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Nigeria entered the twenty-first century with a new democratic government, and a popularly elected president. It began the transition from twenty years of military dictatorship to a popularly elected government in 1999. The new president, Olsegun Obasanjo inherited a poverty stricken country riddled with poverty and international debt. Nearly 70 percent of Nigeria's population lives in absolute poverty, as Africa's most populous nation is poorer than it was thirty years ago (Okonjo-Iweala p.1). Nigeria's external debt amounts to nearly 65 percent of its gross domestic product (Okonjo-Iweala p.2). The implications of this debt are staggering for Nigeria and it is drastically in need of relief. As it turns out, there are many political, international, and financial issues revolving around relief of Nigeria's international debt.

Nigeria's economy depends heavily on its industrial sector, but more specifically on its production of crude oil. Nigeria makes \$20 Billion per year on oil exports. Exports of oil account for ninety-five percent of foreign exchange earnings, and make up about sixty-five percent of government revenues (CIA, World Fact Book).

The bulk of Nigeria's debt problems began in 1980 when after a significant decline in Nigeria's oil production, then president Shagari negotiated N4 billion in loans from the IMF and from several governments around the world. He even secured a \$180 million dollar credit loan with the U.S. in addition (Aluko). Soon after, in 1983 the civilian government is overthrown in a military coup and a series of leaders, from Muhammadu Buhari to Sani Abacha begin running up the governments external indebtedness to creditor nations and NGO's. Under the rule of General Sani Abacha alone Nigeria accumulated 5.6 Billion dollars of loans from international lending organizations like the Paris Club, the IMF and the World Bank. This amount is about forty percent of the total of its current principle, which stands at \$ 14 Million. General Abacha is considered the most corrupt ruler in Nigeria's postcolonial history (PBS, commanding heights), but his rule of Nigeria is not very much different than those of the other dictators as it is

during these years that the Nigerian government is riddled with corruption, economic emergencies, and internal conflict, and it is during these years that Nigeria runs up its outstanding external debt.

Combined with outstanding interest, and penalties for late payment, Nigeria currently owes its creditors a bit more than \$28 Billion. Half of this amount is the buildup of interest and arrears on the principle. Nigeria pays about \$1.7 Billion dollars per year in order to service these external debts (Owusu p.6). According to one source this amount is,

"20-30 percent of total exports, which in Nigeria's undiversified economy is mainly oil. It is also four times the national education budget, and nine times the public health budget (Okonjo-Iweala et. al. p.8)."

In fact, not only is Nigeria saddled with debt; it is saddled with the worst kind, as the quality of its loans is very low. Of Nigeria's \$13 billion dollar debt, it has already paid out \$21 billion dollars over the years in debt service, and the country still has another \$28 billion left to pay. Such is the accumulation of interest on loans with unfavorable terms. On its current payment schedule, Nigeria will have paid \$5 on every \$1 that it originally borrowed (Soludo p.37). Another fact that speaks to the poor quality of these loans is the failure rate of the Nigerian projects that the original loans were meant to

finance. 65 percent of Nigerian projects funded with international loans or nearly 76 percent of the value of the original loans went to projects that failed. One out of every sixty-three projects has paid back its original loan (Owusu p.6). This is perhaps the clearest indicator of the quality of Nigeria's debt. As a result of taking on this bad debt, Nigeria faces several consequences.

The problems caused by Nigerian indebtedness are staggering. Once among the richest people in Africa, Nigerians are now among the poorest on the Earth. Poverty contributes to ethnic violence in Nigeria and Nigerian infrastructure is in a state of collapse. In many public statements, Nigerian governmental officials and economists claim that Nigeria's debt burden forces it to choose between repaying the debt, and building roads, schools, and health clinics. Nigeria's slow growth rate (3%) is attributed to its debt. The loss of budgetary flexibility makes it increasingly more difficult for Nigeria to combat growing health emergencies like AIDS and Tuberculosis.

Another negative effect of Nigeria's outstanding debt is that as long as it is still servicing debt payments it remains under the authority of the IMF and the World Bank, and their structural adjustment programs. These programs severely limit the sovereignty of Nigeria and have

consequences for its people as well. Structural Adjustment programs force countries to have balanced budgets, which in most nations entails severe budget cuts. They also require a country to emphasize funding of industrial projects, rather than on social services or infrastructure. After the institution of the first of the IMF's structural adjustment programs is instituted in 1986 (Aluko), public sector spending on social services decreased dramatically over the next decade and a half. According to one source,

"It is not an accident that between 1980 and 1998 when debt accumulation intensified and debt service payments increased, primary and secondary school enrolment fell consistently, and tertiary education decayed (Soludo, p.31-32)."

As a result of this Nigeria's infrastructure is in a state of decay and its medical system is insufficient to meet the needs of its people. This is a tragedy in a country like Nigeria where there are 19 doctors for every 100,000 individuals, and fifty-one percent of the residents of the country do not have access to safe drinking water.

Several solutions to the problem of Nigeria's debt burden have been proposed. Among them are plans from the Clinton Administration and the Paris Club. These plans call for a rescheduling of Nigeria's debt. Such plans are intended to give debtors a "breather" in that they push back the schedule of payments for the country. Since reaching an agreement with the Paris Club, Nigeria's annual

debt service payments have been nearly cut in half from \$3 billion per year, to nearly \$1.5 billion per year.

Agreements like this consolidate the outstanding debt of a country and change the terms of payment, usually extending the schedule of payments over a longer period of time.

These agreements certainly afford indebted countries breathing room under their budgets as their annual payments are reduced, but it does not alter the size of the debt in any way, it merely and pushes the burden of debt payment further into the future. A rescheduling is by no means a refinancing agreement, in which the terms of the interest rate on a loan is changed. So while countries are better off in the short term from rescheduling agreements, they are no better off in the medium or long term as the absolute size of the debt is not reduced. Agreements like this are good for a country's short-term outlook, but keep them chained to the treadmill of annual payments for a longer period of time.

Rescheduling is beneficial to Nigeria because it allows them to divert a significantly larger amount of the national budget (\$1.5 billion per year) to public programs and projects that benefit Nigerians. However, agreements like this are bad for Nigeria because in order to qualify for rescheduling of debt, Nigeria must prove to

international lending institutions that it is in tight compliance with structural adjustment programs. In short, while debt-restructuring programs are good for Nigeria in the short-term, they represent only a temporary fix to Nigeria's problems, and have negative long-term implications for development and public health.

Another plan for debt relief in Nigeria is to craft a plan similar to the Brady plan, intended to provide debt relief to Latin American countries in the 1980's. This plan used a combination of new loans to promote development, and refinancing old loans at lower interest rates to provide relief. Programs like this are intended to help debtor countries "grow" their way out of debt (Vasquez). Programs like this have the potential to be effective, but in practice the results of the Brady plan were mixed. Some of the complaints were that the debt forgiveness of the program was not enough and that the programs had been ineffective at promoting enough growth to outsize the debts. The Brady programs for debt relief have been deemed mostly ineffective in the majority of cases, and even erratic in some. It is for this reason that one critic claims, "the Brady plan cannot confidently be claimed a success (Vasquez)."

Could this plan be beneficial to a country like Nigeria? Much of that depends on the opportunities for growth that Nigeria promises. Much of the criticism of the Brady plan was that it didn't do enough to promote growth as it "was unable to provide the proper incentives for developing countries to introduce consistent market reforms (Vasquez)." Were Nigeria to enter into a plan like this and have disappointing growth, this would only result in more indebtedness to the country, which would stagnate growth and negate the effects of the program. Given the program's record of underperformance, this is the most likely scenario with Nigeria. From a refinancing standpoint, Nigeria stands to benefit. If Nigeria could refinance its outstanding loans at lower interest rates it could actually reduce the absolute size of the debt, and pay less. This would mean that it could service its loans more easily, and sooner, which would provide a boost to its economy. However, both parts of this plan come as a package deal, so Nigeria would have to accept the good along with the bad. Having to take one with the other makes this program a gamble for Nigeria, and would require significant examination of the investments to be made, coupled with extensive cooperation among NGO's and other governments. In general lending institutions do not like

refinancing, as it is harmful to them and are reluctant to go along with such deals.

Still another solution proposed for relieving Nigeria's debt would be an alteration of the governmental structure. Some suggest reforming Nigeria's central government to reflect the tribal makeup of the country. Such a government would transfer most of the authority from the central government to the state governments. This structure would free up fiscal resources for the states and allow greater spending, leaving the federal government as an entity to service the national debt.

Officially the current governmental system of Nigeria functions much the same as that in the U.S. with formal divisions between the Legislative, Executive, and Judicial authorities. Nigeria has a popularly elected president who serves as the head of state, commander-in-chief of the armed forces, and chief executive of the Nigerian Federation. On the legislative side, there is a bicameral legislative authority known as the National Assembly. Like in the U.S. this is the highest law making body in the country. Finally there is the Judicial branch of the government with ultimate power resting in the hands of the Nigerian Supreme court.

Also, like the U.S., the governmental authority in Nigeria also rests at different levels, with state and local authorities in addition to the Federal government. Each of Nigeria's thirty-six states has an elected governor and unicameral legislature. The third tier of Nigeria's government is made up of the 774 local governments. These governments perform most of the taxation and revenue collection in Nigeria (Obasi, Nigerian Government). However, none of these state or local governments have the authority to negotiate investment and development projects on their own. This is a power of the federal government.

The proposal in question would give the states the ability to negotiate contracts for development for themselves, and give them more fiscal autonomy from the federal government. This proposal is not without merit. Diluting the power of the federal government would significantly reduce the ability of the IMF and other international lending institutions to influence and enforce structural adjustment programs that divert funds away from where they are needed. This would free up more funds to be spent on services that benefit the people and not the IMF. Such a program however would be dependant on the manner in which the new governmental system was set up. Indeed, several of the member states in the country have expressed

their interest in such a system. This plan is supported by many of the minority ethnic groups in the country because of the ongoing collapse of Nigeria's infrastructure and the government's inability to provide developmental assistance (Ushigiale, "Devils Alternative"). Also many see the Nigerian federal government as a lopsided entity, with unequal representation among the member states. Such a plan places a states destiny in its own hands, as it dilutes both the power of the federal government and the IMF, and has significant potential to provide sustained economic stability. It also has the potential to greatly reduce the impact of Nigeria's national debt on the average Nigerian. Currently there are thirty-six states that make up the Nigerian Federation. However, this plan does not enjoy the support of the President, as he dismissed the calls for a new government structure as "unpatriotic" and "mischievous" (from "Clamor for Confederation"). Also, the international lending institutions do not support this plan, as it dilutes their authority. While this plan has many strong merits, it is only beginning the process of winning support throughout Nigeria.

One final proposal for debt relief is that of debt forgiveness. While some organizations are calling for an all out forgiveness of Nigeria's debt this is not feasible

as there are billions of dollars involved in these loans. There is an alternative though. If Nigeria can qualify for HIPC status (Highly Indebted Poor Country) it can substantially reduce its debt without offending the original lenders. Initiated in 1996 by the World Bank and the IMF, the HIPC initiative is intended to resolve the problems of the most heavily indebted poor countries. Under international rules, if Nigeria can get HIPC treatment, it can at a minimum get a 67 percent cancellation of its debt service for three years, and a 67 percent cancellation of its debt stock (Okonjo-Iweala, p.14). This would come as a big break for Nigeria and it would significantly help to place Nigeria on the path to long-term economic stability.

While Nigeria's numbers (Debt/GNP, GDP/person) are similar to countries on the HIPC list, it has been deemed ineligible for the program. It does not qualify for HIPC debt reduction because of its exports of oil which amount to \$20 billion annually (East-West). The international authorities see this as a sign that Nigeria is not putting its resources to adequate use in the service of its international debt. Aside from exports, Nigeria meets all of the other requirements for HIPC treatment. This is perhaps the best alternative for Nigeria as it is perhaps

the strongest and best plan for reducing the debt. This plan frees up significantly more capital for the Nigerian government and is the plan that offers the most substantial debt relief. A negative point of this plan is that Nigeria must still abide by IMF and World Bank structural adjustment programs, but since their debt burden would be reduced drastically, it would allow a greater absolute amount of money to be spent on public programs in addition to the additional funds spent on industry.

In summation, there are a variety of plans that help relieve the burden of Nigeria's debt on its citizens. While some do a better job than others at reducing the absolute burden of the debt, each has its own merits and deficiencies. Each plan however leaves Nigeria subject to IMF and World Bank structural adjustment programs. The ideal plan is the one that allows Nigeria to terminate its relationships with its creditors as soon as possible. The consequences of Nigeria's debt and its relationship with creditors are astounding, and debt relief at any time would come as a benefit to the country. For example, according to one author, if Nigeria had received a fifty percent debt reduction in 1986, its GDP would have averaged three percent higher and private investment would have risen at a rate of twenty percent per year (Soludo p.36). This author

estimates that Nigeria's debt reduces the growth of its economy by two percent per year. It is clear that the indebtedness is crippling Nigeria's economy and contributing to the extreme poverty conditions there. It is also clear that action is necessary in providing much needed relief to Nigeria. In recent history, Nigeria has been among the world's poorest nations, but it has not qualified for any sort of debt relief because of the revenue it makes from oil. But as Africa's most populous nation, oil revenues can only go so far to meet the needs of the world's poorest people. Nigeria needs to be considered alongside these nations and not as a separate oil producing state. Like those in so many other countries, the citizens of Nigeria did not ask for the loans that they are now obligated to repay, but they are being penalized unjustly with undue poverty. Therefore the plan that offers the most debt relief to the common citizen is the best in any argument.

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