# NIGERIA'S FIGHT FOR DEBT RELIEF: TRACING THE PATH

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**EXECUTIVE SUMMARY:**

On June 29 2005, Nigeria and the Paris Club reached an historic agreement on an US$18 billion or 60 percent write-off of Nigeria's Paris Club debt. What was the background for this agreement and what were the ingredients for success, and how can the lessons learned be applied to other countries or other similar campaigns? The story of Nigeria's quest for debt relief is also, in a sense, the story of a personal journey into the uncertain waters of Paris Club debt negotiation. In the past, creditor countries of the Paris Club have granted debt relief because it was politically useful even though the countries still had to meet Paris Club technical criteria. My strategy for persuasion focused on getting attention on our important economic reforms rather than pleading for debt relief. We had an unprecedented reform program which was owned and crafted by Nigerians for themselves and the IMF was formally invited to monitor its implementation which it accepted. This strategy, coupled with the assistance of civil society organizations and our commitment to fulfill informal promises worked. Debt relief opened hitherto closed doors for Nigeria on the investment front. Nigeria was able to obtain its first-ever sovereign credit rating from Fitch and Standard and Poors'. This has facilitated greater foreign direct investment (FDI) flows into the country.

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On June 29 2005, Nigeria and the Paris Club reached an historic agreement on an US$18 billion or 60 percent write-off of Nigeria's Paris Club debt. The write-off was implemented over the period October 2005 to March 2006 bringing to a close Nigeria's long

quest for a Paris Club debt agreement. This paper traces the background, issues, and elements that led to this success including the implicit or explicit roles played by various parties including civil society. What were the ingredients for success and how can the lessons learned be applied to other countries or other similar campaigns? The story of Nigeria's quest for debt relief is also, in a sense, the story of a personal journey into the uncertain waters of Paris Club debt negotiation. The reason is that shortly after I was sworn in as Nigeria's finance minister on July 17 2003, I received a letter from President Obasanjo with terms of reference instructing that one of the items I had to deliver during my tenure was Paris Club Debt Relief for Nigeria. The President had made obtaining Paris Club debt relief both a personal and national priority and his instructions placed me squarely at the centre of this daunting challenge. I knew that meeting the challenge would require drawing on many resources including the hard work of the excellent economic team that President Obasanjo had assembled and which I led.

## BACKGROUND

Nigeria took its first loan from the Paris Club of creditor countries in 1964 for a sum of US$13.1 million. The loan, taken from the Italian government, was for the construction of the Niger dam. From then until 1970, Nigeria borrowed moderately despite the fact that it experienced a devastating civil war from 1967-1970. In 1970, at the end of the war Nigeria's external debt was less than US$1 billion.

The situation changed dramatically during the oil boom years of 1971-81 which were a boon to Nigeria. Despite the high oil revenues, the country's leaders borrowed unsustainably to finance post war reconstruction and other state projects and infrastructure perhaps convinced by those hawking loans of the country's strong credit worthiness. By 1985, Nigeria had accumulated an external debt of US$19 billion. A great deal of this money was from export credit agencies of Paris club members and commercial banks for projects ranging from road construction to development of manufacturing and agriculture as well as the building of health clinics and water projects. Unfortunately many of these projects were either not implemented at all (but the money disappeared) or they were poorly implemented with very poor results leading to a situation of high external indebtedness with less than commensurate results.[1]

Given the prevailing high interest rates of the 1980s, debt service climbed to US$4 billion per annum or 33 percent of exports of goods and services in 1985, as against the recommended international norm of 25 percent. With the economy growing at a low 1 percent per annum and the oil price crash that began in 1982, Nigeria entered an era when it was unable to service its loans. To ease the situation, the country sought rescheduling of its obligations and successive Paris club reschedulings took place in 1986, 1989, 1991 and 2000. However, relief was only temporary and arrears began to mount including interest and penalties on interest. Nigeria sought substantive relief based on new Paris Club initiatives such as Naples terms—designed to provide low income qualifying countries with up to two-thirds flow or stock relief. However this was denied. This refusal was in contrast to the agreement reached with the London Club of commercial creditors to consolidate and treat

[1] See Ngozi Okonjo-Iweala, Charles Soludo and Mansur Muhtar, *The Debt Trap in Nigeria: Towards a Sustainable Debt Strategy*, Africa World Press, 2003.

private debt arrears and obligations under the Brady Plan in 1991. Under this plan, Nigeria obtained 60 percent debt relief on 62 percent of its US$ 5.8 billion London club obligations by executing a buy-back at 40 cents on the dollar. The remaining US$ 2.04 billion was collateralized with US zero coupon bonds maturing in 2002.

By the mid-1990s under the Abacha regime, relationships with the Paris Club hit a low point and Nigeria no longer serviced its Paris Club debt. In 1998, a transition military regime came into power and an attempt was made to revive relations with the Paris Club by making a goodwill payment to the Club of US$1.5 billion. However, it was only in 1999 under the democratically elected regime of President Obasanjo that the debt issue once more took centre stage as the president campaigned for debt relief. By December 31st 2004 when external debts were being reconciled for the negotiations, Nigeria's external debt stood at US$ 35.994 billion of which Paris club debt was 86 percent or US$ 30.9 billion. Chart 1 shows Paris Club debt outstanding by creditor category prior to debt relief and Figure 1 displays the debt stock by creditor.

**Chart 1: External Debt Outstanding by Creditor Category**
**(as at 31 December, 2004)**

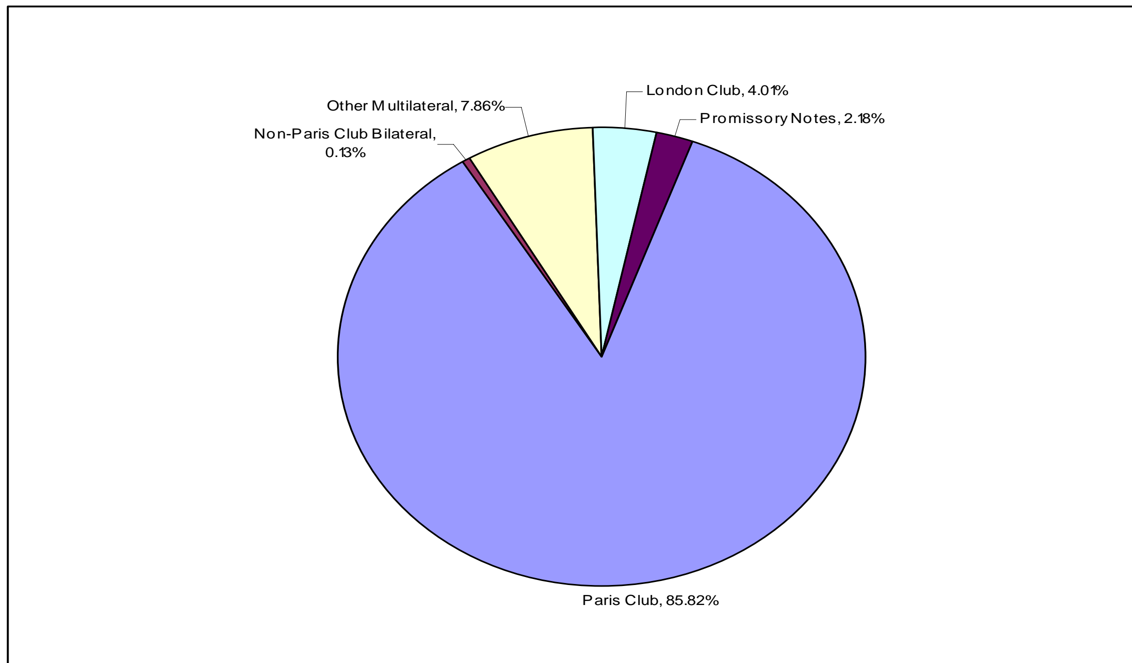
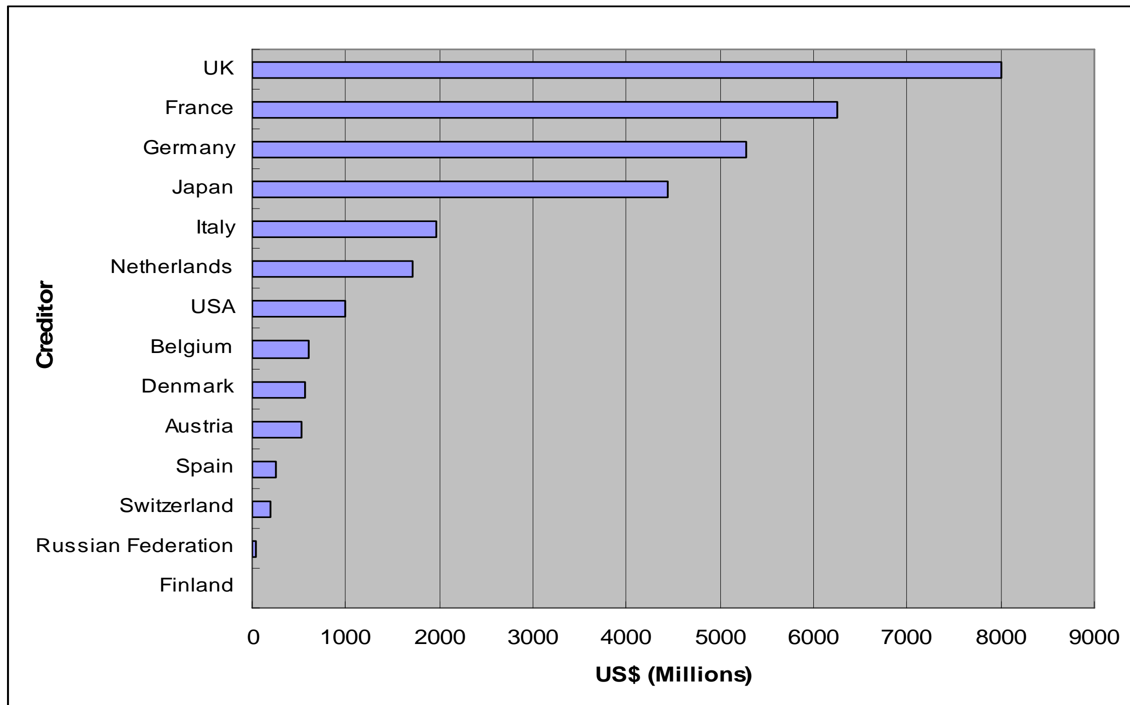


**Figure 1: Paris Club Debt Stock by Creditor as at 31 December 2004**




Total debt service stood at approximately US$3 billion a year, comprised of about US$2.3 billion to the Paris Club, with the balance of US$0.7 billion being payments for debt servicing to other multilateral and commercial creditors. In reality however, only US$1 billion of Paris Club debt service was being implemented under a tacit agreement with the club. Had Nigeria undertaken the full Paris Club annual debt service it would have left the federal government with little or no budget for capital expenditures so some accommodation was reached with the club on a temporary basis. This arrangement was nevertheless like a band aid as payment arrears continued to accumulate. It was imperative that a fundamental and sustainable solution be found to Nigeria's debt problem. To do this we had to craft a strategy—one that would deliver on the Paris Club core criteria for debt relief whilst at the same time mobilizing key constituencies and individuals in Paris club creditor countries to support Nigeria's cause. Let me now turn first to subject of the core criteria.

## NAVIGATING PARIS CLUB DEBT RELIEF: FUNDAMENTAL ELEMENTS

For Nigeria to be considered for Paris club debt relief it had to meet some fundamental criteria of the club most of which it was not well-positioned to meet in 2003. At the time, the country was experiencing considerable macroeconomic instability and weak growth in the run-up to 2003 as evidenced in the economic indicators in table 1 below.

**Table 1: Nigeria's Economic Indicators (1992-2002)**
**(annual percentage changes)**

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total GDP | 2.43 | 0.58 | –1.61 | 2.29 | 6.2 | 2.77 | 0.23 | 1.49 | 5.64 | 3.31 | 1.42 |
| Oil GDP | 2.27 | 1.24 | 0.12 | 2.17 | 4.48 | 1.47 | –5.39 | –4.13 | 11.54 | 1.42 | –11.63 |
| Non-oil GDP | 2.52 | 0.21 | –2.58 | 2.35 | 7.17 | 3.51 | 3.4 | 4.39 | 2.84 | 4.28 | 7.96 |
| CPI (year-on-year inflation) | 48.8 | 61.3 | 76.8 | 51.6 | 14.3 | 10.2 | 11.9 | 0.2 | 14.5 | 16.5 | 12.2 |

Source: Federal Government of Nigeria (unpublished data)

Paris Club debt relief of the sort Nigeria desired i.e. involving a substantial debt write-off would require a number of preconditions:

a. implementation of economic reforms under a formal IMF program;

b. eligibility of the country for IDA only borrowing status at the World Bank—that is borrowing from the soft loan arm of the bank reserved for the poorer countries;

c. regularization of debt service or establishment of a good debt service record; and

d. meeting the threshold of the IMF/World Bank Debt sustainability analysis that would indicate that the country's debt was not sustainable in the long-term and could ultimately severely undermine growth.

For each of the criteria above, Nigeria faced a challenge for differing reasons as outlined below and each of the challenges had to be met with a solution.

*a. Implementation of a formal IMF Supervised Economic Reform program*

This was a major hurdle. During the structural adjustment years of the mid-1980s to early 1990s Nigerians had developed strong negative feelings about IMF and World Bank-led adjustment programs, and had in fact, in what was tantamount to an informal national referendum, indicated that they wanted no truck with IMF programs and even if a program were to exist did not want to draw on IMF resources. How then could the President or the new economic team convince Nigerians to get into a formal IMF economic reform program? We decided we could not especially since there was already a suspicion that people like myself who came from these institutions would try to force the country into such a program. Instead, what we came up with was the idea of crafting our own economic reform program as strong or stronger than what the IMF would have put in place and implementing this and then inviting the IMF to monitor our progress in the hope and expectation that such an approach would be acceptable to the Paris Club. We developed the National Economic Empowerment and Development Program (NEEDS) that sought to stabilize the macro economy, fight corruption and bring transparency to government business, strengthen fiscal policy and improve the management of the budget, privatize

inefficient state assets and liberalize key sectors, and implement public service reform as well as financial sector restructuring. The program was comprehensive and touched on all the key areas where Nigeria had serious economic problems. The program was result oriented with a matrix developed which set targets and results, including responsibilities and accountabilities for such results.

For the first time we had a reform program which was owned and crafted by Nigerians for themselves and the IMF was formally invited to monitor its implementation which it accepted. This approach was uncharted territory for the IMF but there was no reason why it should not accept to work with a country determined to do the right thing. The IMF and World Bank teams responsible for Nigeria at the time were good listeners, smart, confident and excellent partners and they recommended to their management that they partner with us in the way requested. We were also lucky that senior managers at the Fund at the time were willing to listen and support us. Despite the opposition of vested interests, Nigerians by and large accepted the reform program and we successfully implemented it (see table 2) for more than 15 months before approaching the G-8 and the Paris Club to request consideration for debt relief.

**Table 2: Nigeria's Economic Indicators (2002-2006)**
**(annual percentage change)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Real GDP (at 1990 factor cost) | 1.42 | 10.9 | 6.1 | 6.2 | 5.7 |
| Oil GDP | -11.63 | 26.5 | 3.5 | 2.6 | *-4.5* |
| Non-oil GDP | 7.96 | 4.4 | 7.4 | 8.2 | 8.9 |
| Inflation rate (year-on-year) | 12.2 | 21.80 | 10.00 | 11.60 | 8.5 |
| External reserves (US$ billion) | 7.7 | 7.5 | 17.0 | 28.3 | 43.8 |

Source: Federal Government of Nigeria (unpublished data)

Ultimately, the Paris Club insisted that this approach was too informal and could set "dangerous" precedents for other countries wishing to negotiate with them in the future. They insisted that some way to found to capture Nigeria's program under a more formal IMF instrument. By sheer coincidence in the fall and spring meetings of the IMF-World Bank of 2004-2005, a debate was ongoing on a possible new IMF instrument for countries that wanted IMF oversight of their programs but did not need access to IMF resources. Nigeria's situation fit this bill exactly and we lobbied IMF senior management, developing country finance ministers of the Group of 24, and developed country treasuries to support the creation of the new instrument with Nigeria as the first pilot country to test it. Creation of the instrument ultimately got support. It was called the Policy Support Instrument (PSI) and Nigeria became the first country whose homegrown program was encapsulated in a PSI and taken to the IMF board for approval in September 2005 thus paving the way for final Paris club negotiations and implementation of the debt relief agreements.

*b. Eligibility for IDA only status at the World Bank*

At the Davos World Economic Forum 2004, Nancy Birdsall, President of the Center for Global Development (CGD) – a Washington-based think tank and a former colleague of mine at the World Bank – asked me why Nigeria was not eligible for the Highly Indebted Poor Countries (HIPC) debt initiative and why Nigeria was not classified as a country eligible to borrow only from the soft loan arm of the Bank (IDA) given that it had all the income characteristics and human development indicators of IDA-only countries. Nigeria was classified by the World Bank as being eligible to borrow both from IDA and IBRD—the regular window of the Bank meaning that it was considered more creditworthy than these IDA only countries. This automatically made it difficult, if not impossible, for the Paris Club to consider Nigeria for any substantial debt relief such as the Naples terms accorded highly indebted low income countries. Yet, Nigeria had, for 12 years, not been allowed by the Bank to access any IBRD lending in practice. So a contradictory situation emerged in which Nigeria, because of its access to oil revenues, was classified as entitled to access non-concessional IBRD borrowing in theory but in practice because of its actual low creditworthiness situation it had been restricted from any IBRD borrowing for more than a decade. Nancy and I discussed the lack of fairness of this situation and the accompanying lack of a level playing field for all countries.

As a result, CGD undertook to do a policy paper on the issue to be disseminated to the Bank and other audiences likely to have some influence on the Paris club process. At the same time, I formally approached the Bank to correct this anomaly and make Nigeria IDA only. The World Bank President Jim Wolfensohn and Managing Director Shengman Zhang were sympathetic, but we had to overcome the objections of those in the Bank's finance complex who felt Nigeria was undeserving and in any event might request a large slice of IDA funds if made IDA only. This would, in their thinking, undercut the access of other smaller countries to IDA. I promised that if made IDA-only Nigeria would not request access to a larger share of IDA resources than what was already programmed. We were only interested in this for the purposes of meeting the Paris Club requirement of IDA-only status for Naples terms or other deep discount debt relief. With the strong support of the Nigeria country director Hafez Ghanem and his team, a case was made and approved within the Bank for IDA-only status for Nigeria based on improved economic performance, a strong fight against corruption and poor social indicators.

*c. Regularizing Debt Service*

Beginning in the mid-1980s Nigeria's ability to service its Paris club debt deteriorated. When the debt service payment due was US$4 billion in 1985 Nigeria was only able to pay US$1.5billion. The four Paris Club re-schedulings did not solve the problem as the country quickly fell behind again in the context of the low commodity price of its main export –oil –and its need for basic expenditures during this period. Nigeria did faithfully service its remaining London club debt as well as its multilateral obligations given the good treatment it had received at the hands of London club creditors and the seniority of multilateral debt service. Paris Club debt service arrears, penalties, and interest accumulated giving Nigeria a poor track record with the Club. Compounding this was the lack of a real dialogue between the parties in the 1990s. Regular dialogue was restored starting in 2000

when Nigeria created a Debt Management Office (DMO). This provided the basis for an informal agreement with the Club to pay about US$1 billion of the US$2.3 billion that was due annually at that time. The service of Paris Club debt fell mainly on Nigeria's federal government budget (US$13 billion in 2004) and the full debt service payment of US$ 2.3 billion for the Paris Club plus another US$0.7 billion for London Club and multilaterals (US$3 billion in all) would have amounted to about five times the education budget, and over 10 times the federal health budget. Politically this was extremely difficult to defend hence the need to negotiate for a realistic US$1 billion of annual debt service for the Paris Club. The trick was then to maintain this informal agreement to establish good faith and create a reasonable track record. With one breach in the 2002 election year, Nigeria was able to keep to this informal, unwritten agreement thereby restoring a level of regularization to its debt service record.

*d. Dealing with Debt Sustainability Analysis (DSA) and Thresholds*

A crucial part of the Paris Club's decision-making process as to whether to grant countries debt relief and the measure of relief to be granted is based on IMF and World Bank analyses which establish whether a country's debt is sustainable. Debt sustainability analyses assess whether the country can comfortably service its Paris Club debt given its level and pattern of growth, export levels and potential (which measures ability to earn foreign exchange), revenue and expenditure levels and projections into the future of all of these. The two institutions establish certain debt ratios based on these that serve as benchmarks against which a countries debt sustainability situation can be measured and projected to the future. Examples are the debt-to-GDP ratio, debt service-to-exports ratio, debt service-to-revenues ratio etc. Table 3 below provides the indicative norms for these ratios. If a country falls within these norms then it means it can service its debts and the debt burden is deemed to be sustainable. Outside of these benchmarks, the degree of unsustainability is examined for decisions as to whether the country's debt should just be rescheduled to give it breathing room until its finances are more robust and it can resume regular debt service or whether a deeper type of debt relief or write-off should be considered. Over time developing countries have protested that these ratios fail to take into account many factors that capture their real situations. For example, most developing countries often have domestic debt that has to be serviced as well and the typical debt sustainability analysis did not take this into account often making ratios look more optimistic than should be the case. There have been attempts by the Bank and the Fund to refine their methodologies based on these criticisms and the DSA has improved but issues still remain as we argued in Nigeria's case.

**Table 3 Nigeria: Debt Sustainability Indicators**

| | Bank-Fund DSF Benchmark | 2004 Nigeria Actual | 2015 Projected Baseline | 2015 Projected (with oil price shock) /a |
|---|---|---|---|---|
| NPV of debt-to-GDP | 30 | 48.8 | 21.9 | 70 |
| NPV of debt-to-exports | 100 | 90.4 | 46.1 | 211 |
| NPV of debt-to-revenue/excl. grants | 200 | 114.5 | 58.9 | … |
| Debt service-to-exports | 15 | 7.5 | 3.9 | … |
| Debt service-to-revenue | 20 | 12.9 | 6.4 | … |

Source: IMF and Word Bank (2004) and World Bank (2005)
a/ Assumes permanent reduction in oil prices of $16 per barrel equivalent to two standard deviations of Brent oil prices for the period 1976-2004

Nigeria was seeking debt relief at end-2004 to 2005 when prices of its main export commodity oil were increasing. Oil prices had risen from an average US$28.9 per barrel in 2003 to an average US$37.8 in 2004 and US$53.4 in 2005. Many analysts projected even continued increase in oil prices, and Paris Club members were in no mood to entertain debt relief for a so called oil rich country whose commodity price was robust. The standard debt sustainability analysis showed Nigeria's debt could be sustainable given such prices. But we knew that for Nigeria the standard analysis could not capture the country's true situation and we had to get these elements on the table. There was the issue of extreme volatility of oil prices which had bedeviled the country's debt service and indeed its development for so long. Just as the oil price could keep rising, it could also fall dramatically as was the situation in the mid 1980s when it fell to about US$14 per barrel. If this happened, Nigeria's situation could quickly become unsustainable. Any analysis of debt sustainability for Nigeria would have to factor in a downside as well as an upside. In addition, Nigeria had a substantial domestic debt burden of about US$10 billion with annual debt service at US$1.4 billion at the time and it had contingent pension and other liabilities that also needed to be taken into account.

Most important though was the issue of how Nigeria could meet the development targets set by the international community as crucial for poverty reduction and improved human development—the Millennium Development Goals (MDGs) – whilst still sustainably servicing its Paris club debt. Nigeria, like most African countries was off target for meeting the goals and would need substantial investments in education, health, and basic infrastructure such as water, rural roads and electricity to make substantial leaps towards meeting the goals by 2015 of halving poverty, for instance. The push by the international community to get developing countries to work towards meeting these goals on the one hand whilst , at the same time , insisting on debt service on the other seemed contradictory and hypocritical. On a given day we would meet with people from the aid departments of our creditor countries of the Paris club and they would speak about the need to invest effectively to meet the MDGs. Yet, on the same day people from the Treasuries of these countries would also demand we meet the debt payments. It was clear that the two departments were not talking to each other or they would have realized that we would not be able to do both. We decided that this crucial factor of investment for the MDGs had somehow to be factored into the thinking on the Debt Sustainability Analysis. This very

notion of a DSA with MDGs factored in was scary to Treasuries of our creditor countries and we were warned that this approach would not be accepted by the Paris Club as it could be precedent setting for other countries. We nevertheless went ahead and requested the World Bank to work with us to do an analysis of what Nigeria's DSA would look like if needed investments for the MDGs were factored in. Our reasoning was simple. Nigeria was one of the lowest aid recipients in the developing world at US$2 per capita per year compared to US$28 per capita for sub Saharan Africa. In fact, with Nigeria's level of annual debt service of US$1.7 billion it was sending out more money to the developed world than it received with a net transfer per capita per year of US$11. If we were to make MDG investments it would have to come from our own resources and we would simply not be able to do so if we continued with the high Paris club debt service. Alternatively, we would have to borrow afresh to invest which would not be a sustainable situation for the country.

The World Bank study asked the question "Can Nigeria meet the Millennium Development Goals by 2015…while simultaneously lowering indebtedness?" Using the Bank-Fund Low Income Countries Debt Sustainability Analysis template, which showed under standard assumptions that Nigeria would have no external or fiscal sustainability problem, the study showed first, that if oil price volatility were introduced by dropping the average oil price by US$8 (equivalent to a decline of one standard deviation of Brent oil prices over the period 1976-2004). Nigeria's external and fiscal sustainability would immediately derail. Next, the study tackled the issue of increased MDGs spending whilst maintaining debt service under an optimistic high growth, high oil price and good policies scenario. The findings showed that Nigeria would encounter a sizeable insolvency problem with a fiscal gap emerging by 2012 and growing fast thereafter. The net present value (NPV) of this gap would amount to US$50 billion implying that even if all of Nigeria's Paris and non-Paris club debt of US$36 billion at end 2004 were to be written-off Nigeria would still face a fiscal NPV gap of US$14 billion. The results further showed that under less optimistic scenarios of falling oil prices, the fiscal gap would appear much earlier in 2008 and the gap would climb much higher than US$50 billion.[2]

Despite the resistance the study found its way to both members of the G-8 and the Paris club. We were able to use it to demonstrate that Nigeria would need Paris club debt relief if it were expected to make any appreciable progress towards meeting the MDGs.

### ADDITIONAL ENABLING FACTORS TO DEBT RELIEF

Finding solutions to the formal Paris Club requirements was a necessary but not sufficient condition for debt relief. There were other factors that contributed such as the role played by civil society, academics and think tanks in the debt relief and poverty reduction debate, as well as the lobbying of Paris Club officials of various levels. In addition, the Nigerian Legislature played an important role, while other personal contacts in major Paris Club country treasuries were also often helpful.

*Role of Civil Society, academics and think tanks*

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[2] World Bank, "Nigeria's Opportunity of a Generation: Meeting the MDGs, Reducing Indebtedness," PREM Anchor Report Prepared for the Africa Region, 2005.

Civil Society played an important role in Nigeria's debt relief in both direct and indirect ways. The most powerful role, in my opinion, was indirect as they prepared the political ground for greater receptivity to Nigeria's request for relief. The Jubilee 2000 debt relief movement had been an important factor in softening the ground. The movement helped to bring about the Highly Indebted Poor Countries (HIPC) initiative that led to the cancellation of poor countries bilateral and eventually multilateral debt to the tune of US$41.9 billion (NPV values) to date for 30 countries most of them in sub-Saharan Africa. Nigeria had all the characteristics of a HIPC and was in fact initially listed as one and then removed. Jeffrey Sachs had argued in 2003 "Nigeria needs debt cancellation. Its status is comparable to the rest of the HIPC countries and it was once on the list and deserves to be on the list now". Successful debt relief for the HIPCs was in some sense helpful to Nigeria's case.

The interlinked Make Poverty History campaign was similarly helpful in getting politicians' attention focused on the issues hindering developing countries, from making progress on poverty reduction, tackling unsustainable debt burdens and also addressing the inequity and injustice of the global equation in this regard. Both high profile campaigners such as BONO and Bob Geldof, and the rank and file of Jubilee 2000 and Make Poverty History campaigners exerted pressure that made a difference.

On the direct side of the issue, we realized sometime at end-2004 in the middle of our campaign that getting more direct support and a partnership with both domestic and international civil society would be helpful to Nigeria's quest. We found a perfect partner externally in the person of former Jubilee 2000 lead campaigner, Ann Pettifor. Ann worked with us to make the Nigerian story compelling for the NGO community abroad so they could get beyond Nigeria's unhelpful image abroad and understand the real issues behind the country's quest for debt relief. A website was developed with facts and figures. Ann truly believed Nigeria was often misunderstood and was a really deserving country. Efforts were fruitful in engaging NGOs in Europe and the UK in bringing Nigeria to the notice of their politicians. Ann also helped link Nigerian NGOs interested in the debt relief campaign to their counterparts abroad. The media in Nigeria and abroad were also called upon to understand the story so that they could report as accurately as possible with the correct facts and figures.

It is important to mention that a whole array of academics, think tanks and individual practitioners believed in Nigeria's quest for debt relief and contributed in many ways—providing fora for the economic team to address important audiences or individuals or undertaking supportive analysis. One think tank stands out in having made a difference. The Center for Global Development's Nancy Birdsall and Todd Moss took an early interest in Nigeria's case and contributed to the IDA analysis referred to above. They also brought the key idea that helped to break the impasse on our debt relief quest when it arose. They suggested the idea of including a buy-back of part of the debt as part of the debt relief package so that creditor countries would be assuaged by a sweetener. CGD was not only instrumental in terms of its intellectual contribution to finding solutions that helped make debt relief happen but it also played an important advocacy role in treasury and development circles where it mattered. Another influential publication that helped create an atmosphere conducive to debt relief was Prime Minister Blair's Commission for Africa report which made a compelling case for debt relief and the need to provide additional financing for sub-

Saharan African countries. The whole push by the UK, 2005 chair of the G-8, for a year of Africa prior to the Gleneagles summit was very helpful. The important part played by civil society in Nigeria's successful quest for debt relief underscores how useful it can sometimes be to develop constructive partnerships between governments and CSOs to forge a path on difficult issues.

*Other Factors*

Debt is at once an economic but also a supremely political issue and so is debt relief. In the past creditor countries of the Paris Club have granted debt relief because it was politically useful even though the countries still had to meet Paris Club technical criteria. Poland was granted debt relief following the unraveling of the Former Soviet Union (FSU) because it was important to support a country trying to democratize and establish a market-based economy. Yugoslavia, Cote d'Ivoire and Egypt are all countries that at some stage or the other got debt relief because of strong political will to support them. There is always therefore a political element to the debt relief quest. We did a lot of lobbying supported by hard facts to make the political case for Nigeria in addition to the economic one. President Obasanjo lobbied at the level of presidents of the G-8 and of creditor countries. He had made debt relief a cardinal measure of his administration's success and the lobbying went on for 6 years of his administration until the relief was granted. The President's central argument was that Nigeria was now a young democracy emerging after years of authoritarian military rule. Africa's largest democracy needed nurturing and support and debt relief would be one way of granting the country a "democracy dividend". I lobbied at the level of the finance ministers whilst trying to make sure the technical work they would ultimately look at and rely on for decisions was done to a high standard to help justify the debt relief. A couple of anecdotes illustrate how agile one had to be to get the right kind of attention on Nigeria's campaign.

One anecdote involves an official visit to the White House in early 2005 to which I accompanied my president –President Obasanjo. A key objective was to gain President Bush's support for debt relief so that a message could in turn go to the US Treasury to be more supportive of our quest. Whereas we had garnered sympathy from the State department, NSA and other parts of the US government we were having a bit of a difficult time still with Treasury just as we were with other Treasury departments of Paris Club members. During the meeting, at which Secretary Powell, NSA Condoleezza Rice, Jendayi Frazier, Cindy Corville, and others were present, President Obasanjo explained our desire for debt relief and presented the tremendous change Nigeria was undergoing in implementing difficult economic reforms. President responded jokingly that Nigeria was an oil rich country and oil prices were high. Nigeria should be lending money to the US, not asking for debt relief. It seemed our request was about to be brushed aside. I was terrified that we were about to miss a unique opportunity and I totally broke protocol by jumping in and asking my president's permission to explain further to President Bush. He gave his permission and I knew I had a few seconds only to make my points. I made two points; a) though oil prices were high Nigeria was still a poor large country with a population of 140 million. As such the net amount earned for example in 2004 of US$25 billion amounted only to 50 cents per Nigerian per day; b) Nigeria's economy would need to depend largely on private sector investment for growth. Yet, such investment would be severely limited if we did not invest in infrastructure. We would need upwards of US$7 billion a year for the next

five years for this purpose. That is why we would need debt relief to free up resources for this. These two points seem to catch President Bush's attention and interest and he turned around and said we should send him a letter outlining the points I had just made. At that point, I knew we had made some kind of breakthrough and we would get his support.

As I made the round of G-7 finance ministers to argue the case for debt relief, I noted there was one minister I had not managed to see. It was the Italian finance minister, Domenico Siniscalco. Each time I tried I was told he was too busy to receive me. Finally at the Davos World Economic Forum in 2005 I heard he was participating and was in fact in a session close to where I was. I resolved to waylay him in the corridor and make my case. As he exited from his session surrounded by aides I darted in between them, grabbed his jacket and introduced myself and my mission. He promptly agreed to a meeting and over tea I was able to brief him on the Nigerian situation and get his support. Another anecdote concerns my first meeting with Chancellor Gordon Brown in Dubai at the Bank-Fund annual meetings in 2003. I was given just five minutes by his staff. I decided I would not do the expected thing just yet –that is ask his support for Nigeria's quest for debt relief. I was sure that this would make his eyes glaze over. Instead I used the five minutes to brief him on Nigeria's ambitious economic reform program and on progress noting that only if we implemented this successfully for a year would I ask for his support. This approach I believe helped spark his interest in supporting Nigeria. Overall my strategy for persuasion focused on getting attention on our important economic reforms rather than pleading for debt relief. This strategy worked. One very important factor that helped our case was the presence of people who knew me and my track record in key positions in treasuries and development ministries in G-8 and other creditor capitals. For instance, at the UK treasury a former colleague of mine at the World Bank, former chief economist Sir Nicholas Stern had joined the treasury as one of Gordon Brown's senior officials, in Germany my former boss Caio Koch –Weser was the deputy finance minister, In Japan, another former colleague Hiroshi-san was senior adviser to minister Tanagaki, at the Paris Club secretariat, another former colleague Emmanuel Moulin was Secretary General to name a few. This situation brought an unprecedented measure of trust that if I said we would deliver on our commitments we would and it helped smooth our path to debt relief.

Finally the Nigerian legislature was also an important factor through its work to convince members of the legislatures of several of our creditor countries that Nigeria meant business about its reform programme and they would support it by passing appropriate legislation as needed.

## THE PROCESS

We had resolved to ask for debt relief under Evian terms. This was the customized case-by-case approach to debt relief agreed to by the G-8 Heads of State at Evian France at the 2004 G-8 summit. It seemed the best approach for a country that did not fit into the ongoing large scale debt cancellation initiatives such as HIPC. Following Evian our strategy for obtaining debt relief was to ensure that Nigeria fulfilled all or most of the formal requirements for debt relief and set a good track record before making a real push for debt cancellation. We also worked the other enabling factors as we were implementing our reform program. There was no need I thought to be sent back repeatedly because one requirement or the other had not been properly implemented. The first task was to implement our

economic reform program successfully for a period of time similar to what the IMF would have demanded were it running the program. The IMF typically has a standby program for 12-18 months and we thus focused on reform implementation with clear measurable results for at least 15 months before beginning the campaign for debt relief. During this period the IMF undertook three successful reviews of our program. Based on this we were felt there was a basis to approach the Paris Club but before that we received good advice based on past lessons learned that it may be best to have a G-8 creditor who would be Nigeria's sponsor during internal creditor debt relief discussions. This creditor could help first convince fellow G-8 members of our case and then further help push it at the Paris Club. Like other developing countries that had gone through this we chose our largest creditor and ally with strong historical ties to whom we owed US$8 billion. This was the United Kingdom. Both Prime Minister Blair and Chancellor (now Prime Minister) Gordon Brown and Secretary for International Development Hillary Benn gave their support. Chancellor Gordon Brown backed up by a treasury and DFID team presented Nigeria's case to the G-8 finance ministers at various meetings but it was in the May 29? 2005 meeting prior to the Gleneagles G-8 summit of June 30th that he was able to convince his colleagues to consider a debt relief package for Nigeria comprised of 60 percent debt cancellation and include a buy-back component. Chancellor Brown negotiated far into the night on this occasion calling back from time to time to check with me and I checked in turn with President Obasanjo the acceptability of the G-8 creditors' position. From an opening offer of less than 50 percent debt relief from creditors and an opening demand for 75 percent debt relief from Nigeria he was able to convince the G-8 to move to 60 percent.

Once this was agreed, work began to convince the non-G8 members of the Paris Club to accept the deal that had been worked out. This was not easy. There was resentment that we had gone first to a subset of creditors whilst ignoring others. Feelings had to be assuaged and we made visits at both ministerial and even presidential level in a couple of cases to all the non-G8 creditor countries to convince them of the merits of the case. We also had to work hard with the Paris Club secretariat. One action that helped was that late in 2004 the then president of the Paris Club Mr. Jean-Pierre Jouyet had agreed to a rare meeting for me and my team from Nigeria's Debt Management Office (DMO) with Club representatives to present Nigeria's case for reduced debt service and eventual debt relief. At the presentation I made a case based on the reforms, our human development indicators as well as our need to invest to reach the MDGs. The case was compelling and was key to convincing Paris Club members that Nigeria had a case. This made it easier for us to approach non G8 members later when it was needed. The deadline we in Nigeria had set was that we should have some indication or agreement from the Paris Club before the Heads of State Gleneagles conference in early July 2005. Tension continued as we tried to get a Paris club agreement. Finally on June 29th 2005 at its last meeting before the Gleneagles summit, the Paris Club announced its agreement in principle to grant Nigeria debt relief. Underlying the general Paris Club statement was an agreement to negotiate a debt relief package on Nigeria's US$30 billion debt whose essential elements would consist of a) payment of US$6 billion of arrears owed—a standard Paris club requirement; b) Naples terms treatment on the remaining US$24 billion of debt i.e. a two-thirds write off on this portion; and c) a discounted (at 25 percent) buyback on the remaining US$8 billion after reduction under Naples terms. This would yield another US$2 billion of debt relief for a total debt relief package of 60 percent or US$18 billion.

Finalization of the debt relief package would be contingent on Nigeria getting its reform program formally approved as a Policy Support Instrument (PSI) at the IMF board. Nigeria's PSI—the first ever test of this instrument was approved by the Fund board in October 2005. Negotiations between Nigeria and the Paris Club took place immediately thereafter in late October 2005. At these negotiations, agreement was reached on all elements of the package including the fine print and later in October 2005 Nigeria initialed an agreement with the Paris Club. Debt relief was implemented in three stages between October 2005 and March 2006 when Nigeria finally exited the Paris Club.

The country's external debt burden fell from US$35 billion to US$5billion approximately. Nigeria's debt relief package was the second largest ever for any country in the Paris Club 50 year history and Nigeria was the first low-income country to be allowed to execute a discounted buy-back on a portion of its debt.

## CONCLUSION

Nigeria's journey to Paris Club debt relief is a remarkable one in which many actors and many factors played important roles and innovation and ingenuity were critical. The debt relief package finally obtained was not without controversy as some civil society groups and some members of the Nigerian public felt that the country should not have paid anything at all to the Paris Club members and should have had a 100 percent write-off. This for practical purposes was an approach that Paris Club members were unwilling to entertain and in the end the majority of Nigerians accepted that what was obtained was a good package for the country under prevailing circumstances. Civil society organizations, both domestic and foreign, were essential partners in this journey and worked both directly and indirectly to facilitate debt relief. The country approached its quest for relief strategically, flexibly and pragmatically using a combination of tested and new instruments to make it work. At the core of the strategy was Nigeria's ability to deliver measurable successes on its reform program and couple this with effective technical and political footwork.

Debt relief opened hitherto closed doors for Nigeria on the investment front. Nigeria was able to obtain its first-ever sovereign credit rating from Fitch and Standard and Poors'. Both agencies assigned Nigeria with a BB- rating, with a stable outlook. This has facilitated greater foreign direct investment (FDI) flows into the country: FDI flows into the non-oil sector have increased from about US$2 billion prior to debt relief to just under US$4 billion following debt relief.