

Understanding Nigeria's Debt Situation

By Ngozi Okonjo-Iweala

Of late, there have been many comments on the issue of Nigeria's debt and debt relief. Whilst it is interesting to see the variety of opinions, it appears to me that some of the commentary is not based on facts. In the absence of facts, there is often a danger of drawing the wrong conclusions. To make the debate more meaningful, it is important to put a few facts on the table.

Nigeria's external debt stands presently at US\$34 billion. About \$28 billion or 85% of the debt is owed to the Paris Club of 15 creditor nations. Only 8% of the debt is owed to multilateral institutions such as the African Development Bank and the World Bank whilst the balance of 7% is owed to the London Club of commercial creditors and holders of Promissory Notes. Nigeria does not owe the IMF any money. The first fact therefore is that Nigeria's debt problem is really "a Paris Club debt problem"

If Nigeria were to fully service its external debt every year, annual debt service would amount to approximately US\$3 billion - \$2.3 billion to the Paris club, and \$0.7 billion to the multilateral and commercial creditors. The ownership structure of the debt is such that the federal government pays 75% of the debt service whilst 25% approximately is serviced by the states. Therefore, fully servicing the \$3 billion every year would mean that the federal government would have very little left for the capital budget over the next 5 to 7 years as the federal government's portion of such debt service would virtually eat up all of the capital budget, especially when it is considered that we also have domestic debt service amounting to about \$1.4 billion a year.

Please note that I am talking about our capital budget after factoring in the portion we have agreed to share on excess crude. The question is how many Nigerians would be prepared to live with little or no federal government capital budget for the next decade whilst we pay debt? I don't think anyone would subscribe to that. That is why we successfully argued with the Paris Club to keep our present payments to them at US\$1 billion a year with another \$0.7 going to multilateral and commercial creditors for a total external debt service of \$1.7 billion a year or approximately 56% of the amount due.

Whilst this situation gives us temporary relief to enable us sort out some of our investment needs and compelling current obligations such as expenditures on education and health, it does not provide a sustainable or permanent solution because the amount we don't pay keeps piling up as arrears and gets added to the principal amount making the debt larger. The bottom line is that even with the current high oil prices we cannot afford to service all of our debt unless we are really prepared to commit to very limited investment in our physical and human resources for the next ten to 15 years. We cannot also afford to allow the debt to pile up. So this means that, like other countries that have found themselves in similar situations at one time or another, we must search for a permanent workable solution to our debt problem.

The search for debt relief is therefore a vital financial and economic issue for the country. Anyone who says otherwise is not looking at the facts and in matters like these, we must be factual and not sentimental to ensure we get the best results for the country. Nigeria does not belong to the group of Highly Indebted Poor Countries similar to those of the HIPC countries. Unlike Nigeria, HIPC countries owe the bulk of their debts to multilateral development institutions like the ADB and the World Bank. The present initiative being developed by British Chancellor of the Exchequer, Gordon Brown seeks to assist the HIPC countries with their multilateral debts by getting them forgiven or cancelled in full (i.e 100%), or repaid to the multilateral institutions on their behalf. Nigeria does not seek to be a HIPC country. But we are saying that we too deserve consideration under another approach set up by the G-8 countries called the EVIAN approach (because it was decided at the G8 Heads of State summit in Evian, France, two years ago). Under this approach, countries' debt situation and the possibility for debt forgiveness will be considered on a case by case basis, depending on the peculiar circumstances of each country and the country's ability to demonstrate progress with economic reform.

The G8 and the Paris Club have in the past considered other countries which are much better off than Nigeria on a case by case basis. Examples are Poland, Yugoslavia, Egypt and, lately, Iraq. These countries were granted debt relief. We were not considered because of our previous poor track record with reform and our unilateral cessation of dialogue with them. Now that we are implementing reforms, there is everything right with Nigeria seeking debt relief because we cannot manage to pay the amounts due over the next decade without starving the country of money needed for investment and for poverty reduction programmes and projects.

Nigeria needs resources for public investment in roads, power, water, education, health, agriculture and other areas. In fact, recent estimates show that if we are to make adequate progress on growth and poverty reduction, particularly achieving the Millennium Development Goals (MDGs) of halving poverty by the year 2015, we need to grow at about 7 to 8% per annum and this requires an incremental investment of over \$7 billion a year in the sectors just indicated. The developed countries have said that they would like to help developing countries which are managing their economies well by channeling resources to them to assist in achieving the MDGs. Part of the incentives they are considering is forgiving debt so that instead of repaying them, debtor countries can channel the funds into investments in the core areas noted above. All we are saying is that Nigeria is ripe to be considered for this kind of debt treatment along with others.

We have been implementing our own home grown reform program NEEDS - and the results for last year have been quite positive. GDP growth was 6% compared to a 5% target. Average annual inflation came down from 22% to 15%, while point to point inflation (December to December) came down from 23% to 10%. This was not the single digit inflation we targeted but we came pretty close at 10%. The fiscal deficit at \$25 a barrel was 1.9% of GDP, better than the 2.1% we targeted and the reserves recorded healthy growth again from \$7 billion to \$19 billion thus ensuring that our exchange rate remains fairly stable.

On the anti-corruption and transparency front, everyone knows we have a huge problem and an incredible challenge, but our development partners openly acknowledge now that we have been demonstrating willingness and resolve to be more transparent and to deal with corruption. We are publishing the revenues which all tiers of government get each month and we have even published a booklet showing what all tiers got for the first five years of President Obasanjo's administration. We are running a successful procurement reform called Due Process and everyone acknowledges that Due Process is working well. We have launched the Extractive Industries Transparency Initiative (EITI) to better expose and make transparent oil industry accounts and understand the structure of expenditure and revenue in the sector. We have the acclaimed efforts of the Economic and Financial Crimes Commission (EFCC), which is making strides in bringing economic criminals to book, sometimes against all odds. We have intensified efforts to find our looted funds abroad and bring the funds home - something that not many developing countries have managed to do.

We now monitor our budget implementation and give half yearly reports to the National Assembly and the Nigerian public - something that was not available before. We are improving on this by adding a mechanism in this budget year 2005 to track poverty related expenditures to ensure we can trace the results on the ground in respect of money going to certain key sectors from the budget. We are now working with several competent and willing state governments to get the same kinds of mechanisms introduced at the state level. While huge challenges remain, these efforts have convinced many of our partners that monies from debt relief (75% of which will go to the federal government) will be well used and well monitored.

Let me conclude by saying that while Nigeria is potentially a rich country, it is presently a poor country and must therefore manage its resources wisely and well. Our total oil revenues last year were no more than \$25 billion net. When it is spread over our large population of 130 million people, as I said elsewhere, this translates to no more than 53 cents or 70 naira per person per

day. Compare this with Venezuela with 23.5 million people and \$3.4 per person per day, Kuwait with 2.75 million people and \$27.3 per person per day, or even Iraq with 25 million people and \$2.4 per person per day and you will see that Nigeria, even in the best possible circumstances, is facing serious financial challenges.

That is why we are also focusing on improving our non-oil revenues. That is why we are making a sustained effort to plug all leakages and discourage rent-seeking behaviour. That is why our reform programme aims at creating an enabling environment including a rational system of incentives and values, characteristic of a private sector driven economy. The road is hard and long but together, these efforts would assist in wealth creation and poverty reduction for Nigerians. No one can guarantee that we'll get debt relief. We might make all the efforts and still not get it. But there is no reason why we shouldn't try our very best to qualify and then leave the rest in God's hands!

The developed countries say they want to assist African countries more this year and going forward. The UK, in particular, has said that the focus of its chairmanship of the G-8 and the EU this year will be Africa. They have produced the Commission for Africa report indicating specific ways they want to assist African countries, including through granting debt relief. Since we are already working hard to improve our economy for the benefit of our people through NEEDS, we should not be shy to leverage our efforts into asking for consideration for debt relief. Not trying at all would be a disservice to our people.

Dr Okonjo-Iweala is the Minister of Finance