POLITICS OF NIGERIAN DEBTS AND DEBTS RELIEF

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ABSTRACT

The paper evaluates the history of how Nigeria was caught in the debt trap. It argues that, the whole concept of Nigeria's debts was an international conspiracy by multinational and transnational corporations to strangulate the economy of the country. Hence most of the debts are dubious and illegal without diligence on the part of the creditor nations. It further argues that, the whole idea of debt relief is a rip-off which is aimed at accentuating the preservation of resource transfer from poor debtor to the rich creditor nations all aimed at impoverishing Nigerians and Nigeria. The paper further argues that, all genuine efforts started to arrest the foreign debt problem to ensure the entrenchment of the Nigeria's economy were frustrated. The article concludes that, the legal option is the only viable option of ascertaining the real value of Nigeria's debts before negotiating for debt relief or repudiating loans that were never loans in the first place is the only tenable exit strategy for Nigeria's debts.

Introduction

The period 1966 to 1976 witnessed tremendous strides in the economies of third world countries. It was a period of social, economic and political upheavals in nearly all third world countries, where the newly emerged leaderships secured their countries' independence from the imperial mother countries, established indigenous self-governing administrations and held the reins of power in apparent imitation of the colonial rule that they had just replaced.

They all started to practice the type of democratic government left behind for them which in most cases were not a reflection of the indigenous political institutions on the ground. However, these political administrations ended sooner than they had started. They were overthrown and replaced by their own armed forces which legitimized their intervention by accusing the politicians of corruption and abuse of power, which drained their resources and pushed them to foreign debts (Ayagi: 1990).

Therefore, international lending to developing countries commenced in the early sixties when certain factors encouraged the fostering of diplomatic relationships through financial assistance to third world countries. The ease with which the facilities were secured coupled with the zeal by the developed world to ensure that rival nations do not outbid them in the quest for gaining more territories in the growing global ideological war, made the recourse to such facilities more attractive. But, because most of the developing countries were on their parts trying to extend the import of their political independence economically, the nature of the loans secured then was both inconsequential and negligible. However, most developing countries, especially African countries had suffered one form of internal crisis or the other that extracted a heavy toll on their economies. Hence what was seen as an available facility to make out of embarrassing movement became to most nations, a life line without which they could not survive.

Nigeria's Debt and Debt Crises

The history of how Nigeria was caught by the debt trap goes back to the 1970's when OPEC members imposed embargo on Western countries following the 1973 Egypt – Israeli war. The Western countries were so shocked by this action that they had to take immediate steps to deal with the emergency. This includes, resolving to weaken and break up OPEC as well as introducing some measures like Import-Substitution Strategy to strangulate the economy of the third world countries. This invariably according to Ayagi (1990), led many of them to take loans to finance their developmental goals.

Be that as it may, Nigeria took her first jumbo loan of $8 billion in 1978. The Central Bank of Nigeria (CBN) records have it that substantial borrowing of Nigeria from the multi-national agencies and nations, commenced in earnest in 1980 such that, by 1980 Nigeria's outstanding external debt stood at $8.9 billion and by 1991 it jumped to $33.7 billion. As of the last count, Nigeria is said to owe $35 billion. (*Weekly Trust*, March, 2005).

The accumulation of these debts is due to debt service arrears owning to inability to pay, and secondly, due to the escalation of market interest rates which rose from 4% to 13 % in 1989 and thereby quadrupled the debt of many developing countries. The bulk of the debts Nigeria owes can be divided into three categories:

1. The Paris club – more than 85 % (about $28 billion) of the debt is owed the Paris club who are mainly commercial lenders that demand interests for their loans.

2. London club – London club of bankers offer loans more on projects. And Nigeria owes them $1.4 billion which is a merely 4 % of the total debt stock.

3. This is followed by the debt owed multi-national agencies like the World Bank and African Development Bank that are being owed $3 billion which is about 8%.

4. Others in form of promissory notes for important credit stand at below 3 % of the total amount responsible for less than a billion dollar. (*Leadership*, June 26, 2005, P.4)

It should be also noted that, most of these loans taken from the Paris Club were domiciled in Britain's pound sterling and the Euro currencies but, the accounting is in the United States dollars. This therefore means that, any time the Euro or the pound sterling grew stronger than the dollar, our debt burden would automatically rise.

Nigeria has paid more than $42 billion in the past as interests, penalties for default payment, from an initial principal of $19 billion but it still owes about $35 billion as of the last count. Even after 20 years of debt restructuring and rescheduling(debt servicing), the nation's external debt stock seems to continue accumulating. All the concessional rescheduling arrangements Nigeria entered with its creditors, particularly the Paris Club members have not had real benefits for the country. This is what is referred to as debt trap.

The debt trap is more than colonialism. This is because the servitude aspect; the right of the creditors to take possessions of whatever the debtors own; the affluence of the creditors relative to the object poverty of the debtors who have to work and sweat to produce incomes which must be used to service the debts; and the "hewers of wood and drawers of water" relations aspect.

This is the situation in which Nigeria has found itself. It is a country consumed in foreign debt, and it is a miserable situation for anybody to live in with pride. This is very painful because, a country consumed in foreign debts cannot take any independent action. It must always refer to it's creditors for any course of action being contemplated and must incorporate their interest in such an action before hand. For instance, according to Ayagi (1990), all economic policies such as SAP, Deregulation, Privatization, Second-Tier Foreign Exchange Market (SFEM), Debt-Equity Swap programme etc, taken in Nigeria are all impositions from abroad.

It should be emphasized that most of the debts for which Nigeria is held accountable are illegal debts given without due diligence on the part of the creditor nations. Under normal international financial tradition, nations do not borrow money from others simply to meet their daily needs. Debts usually given are tied to certain development projects that, on maturity, are expected to generate income directly or indirectly. The case of Nigeria's debt however, it soared due to the activity of a group of individuals with strong connection in government who negotiate these loans with a view to embezzling them, while transferring the liability to the state.

One common feature of these loans according to *Leadership* (July 31, 2005), is that they were negotiated by some foreigners operating in Nigeria, who in violation of the domestic laws of creditor nations served "as loan negotiators, project contractors and consultants" at the same time. This way, the loans could be drawn in full even if the projects have not been under taken or completed. More worrisome is that, Nigeria's efforts to verify the authenticity of these debts have been hampered by absence of vital documents on these loans which are in the custody of these foreign individuals that negotiated them.

It is as a result of all these and the fact that Nigeria, a once promising and wealthy nation came to be caught up in the debt trap and more so, the pain of debilitating debt servicing obligation which has since evolved into an incubus and albatross around our national sovereignty that had worried well meaning leaders of our country to call for debt relief repudiation or upright cancellation.

Campaign for Debt Relief

The campaign for debt relief in Nigeria started in 1986. However, this, according to Mansur Mukhtar, the Director General of the Debt Managing Office (DMO), did not yield any results "because of misplaced priorities". (*Thisday*, August 1, 2005). However, one major aspect of President Obasanjo new emerging context of economic reform is the campaign for debt cancellation for, according to him, the biggest monetary and financial obstacle confronting Nigeria is chronic debt overhang.

Addressing the United Nations General Assembly in New York on Thursday, 23rd September, 1999, Obasanjo noted, "In Sub-Saharan Africa, countries now spend as much as four-times on servicing debts as they do on Education and Health care. Some spend up to 40% of their national budget on debt servicing only". It is this poor background that foreign debt cancellation campaign emerged as the organising principle of the president's foreign policy pursuits. To carry out the campaign President Olusegun Obasanjo established a Debt Management Office (DMO) in the Ministry of Finance charged with the responsibility of ascertaining genuine debts, and to carry out a research that will form the basis for the campaign.

Again, government has since re-established negotiations with the World Bank, London Club and the Paris Club on the issues of debt rescheduling and servicing. President Obasanjo has consistently appealed to the country's creditors to show understanding to the current economic problems of Nigeria which is affecting the fledging democracy. He opined that only a reduction in Nigeria's debt would ensure the survival of democracy. Adding that, "the government cannot meet it's obligations on debt servicing and still provide dividends of democracy to Nigerians". (*The Guardian* November 10, 2005 P.20).

The second leg of president's campaign for external debt forgiveness is the related issue of illegal flight from Africa. According to the President, it is an open secret that much of Africa's wealth has been illegally siphoned out of the continent by corrupt regimes and unpatriotic individuals working in collaboration with foreign partners. He asserts that Nigeria would be able to pay off large portions of her debts if only she could recover some of t he capital illegally stashed abroad. In this regard, Obasanjo calls for a concerted effort of the international community to assist in the repatriation of Nigeria of all capital illegally transferred.

The third of president's efforts for external debts forgiveness was the introduction of economic reforms aimed at pleasing the international communities. These reforms includes:- The setting up of EFCC and ICPC to fight corruption; Due Process Mechanism of the Budget Monitoring and Price Intelligence Unit; NEEDS and Extractive Industry Transparency Initiative. These various economic reform measures of the government aimed at drastically cutting the rampant corrupt practices for which the nation earned a bad name and will save huge sums that would have gone down the drain.

Even with these, the international financial community that dictated these economic reforms to the administration has shown skepticism on the government clamour for debt relief. They argued, "We won't be hoodwinked by the Obansanjo administration's theoretical economic propositions which are diametrically opposed to the reality in the land". (*Weekly Trust,* March 19–25, 2005).

However, as spiritual and convincing as Obasanjo's campaign for external debt cancellation is, the IMF and the World Bank in particular have consistently criticized the country's external debt campaign. The creditors argued that with larger scale looting, outright mismanagement of the economy, the country is not justified to call for debt cancellation or forgiveness. According to Mr. Jean-Louis Sarhib, the Vice-President, Africa Region of the World Bank, "Nigeria's external debt problem could be likened to a case of a rich man who choose to spend his money drinking rather than send his children to school". (*The Guardian* November 10, 2000). He concludes that the World Bank, IMF and Paris Club of creditor's would find it difficult to just overlook Nigeria's foreign debts, considering the fact at its disposal. Thus, when 42 countries were recently listed by the World Bank as Heavily Indebted Poor Countries (HIPC), all of whom have their external debts cancelled, Nigeria was not included. Interestingly 34 of the 42 countries were African countries, and surprisingly, among the 34 African HIPC were countries like Cameroon, Liberia and Ghana whose per capital income are higher than Nigeria's.

It was as a result of all these that the House of Representatives in a resolution in 2005 called on the Federal Government of Nigeria not to service or pay any foreign debt. They argued that, despite all attempts to get debt relief and forgiveness through frequent appeals and visits abroad by President Obasanjo, Nigeria's creditors refused to reduce or cancel the debts. They opined that, consistent payments for debts deprived the nation of huge sums that are critical to poverty reduction, health care delivery and provision of other basic amenities to improve livelihood. They concluded that, countries like Mexico, Brazil and Pakistan have in the past taken similar actions without any dire consequences on their economies.

Debt Relief: Release by the Paris Club

A press release posted on the website of the Paris Club on Wednesday, June 29, 2005 containing the communiqué issued by the club at the end of their meeting shows that:

- They are ready to enter into negotiations with the Nigerian authorities in the months to come on a comprehensive debt treatment.
- They note the willingness of the Nigeria authorities to take advantage of exceptional revenues to finance an exit treatment from the club
- They note Nigeria's willingness to :
a. Conclude a Policy Support Instrument (PSI) with the IMF subject to approval from IMF board.
b. To pay all its arrears to the creditors, with comparability of treatment.
- On the foregoing basis, debt treatment would include debt reduction up to Naples terms on eligible debts and a buy back at a market related discount on the remaining eligible debts.
- The arrangement is to be phased in relation to the appropriate IMF review under the PSI.
- They are ready to invite Nigeria to negotiate in Paris as soon as the country has concluded a PSI with the Fund.

The Paris club statement proposed to have written off 60% of Nigeria's debt to the creditor members of the club. The entire debts are estimated at $30.4 billion. Interpreted, the Paris club is writing off $18 billion of Nigeria's debts to its members. In terms, after paying about $6 billion of the estimated $30.4 billion, Nigeria is favoured to enjoy 60% reduction. It would then pay back the remaining debts. This is just mere technical term which requires that Nigeria would simply pay the remaining $6.4 billion the following year to free her completely from any debt obligation to the Paris club. At this junction it will be good to understand certain terms in the deal.

The Paris Club

The Paris club is an informal group of official creditors who for some years have adopted a common platform to find ways of resolving difficulties usually posed for debtors' countries in attempt to pay their debts. The first meeting the group had with one of the debtors' countries, according to Agbese (2005), was in 1965, when Argentina agreed to meet her public creditors in Paris. Since then, the club had held similar meetings, and is said to have reached 391 agreements with 80 countries recovering more than $47 billion since 1985. It should be noted that, despite the world wide recognition of the group, the Paris club is strictly informal and voluntary for countries willing to treat in a co-coordinated way the debt due them by developing countries, and up to now has no legal status.

Naple Terms

This refers to an agreement by the Paris club members to implement a new administration on the treatment of debts of poor countries. The terms involved out of the December, 1994 meeting of the club which stipulates a level of cancellation of debt for poor countries of at least 50%. But, in December, 1999, an improvement was made that all Naple terms treatment would carry 67% debt reduction. (*Weekly Trust* Newspaper, July 9 – 15, 2005).

Buy Back Option

The buy-back option means that, there would be a substantial discount on the remaining debt. It is a process where a debtor negotiates with a creditor on how to pay the debt at a time. For instance debts due for payment in 10 years are to be paid much in every year including interest can be pre-paid on certain conditions given a discount. That is, debt redemption by paying at the table to get a discount.

Nigeria's Agreement with the Paris Club

On the 14th October 2005, Nigeria signed an agreement with the Paris Club of the $18 billion debt relief. (Daily Trust, Monday, October 24, 2005) P.17. Following this signing, the government will pay the 1st Tranche of $6 billion to the Club as payment of outstanding interests and penalties while the outstanding amount will be paid in March, 2006. According to Dr. Ngozi Okonjo-Iweala, the Minister of Finance at that time, after paying the 1st Tranche of $6 billion, about $9 billion of the $18 billion would be cancelled. Upon the complete payment of $6 billion in March, 2006 the remaining $9 billion will also be cancelled.

That is Nigeria will pay a total of $12 billion while a total of $18 billion of the country's $30 billion will be cancelled. After this, the country will only be confronted with a foreign debt of about $5 billion from Multi-lateral lending agencies like ADB, London Club as well as some private sector debts.

Benefits of Debt Relief

There are a lot of benefits that will accrue to Nigeria as a result of this debt relief by the Paris Club.

In his brief to the National Assembly on July, 26 2005, president Obasanjo outlined the benefits of this debt relief as follows:-

- It represents a direct saving on debt service repayment, interest, sub charges and other fees
- It improves our credit worthiness in the global community and builds credible financial confidence for our transaction
- The stoppage of all debt rescheduling arrangements with the attendant costs
- Available money of over $1 billion currently spent on debt servicing obligation annually for investment especially in health, education, water, and food security.

- It will attract foreign investors and investments into the country. This will create jobs and translate to improved living standards
- Foreign export credit guarantee agencies will bounce back to do business in Nigeria

A Critical Assessment of the Debt Relief

One of the principal conditions of the debt relief by the Paris Club is that of eligibility for Naple terms. The criteria include, very importantly, that the country has a lower per capital GDP ($755 or less), has a high level of indebtedness and is only eligible for IDA-financing from the World Bank, taking into account the track record of the country with the Paris club and IMF. Thus, Nigeria with a per capital GDP of $260, having been declared eligible for IDA financing by the World Bank, fitly meets this very important criteria. Similarly, the Paris Club announcement states that debt relief would include debt reduction up to Naples terms, not on Naples terms, for eligible debts. It should be noted that, since 1999 all Naples terms carry 67% debt reduction. And 67% is different from 60%.

The most worrisome in this debt relief is the immediate payment of $6 billion that stands as arrears, as a pre-condition for the enjoyment of the $18 billion relief, and another $6 billion through debt buy-back at a date to be agreed upon. But, $6 billion represents something over N 750 billion. How can this huge sum be suddenly withdrawn from an economy without some serious consequences? This is a rip-off. Thus, as desirable as an exit from debt peonage is, it is scandalous for a poor debt distressed country like Nigeria which cannot afford to pay $2 billion in annual debt service payments, to part with $6 billion up front or $12 billion in three months or even one year. The emission rate is simply too high. Rather, we should campaign for all the cancellation of all interests and penalties. This will reduce the debts to about $15 billion, which is more realistic and manageable.

Furthermore, the new debt relief proposal with the Paris club will accentuate the preserve resource transferred from poor debtor to the rich creditor nations and also impoverish Nigerians and Nigeria. In addition according to Okongwu (2005), it will certainly set a dangerous precedence for third world countries like Brazil, Argentina and Mexico, who have enjoyed better debt relief deals in the past.

It is worthy recalling that, the OAU Heads of State at their 25th meeting in 1989 adopted a resolution for an enduring treatment of Africa's debt problems. That resolution, according to Okongwu (2005), sponsored by Nigeria among other things called for the "cancellation of all official (Paris club) debt on the basis of generalized poverty of all countries". The African Union (AU) has again made this same call. It is therefore strange for Nigeria to accept the prospect of a debt inferior to what she is advocating. The best option is to continue negotiating, seeking consolidation of arrears and principal, and favourable treatment of new stock.

Another very hazy aspect of the debt relief is the exact percentage of the debt which the Paris club has, going by the commitment written off, since debts owned Paris club including interests and penalties have differed from time to time. While the Nigeria's government currently put such debts at $30.5 billion, this figure may not correspond with that of the creditors. Dr. Mansur, a man in charge of debt management, had agreed in an interview with weekly Trust newspaper, admitted the figures vary due to calculated interests, fines and penalties, which may not be included at a given time. Hence, even the $18 billion concession may not exactly amount to 60% of the Paris club debts. But Nigeria, given the euphoria, is excited only by what in her calculations, falls slightly below 60% of her debt stock, despite the strict criteria for qualifications.

The $18 billion debt relief by the Paris club is in principle. To qualify for the relief Nigeria will have to sign up to a new IMF monitoring programme with details which have even not yet been finalized by the multilateral agency. This is added to the already known provision that Nigeria would have to submit herself to an intensified monitoring by the IMF. What this implies is yet to be discussed by the Nigerian government, even as many experts pointed to the danger of the ever willing tendency of the Nigerian government to submit herself to the World Bank and IMF policies. But, more disturbing is that, the Nigerian government is said to have already indicated its interest to sign up to the agreement, to be known as the "policy support agreement" even before it is fully aware of the details. Experts say the Nigerian government would be expected to work very hard to satisfy the technical and financial details of the agreement, but the Nigerian government is already behaving as if the Paris club creditors are doing her a favour.

Another disturbing issue in the debt relief is that recently, Finance Ministers from the group of Eight Industrialized Nations agreed at a meeting in London to cancel at least $40 billion in debt owed by 18 poorest nations of the world classified as (HIPC). The countries that benefited then included; Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana etc. Each of these on the average is expected to benefit about $1.5 billion in the debt reduction. Thus, Nigeria was not considered among the HIPC, and was not included in the list of beneficiaries of the debt relief. But, barely a month later, the same country which was not considered worthy to benefit for a merely $1.5 billion is now being given whopping $18 billion debt relief. This indicates that, Nigeria may not yet be fully aware of the details of the relief. It should be noted that, the Paris club is a group of smart alecs, they are not giving up their monies just like that. They will certainly get their money back through the back door. It will be done in such a way that the IMF and the World Bank will continue to control the economy dictating government economy policies, including appointments to key posts. Western companies would have a field day in command sectors such as the oil industry and manufacturing.

One critical aspect of this debt relief is that, some of these loans were in the first place given in circumstances that violated certain laws of the creditor nations. As with all business dealings, loan procurement is guided by certain legal conditionalities within the laws of creditor nations. Thus, loans secured outside the framework of these laws are ultra-vise and therefore not subject to full redemption. While we seek further clarification on what aspect of the debts has been cancelled or whether such a cancellation was merely a Greek Gift and a prelude to a bad omen, it may be productive to once again review our debt servicing strategy.

Thus, the rush to negotiate blindly even when legitimate doubts exist is curious, to say the least. Verifying the true volume of the debt, no matter what it takes is the most important step to any permanent exit strategy. Therefore no permanent exit strategy may be permanent as long as agents of the creditor nations continue to occupy strategic positions in the Ministry of Finance, the Central Bank of Nigeria and the Debt Management Office. These people have become "experts" or "economic team" and inevitably part of the infrastructure of the riff-off of the nation resources.

Conclusion and Recommendations

Debt is not a financial or an economic problem at all, but in every way a political one. It is the best instrument of power and control of North over South and now East ever invented, far superior to colonialism which requires an army: a public administration and attracts a bad press. Thus, according to Susan George in the Global citizens Movement:- a new Actor for new policies, control through debt not only require no infrastructure but actually makes people pay for their own oppression.

The whole issue of debt is a gigantic and elaborate trap in which the third world countries are caught. Almost all the options available are not really options. Rescheduling and refinancing only means greater long term trouble not relief, and a sure trip into the debt spiral from which no nation has ever escaped.

In the final analysis, it is my opinion that, the whole idea of Nigeria's debts relief is a gimmick and a propaganda aimed at scoring cheap political points. Otherwise, how can one explain the rationale of the present government that wants Nigeria to be debt free to still go ahead recently to receive some foreign loans of about $5 billion from the World Bank, IMF and the Chinese government at a concessionary interest rate of 3 percent for "specific projects" according to the Minister of Finance, Mrs. Nenadi Usman (*Leadership*, January 15, 2007).

This abracadabra – the more you look, the less you see – can make meaning only to voodoo Economic Team of the present administration that represents international interests in Nigeria that have denied the Nigeria people the good things of life from the oil windfall their nation has blessed with.

Be that as it may, we recommend the following:-

- The legal option is the only viable option of ascertaining the real value of Nigeria's debts.
- Repudiating loans that were never loans in the first place. This is the only tenable exit strategy.
- A genuine and committed leadership to change the present International Financial system which is based on debt and interest payments; and insist on a new set of instructions on which to build a new and more just financial system.
- Let the government confiscate the bank deposits stashed away by those who betrayed this nation's trust.
- The ongoing maneuvers on the foreign debts are targeted at our foreign reserve, which we have failed to invest. We call for the judicious use of the money in the provision of social infrastructure to boost the economy for the benefit of Nigerians.
- The country must re-invest another "debtonator", bad loans are bad loans, and no amount of pressure will make them legal.

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