaged 7.1 percent compared to 2.3 percent in the 1990s (Iweala and Kwaako, 2007) [14]. Despite the increase, over 70 percent of Nigeria's population earns less than $1 dollar a day and about 91 percent lived on less than $2 dollar a day (UNDP, 2008). In effect, there is manifestation of abject poverty and is noticeable in its Human Development Indexes (HDI) that is among the lowest in the world. For instance, its adult literacy rate was 52 for males and 49 percent for females and has life expectancy of 52 years. This is among the lowest in the world. Infant mortality rate stands at 77 percent per 100,000 and maternal mortality rate of 100 per 100, 000 (MDGs Report, 2006). It is against this backdrop, that Obasanjo (2005) argued that higher debt payment has affected budgetary allocations for the provision of social services to the ever-increasing number of people in the country. Put differently, huge debt payments worsen the provision of social services in the country (Magbadelo, 2006) [15]. For instance, due to commitment of Obasanjo administration to debt payment Nigeria's external debt has dropped from $34.1 billion to $30.99 billion in 2002 (Debt Management Office Databank, 2002) [7]. The reduction in the debt was as a result of the Nigeria's commitment to pay its debt on yearly basis. Despite this, Nigeria's external debt continued to rise. The rise resulted from the dwindling exchange rate of the country's currency. For example between 2002 and 2003, the depreciation in the exchange rate of the Naira to US Dollar resulted to an increase of $4 billion in Nigeria's external debt (Iweala, 2003) [10].

Depreciation in the exchange rate beyong the control of Nigerian government had continued to jeopardize effective debt management strategy. Thus, in 2003 Nigeria's external debt that was $32.9 billion rose to $37 billion in 2005 (DMO Databank, 2003 & *Punch*, 2005) [8, 30]. According to the Debt Management Office (2004) [9] Nigeria obtained $13.5 billion external debt loans from the international financial institutions between 1965 and 2003 and repaid $42 billion to the Paris Club yet the country owed the Club more than $25 billion in 2003. It implication on the political economy of Nigeria was captured by Obasanjo when he argued that:

> No significant measure of development is at all possible, as long as countries continue to devote substantial amount of their limited resources to debt servicing. Rescheduling does not address the fundamental problem of huge and unwieldy debt expose (Ad'obe, 2001) [2].

Nigeria had paid in the 38 years $42 billion to the powerful Paris Club as interest and penalties on $13.5 billion loan (Nwanko, 2005). Despites this, it owed the club $25 billion in 2002. Base on this he maintained that:

> The experience of Nigeria with the Paris club arrangement, which is predicated mainly on debt rescheduling, clearly demonstrates the jeopardy faced by African debtor countries- a trap of endless cycle of debt burden. Agreement with Paris club provides rescheduling as a way of providing debt relief for debtors, but experience has shown that it succeeds in keeping debtors in a vicious circle of heavy burden (Nwankwo, 2005).

The conclusion made by Nwankwo (2005) above has been translated into reality because right from 1986 when the first rescheduling agreements with Paris club was conducted and the subsequent ones thereto, experience has shown that the rescheduling agreements only succeeded in increasing Nigeria's debt burden because interest and arrears on the rescheduled debts continued to accumulate over the period.

Obadan (2004) [21] captured the negative effects of debt burden on the political economy of Nigeria that makes it difficult for country to meet it debt obligations. The consequence was the accumulation of penalties, interest and amortization liabilities. Nigeria became a pariah state and countries in the world were discouraged to enter into bilateral and multilateral agreements in trade and investment. Also, Obadan argued that macroeconomic policy formulation by the government was seriously affected because there were no sufficient resources to finance the programmes. Furthermore, Nigeria's economic and financial institutions suffered due to resource constraint to finance their activities. Moreover, Nigeria was directed by the IFIs to reschedule its debt, a move that was attached with conditionality of implementing reform programmes. The package has negative impacts on the lives of the masses.

Another implication of debt overhang could be seen from the perspective of inflow of foreign investment in the country. Due to inability of Nigeria to pay its debt as agreed upon, the Export Credit Guarantee Agencies (ECGAs) suspended insurance cover not only for export of goods and services but also of investment capital in the country (AFRODAD, 2007). The outcome was that the needed external finances to stimulate investment, growth, development, employment and poverty reduction were blocked. In addition, Nigerian importers were required to pay 100 percent cash for all their orders. Consequently, they were at competitive disadvantage compared to their counterparts who have access to ECGAs covers and import credit facilities. Therefore, the suspension of insurance cover for export and investment to Nigerian importers had affected the social relations of production and exchange relations that hitherto existed prior to the suspension. In connection with external debt misappropriated by Nigeria leaders, it gave the country bad image and Nigeria became a pariah state with limited investment opportunities. Giving more insight on the situation Dr Mansur Muhtar, Director Debt Management Office observed that:

> Most of what we heard was that our creditor countries will not be willing to concede countries to give Nigeria debt cancellation because the image of Nigeria is historically that of a corrupt use of its resources (Muhtar, 2005).

The repercussion of the severity of debt burden could be identified in terms of debt sustainability indicators. Over the years Nigeria's performance in debt indicators was not appreciable. For instance, total external debt to GDP ratio in 2001 was 59. 4 percent. Debt burden also affected the fiscal sustainability of the Nigerian state. In essence, it resulted to fiscal deficit. Between 1985 and 2001, Nigeria paid over $32 billion to its creditors. Prior to debt rescheduling agreement Nigeria concluded with Paris Club in October 2000, annual debt payment was $3.0 billion to $3.5 billion. The country's debt repayment due in 2000 was over $3.1 billion representing 14.9 percent of export earnings. The figure excluded arrears of $19.6 billion owed to members of the Paris Club. Debt service to government fiscal revenue averaged 30 percent between 1998 and 2001 (DMO, 2006). With the exception of 1995 and 1996 fiscal years, Nigeria for seven years (1995-2001) experienced fiscal deficits. The deficits resulted from the huge debt repayments over the period. The impact was the financial constraints that confronted the country that affected sufficient budgetary allocation to different sectors of the economy.
The Paris Club debt relief granted to Nigeria has positive and negative consequences on the political economy of Nigeria. The significance of the debt relief to Nigeria is that it is likely to ensure debt sustainability because the US $30 billion loan agreed to pay in 23 years, $18 billion was wrote-off under the debt buy back agreement (Agbese, 2005) [4]. Therefore, the sum of $2.3 billion allocated every year for debt payments could be channeled in the provision of social services to the masses (Iweala, 2005) [11]. Therefore, the payment has addressed the heavy debt burden on the country. To buttress the argument Iweala (2005: 12) averred that:

> The alternative (to the Paris debt deal) is, of course, to pay more than $25 billion to $30 billion, if we do not pay off the debts. So, it is better to latch on this opportunity so as to be free. It is better to exit the Paris Club now.

Sachs (2005:5) asserted that

> … to extract $12 billion immediately from a country with an annual budget of $14 billion is callous. Why would they be demanding so much from a country where children are dying, millions are not in school and hunger and disease pervade?

There is no doubt that the extraction of $12 billion by the class of capitalist creditors from Nigeria within a year was unjustifiable because the country is confronted with numerous economic and social crises yet the creditor class exploited the oil windfall and granted the so-called debt relief under the pretext of debt buy back. Arguably, the payment of the debt buy back scheme has drained the available resources to finance economic and other superstructural development. The huge resources when effectively utilized could have minimally addressed poverty, unemployment, hunger and diseases that pervade the Nigerian social formation. But reverse was the situation in Nigeria. In addition, despite the debt relief since 2005, economic and social development in the country has become a mirage. This resulted from the corrupt nature of the Nigerian ruling class that misappropriate the save debt relief resources for the promotion of class interest at the expense of the masses.
Global Monitoring Report (2005) was very critical about Paris Club debt relief to Nigeria because the debt payments did not leave sufficient funds to finance development projects in the country. The report stated that Africa could now properly utilized development aids because of the institutionalization of good governance. Therefore, the report called for the disbursement of substantial developmental funds to Africa and grant debt relief from the year 2005. The report opposed the huge debt payments demanded by the Paris Club and argued that for Africa to halve poverty, the 7 percent economic growth needs to be doubled in the next decade. The percentage of economic growth could only be realized through sufficient allocations to all sectors of the economy. However, the debt relief in Nigeria only drained the available resources for socio-economic development in the country.
Professor Jeffery Sachs stated that:

> The debt forgiveness is less good than it could be. The creditors are nasty and stingy to be extracting $12 billion cash immediately from a country with $3 to $4 billion annual budget. The $18 billion cancellation is a great achievement but it is not enough. Why should they demand so much from a country when so many children are dying of hunger and diseases, millions are not in school? It is appealing for creditors to be demanding $12 billion cash … I would like to see creditors do more than they have done in terms of debt forgiveness (AFRODAD, 2005).

From the above Sachs supported favourable debt forgiveness because extracting $12. 119 billion did not met Nigeria's debt sustainability needs for eradicating poverty in the country. In a similar vain, Professor Sam Aluko, considered Paris Club debt relief as an avenue where Nigeria was economically exploited through high debt payments. He condemned the debt relief because it was unfavourable to Nigeria. Aluko asserted that:

> If you pay $12 billion in one year, which the Federal Government has paid, there is virtually little or no gain because if you put that $12 billion in a bank at about 10 percent rate of interest you get $1.2 billion in a year. In effect, we gained virtually nothing (from the debt deal). So, over the next 10 years if we (Nigerians) invested $12 billion, we would have got about $24 billion. So, the white man is very clear. He does not loose in either way. We may feel that we gained momentarily but in the long run, we gained virtually nothing (*Comet*, 2006: 14).

Base on the argument presented above, Aluko stressed that debt cancellation would have been more suitable than debt relief granted to Nigeria. He believed that the debt should have been converted into what he termed as "Marshall Aid for the Country" because the figure was equivalent to what United States invested in Europe to restructure their economies from the devastating effects of the Second World War. Okongo averred that extracting $12.119 billion for debt payments shows that Nigeria saves its crude oil revenue only to be drained by Paris Club of creditor nations (AFRODAD, 2007). The extraction of the resources was an element of capitalist exploitation and conditions Nigerians to wallow in abject poverty.

For Kolawole Simon the debt relief was selfish and unrealistic. He argued that:

> Contrary to speculations in Nigeria that the debts cannot be written off, they actually can be. Pakistan was a pariah state after the coup of Pervez Musharraf but the moment he supported the invasion of Afghanistan by the US forces, its debts were written off. I need not mention the countries, which supported the war in Iraq and got favourable debt treatments. It is political as it is financial and nobody should be deceived about that. I am more interested in the political aspect of it, not classroom theories and indices (*This Day*, 2005).

The Director of the Global AIDS Alliance in person of Paul Zeitz was also very critical of the Nigeria-Paris Club debt relief. He argued that "This agreement extracts $12.4 billion from Africa and transfers it to a group of wealthy countries who do not really need the money". Paul further maintained that:

> It is an outrage that creditors simply plan to use this payment to fill their treasuries. The annual budget of such creditors as Japan and the United Kingdom is over 100 times that of Nigeria. Surely we can do better than accepting billions from the world's poorest continent. We expect more from the G8 nations, who promised Africa so much in their Gleneagles Declaration in July (Paul, 2005).

Paul believed that creditors should be ashamed of themselves if they simply take this money. In a related development Paul stated that:

> These creditors often knew that the money would be siphoned off by dictators and deposited in Western banks, and the resulting debt is morally illegitimate. They bear a moral obligation to think more creatively about how to use this money. Nigeria has already paid these creditors $11.6 billion in debt service since 1985. We challenge the creditors to redirect this additional $12.4 billion to Africa's development (Paul, 2005).

The president of the African Network for Environment and Economic Justice (ANEEJ) in person of David Ugolor explained that:

> The Paris Club cannot expect Nigeria, freed from over 30 years of military rule, to muster $12 billion to pay off interest and penalties incurred by the military. Since the debt, by [the current president's] own admission, is of dubious origin, the issues of the responsibilities of the creditors must be put on the table at the Paris Club (David, 2005).

The CSOs were very critical of Paris Club debt relief to Nigeria because refunding the huge figure undermined the country's ability to realize MDGs. They argued that demanding the repayment of debt with such huge resources indicates that they ignored the fact that 80 million of Nigeria out of 130 million live on less than $1 a day; that NEEDS has been introduced to restructure the economy of the country; the World Bank in 2005 ranked Nigeria as the second poorest country in the world; and UNICEF reported that Nigeria was the third world most HIV/AIDS infested country after India and South Africa. The CSOs also argued that the debt relief downplayed the reality that Nigeria's oil revenue in 2004 was a net $25 billion and translated to 53 Cent or N 70 per person when the oil revenue was shared among 130 million Nigerians. The situation was contrary to what obtained in Venezuela that was $3.4, Kuwait $27.3 while Iraq $2.4. Base on the above the CSOs demanded for total debt relief to Nigeria to enable it achieve economic development. They argued that savings from the debt relief would be invested in the non-oil sector in a bid to restructure the economy that heavily depended on oil. They concluded that without total debt relief Nigeria would not be able to promote political stability in the West African sub-region.

The impact of debt burden could be seen from the expensive nature of the negotiations. Elendu reported that the negotiations cost the Nigerian government about $250,000 million monthly. But the Debt Management Office (DMO) stated that the government only paid $100, 000 million monthly to Lazard Freres, a debt consultant for all the levels of the Paris Club debt negotiations. The MDO further stated that:

> It is a standard operating procedure for all countries seeking debt relief to appoint a consultant. The consultant asked for a range of $200,000 to $250,000 million a month. But the figure was negotiated downwards. This is because Nigeria also had handy the technical expertise of Dr. Ngozi Okonja-Iweala

(Minister of Finance) and Dr. Mansur Muhtar (Director-General, Debt Mnagement Office) (DMO, 2002:7).

The tours made by Obasanjo from one country to another canvassing for the support of creditor nations to write off Nigeria's debt counted to the expensiveness of the Paris Club debt regotiations and the tour was criticized. For instance, *Tell Magazine* (2000:18) reported that:

> The president has been criticized for his frequent trips abroad those who frown at this would want him to stay at home to tackle the problem confronting the country. There is renewed hope of confidence within and outside the continent. More so, when most world leaders and investors see the president as one capable of turning the country around and in droves they have been visiting for one possible relationship or the other.

The above shows that Obasanjo was criticized because of his many trips abroad. The critics argued that there are numerous problems bedeviling the country that need to be addressed rather than embarking on frequent travels abroad. Nigerian masses are confronted with problems such as poverty, unemployment, lack of shelter etc. The problems need to be tackled domestically than making endless trips under the pretext of canvassing the support of creditor nations to grant Nigeria debt relief. However, no nation could live in isolation when it wants to achieve economic growth and development. To this end, the pursuance of debt relief is necessary and expedient.
The criticisms leveled against the tours made by Obasanjo made Akinyemi (2004) to counteract the argument that it became:

> Necessary for a head of state to demonstrate the control of foreign policy or demonstrate the mastership of foreign policy by actually becoming the main implementer of the foreign policy… They now want to demonstrate a personal involvement of the president before they embark on a state visit.

Despite the criticism leveled against the 2005 Paris club debt relief granted to Nigeria from many angles, Iweala (2005) [11] argued that the debt relief was considered as Nigeria's second political independence because it gives the country the freedom not to pay $1 billion per annum to creditor nations. In addition, the debt relief has de-classified Nigeria as a "bad and doubtful country". It encourages foreign direct investment in the country. Export Credit Guarantee Agencies become confident and restore insurance cover for importer of goods and services as well as investment capital to the Nigerian private sector. It also brings psychological and emotional relief to all Nigerians (DMO. 2005).

Conclusion:

As the debt crisis became manifest in Nigeria, different debt management strategies were adopted by successive governments to address the problem however, the strategies left much to be desired. The crisis was further intensified by high debt burden imposed on Nigeria by the creditor countries and has affected the debt sustainability of the country. This situation calls for Nigeria's debt cancellation/forgiveness by international organizations, CSOs and members of the House of Representatives. This demand was not successful because Nigeria is classified as a middle-income country and only granted debt relief of 60 percent under a debt buy-back scheme in 2005. In the arrangement Nigeria paid the sum of $12.4 billion in a year. Since Nigeria continues to apply for loan facility from the international financial institution in the mist of outstanding external debt, the paper concludes that unless Nigeria intensifies effort in diversifying the economy, combat corruption and ensures prompt payments of debt the country is likely to fall in another debt crisis.

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