What did 18 billion dollars achieve?
The 2005 debt relief to Nigeria

Published in Development Policy Review, Vol. 31 No 5, September 2013

Geske Dijkstra

Programme of Public Administration, Erasmus University Rotterdam
PO Box 1738, 3000 DR Rotterdam, The Netherlands
dijkstra@fsw.eur.nl

Note:
The empirical part of this paper is based on an evaluation carried out by an ECORYS/OPM team of which the author was team leader. The study was commissioned jointly by the Policy and Operations Evaluation Department (IOB) of the Dutch Ministry of Foreign Affairs, and S4, the Special Evaluation Department of the Belgian Ministry of Foreign Affairs. The author would like to thank Christian Hiddink, Boladale Akanji, Sanga Sangarabalan, François-Xavier de Mévius, Kenneth Chukwuemeka, Adewumi Olajide Ogunsola, Mariam Obia Chukwuemeka and Daniel Rogger: without their contributions to data collection and analysis this paper could not have been written. She is also grateful to participants of the CSAE conference in Oxford, 20-22 March, 2011 and to an anonymous reviewer for helpful comments to this paper.

What did 18 billion dollars achieve?
The 2005 debt relief to Nigeria

Abstract

Since 2003 Nigeria's economic growth has been consistently above 6% and this growth has been driven by non-oil sectors. The aim of this paper is to assess the contribution of the 2005 debt relief agreement to Nigeria to this higher growth. This agreement eliminated Nigeria's US$ 30 billion to Paris Club creditors; the creditors cancelled un unprecedented US$ 18 billion, while Nigeria paid US$ 12 billion. The paper traces the three possible impact channels of debt relief, namely the flow (reduced debt service), the stock (removal of debt overhang) and the conditionality channel. It concludes that the debt relief agreement played a key role in the country's improved economic performance, in particular through successful conditionality.

Keywords: Nigeria, debt relief, growth, poverty reduction, conditionality

1. Introduction

For a long time, Nigeria was only known for its oil, for its corruption and for its military dictators. But this is changing. The most recent (2011) elections were considered the most honest in its history. In addition, since 2003 economic growth has been consistently above 6% and most remarkably, this growth has been driven by non-oil sectors. Although most observers agree that actual growth is still much lower than potential, it is clear that something happened in the years 2000s which released at least part of Nigeria's huge growth potential.

The aim of this paper is to assess the contribution of the 2005 debt relief agreement to Nigeria to this higher growth. This agreement eliminated Nigeria's US$ 30 billion to Paris Club creditors; the creditors cancelled un unprecedented US$ 18 billion, while Nigeria paid US$ 12 billion. The agreement was concluded in the midst of intensive international campaigns for more aid and more debt relief. The G8 summit had just decided to eliminate all multilateral debts for countries that had fully complied with conditions for the Initiative for the Heavily Indebted Poor Countries (HIPC initiative). Together with the HIPC initiative itself, this new Multilateral Debt Relief Initiative (MDRI) hugely reduced the external debts for the involved low income countries. Yet, Nigeria was different. It was not a HIPC country, mainly because of its huge oil income, and most of its debt was with bilateral creditors. Debt cancellation for Nigeria was heavily disputed at the time.

An important argument against it was precisely that Nigeria was oil-rich and that the country could easily pay its debts. Another objection was Nigeria's bad reputation in terms of policies and governance, which made it highly unlikely that the country would use the debt relief savings well. On the other hand, it was argued that Nigeria was a low income country (in 2003, GDI per capita was US$ 320) with 54% of its about 150 million people living in poverty, and that the debt cancellation was necessary in order to help the country achieve the Millennium Development Goals (Moss et al., 2004; Okonjo-Iweala, 2008; World Bank, 2005). Some also claimed that that the creditors should have cancelled the debt a long time ago, since most debt was arrears (Rieffel, 2005).

Given the conflicting views on debt cancellation to Nigeria, it is the more relevant and interesting to assess what it has meant for economic growth and poverty reduction in the country. This paper traces the three possible impact channels of debt relief, namely the flow channel (reduced debt service), the stock channel (removal of debt overhang) and the conditionality channel (Dijkstra, 2008). By carefully establishing the most likely counterfactual scenario for each of these channels, it concludes that the debt relief agreement played a key role in the country's improved economic performance. The conditionality channel was in fact most influential. It was the anticipation of possible debt cancellation that broke the political deadlock that had prevented policy reforms for a long time.

The paper begins with a brief review of the results of earlier studies on the effects of debt relief. It then explains the methodology of this study. This is followed by a brief sketch of the origin of the Nigerian debt and of the developments leading up to the 2005 deal. Sections 5 and 6 present the outputs and the outcomes of the debt relief agreement. The final section concludes on the impact of debt relief on economic growth and poverty reduction, and assesses the sustainability of the results. Finally, the positive outcomes for Nigeria are explained in order to assess how they could be replicated in other countries.

2. Earlier studies

The first wave of studies on debt relief was in the late 1980s and early 1990s. The debt crisis of the 1980s mainly hurt middle income countries in Latin America. These countries could not pay their debts to commercial banks. In 1989, many highly indebted countries negotiated Brady deals that significantly reduced outstanding debts. Brady deals usually included a combination of debt buybacks, debt cancellations and debt conversions into new, higher priority debt. Studies show that the deals had positive effects on private investment and on economic growth (Claessens et al., 1994; Morisset, 1991; Oks and Van Wijnbergen, 1995). There is also evidence of this debt relief leading to higher creditworthiness of countries, and to increased capital inflows (Acharya and Diwan, 1993; Bowe and Dean, 1997). However, these studies are only partially relevant for the debt relief to Nigeria in 2005. Like most Sub Saharan African countries, Nigeria had a problem with official debt, not private debt.

An early study of debt relief to 32 Sub Saharan African countries over the years 1983-1993 observed that despite higher debt forgiveness in the period 1989-1993, arrears continued to increase. As a result, the debt overhang did not diminish. Debt relief did not lead to higher imports either (Hernández and Katada, 1996). In the course of the 1990s, and in particular after the introduction of the enhanced HIPC initiative in 1999, debt forgiveness on official debt became more substantial. Yet, an econometric study of debt relief provided to 62 low-income countries over the years 1989-2003 does not find an effect on growth, investment or governments' health and education spending (Depetris Chauvin and Kraay, 2005). Using the same method and the same sample of countries, but extending the period until 2007, Presbitero (2009) did not find a significant effect on growth or investment either. However, when splitting up in sub-periods, there proved to be a positive effect of debt relief on growth in the period 1996-1999, and also a positive effect on investment in a sub-sample of only HIPC countries.[1]

These studies measure debt relief as a reduction in the present value of debt, which is not a good indicator for the amount of resources actually freed by debt relief. Debts with a high present value may not have been serviced, while concessional debts, with a lower present value by definition, generally were. In order to assess the extent of freed resources by debt relief, Johansson (2010) also estimated a "market value of debt relief". She examined the effect of both the reduction in the present value of the debt stock and of the reduction in the

[1] But the number of observations for the sub-samples is small.

market value of the debt in 118 countries for the years 1989 to 2004. There proved to be no positive effect on growth or public spending of either of these measures. She did find a positive effect of debt relief on investment, but only for non-HIPC countries.

One of the aims of the HIPC initiative was to free resources for poverty reduction expenditure, and this was also a condition for HIPC debt relief. The World Bank and IMF "Status of Implementation" reports on HIPC usually show that poverty reduction expenditure increased (IDA and IMF, 2008). However, countries use different definitions of this spending and these definitions also changed over time, so it is difficult to draw hard conclusions. A study by the World Bank evaluation department shows that government spending for education increased in countries benefiting from the HIPC initiative (IEG, 2006). In 24 African HIPCs, HIPC and MDRI debt relief provided between 1999 and 2006 had a positive effect (although at just 10% significance level) on current primary spending of governments (Cassimon and Van Campenhout, 2008). In Sub-Saharan African countries, debt relief provided between 1989 and 2003 proved to increase spending for health and education, but only in combination with improved institutions (Dessy and Vancatachellum, 2007).

All in all, there is strong evidence that debt relief on commercial debt, to middle income countries, has fostered growth and investment. There is also some weak evidence that debt relief to low income countries under the enhanced HIPC initiative led to increased social spending, through increased resources and/or through conditionality. To the extent that this would be an effect of conditionality this conclusion would contradict the overwhelming consensus in earlier literature that policy conditionality is not very effective (Collier et al., 1997; Dollar and Svensson, 2000). Recent studies of debt relief in which most debt relief has been relief on *official* debt to the poorest countries, have not been able to show positive effects on economic growth and investment.

3. Background in Nigeria

Nigeria has a history of colonialism, ethnic and religious conflict, corruption and military coups. The country became independent from the UK in 1960 and initially was a republic. However, between 1966 and 1999 the country had military governments almost continuously. The oil boom of the 1970s led to high growth of the economy and of the public sector. In

1978, under the first rule of President Obasanjo, the country began to borrow on a large scale, and continued to do so in the early 1980s. The oil price was still high and debt service payments were no problem. However, when the oil price fell in 1982, macroeconomic policies did not adjust and the country continued borrowing: new claims were used to pay the old ones. After another oil price fall in 1985, Nigeria could not pay its debt service anymore. This led to a first rescheduling agreement with the Paris Club in 1986. As the country continued to accumulate arrears, two other agreements followed in 1989 and 1991. All rescheduling agreements were accompanied by IMF programmes but these programmes were always quickly "off track". The government never implemented structural adjustment policies in a consistent way, which hampered growth (Iyoha and Oriakhi, 2008).

In 1992 Nigeria concluded a Brady deal for a large part of its private debt. This led to a reduction of 62% of the involved debt, from 5.6 billion to 1.2 billion (Rieffel, 2005). The country expected a similar treatment from the Paris Club for its much larger bilateral debt. This proved impossible for two reasons: lack of compliance with the 1991 IMF programme, and the fact that Nigeria was not classified as an IDA-only country.[2] As a result, arrears on official debts continued to increase and the debt stock as well (Figure 1). In 1993, Nigeria decided to limit external debt payments to 30% of oil revenues, always paying multilateral and private creditors but accumulating arrears with the Paris Club. As no new private loans were incurred, the share of private debts in the total debt stock gradually diminished after 1993. The actual debt service burden was highest in 1986 at almost 40% of exports, and decreased in later years (Figure 2). The debt to GDP ratio was highest in 1993.

Figure 1 around here

Figure 2 around here

In 1999, President Obasanjo was elected. Since the borrowing had started under his first reign (1976-1980), he felt a special responsibility for resolving the huge debt problem. He immediately started an international campaign for debt relief, arguing that the country deserved a "democratic dividend" and that debt reduction was necessary in order to carry out

[2] The International Development Association (IDA) is the concessional loan window of the World Bank; IDA-only countries must have an income per capita below a certain (annually adjusted) threshold (US$ 1165 in 2010), a lack of creditworthiness and reasonably good policies.

economic reforms. However, the international community was not responsive to this claim. Nevertheless, both Gordon Brown (UK) and Larry Summers (US) were telling Nigeria that they would be willing to consider debt reduction, provided Nigeria would carry out reforms, first (Callaghy, 2009).[3]

In 1999, discussions with IMF and World Bank started and this led to an IMF programme in 2000. This programme freed the way for a new agreement with the Paris Club, implying extensive rescheduling that reduced the debt service burden - but not the debt stock. However, the IMF programme quickly ran off track again due to irresponsible macroeconomic policies. There was also very little implementation of other reforms, and the country began to accumulate arrears again already in 2001.

The situation changed after Obasanjo was re-elected and began his second term in 2003. He appointed a highly qualified professional, Ms Dr Ngozi Okonjo-Iweala as Minister of Finance. She was Managing Director at the World Bank and had briefly been President Obanjo's advisor in 2000 to help set up the Nigerian Debt Management Office (DMO). Along with Dr Okonjo-Iweala, other well qualified persons were appointed such as Professor Charles Soludo as Governor of the Central Bank and Dr Mansur Muhtar as Director General of the DMO.

This new economic management team embarked on an ambitious reform programme. It introduced the oil-price based fiscal rule[4], which was very important for improving macroeconomic management. A civil service reform monetized benefits and eliminated thousands of ghost workers. Corruption was combated by, among other measures, implementing a new procurement system, by establishing the Economic and Financial Crime Commission (EFCC) and by publishing the amounts of the transfers from the Federal government to the 36 States. The National Economic Empowerment and Development Strategy (NEEDS) was elaborated, which described the reforms that were already being implemented. Dr Okonjo-Iweala personally negotiated a reduced debt service to the Paris

[3] This was confirmed in our interviews, in 2010, with high level government officers in Nigeria at the time. They recall that Gordon Brown, in particular, promised to convince other Paris Club creditors that debt reduction would be necessary, provided that Nigeria would put its "house in order".
[4] This rule implies that the budget is based on estimates of the oil price and the oil production volume. Oil revenues in excess of these estimates are transferred into an "excess crude account" at the Central Bank.

Club of US$ 1 billion annually, and secured that the country actually paid this amount in 2004 (Callaghy, 2009: 35-37).

These reforms helped to overcome one serious obstacle to debt reduction, namely the bad reputation of Nigerian policies and governance, but there were three other problems (Callaghy, 2009). First, Nigeria was still a "blend" country for the World Bank and not an "IDA-only" country, which would make debt *reduction* less likely. In this area, the Nigerian government was assisted by the Center for Global Development, a Washington-based think-tank that wrote a paper arguing that Nigeria met all conditions for IDA-only (Moss et al., 2004). Second, the Paris Club required the government to sign another IMF programme, and this was highly contested in the country. Nigeria then became the first country to benefit from the Policy Support Instrument (PSI) of the IMF, which implied a two-year programme with reviews every six months, but without disbursements of money.[5] Third, debt reduction would require an assessment that the debt was unsustainable. In 2003, the oil price began to rise and as a result, most debt sustainability indicators were at a sustainable level by end-2004 (see for some of them Figure 2). A debt sustainability analysis carried out by the IMF early 2005 also concluded that Nigeria's debt was sustainable, with the caveat that if the oil price would fall by 50% more than one standard deviation from the average trend, the debt would become unsustainable (IMF, 2005a). A later study by the World Bank took MDG financing needs into account and concluded that debt reduction would be necessary (World Bank, 2005). However, the methodology for this study deviated from the agreed IMF-World Bank framework.

Ultimately, the debt relief agreement was mainly politically motivated, on both sides. Strictly speaking, and given the rising oil revenues, the debt was *not* unsustainable for Nigeria and could have been paid. However, the debt was to a large extent *politically* unsustainable. There was a strong repudiation movement in the country, among civil society and also in Parliament. The economic management team had a hard time convincing Parliament, civil society and State governments that recognizing the debt and aspiring for an orderly workout with the Paris Club was the preferred strategy.

On the creditor side, several motivations and circumstances played a role, leading Callaghy (2009) to call it a "perfect storm". First, debt relief and aid were high on the international

[5] In fact, the PSI was designed for post-HIPC countries that did not need resources from the IMF anymore but did need a stamp of good behaviour from the IMF, especially for attracting new donor money.

agenda in 2005. The UK government was an important driver of this agenda, and the UK happened to be chairing the G8 in 2005. The Report of the Africa Commission, chaired by Tony Blair, had just been published, and as debt reductions could be registered as ODA, creditors and donors saw an opportunity to raise their ODA figures without assigning any new money. A second factor was the strategic importance of Nigeria as ally in the war against terrorism and as important oil supplier. In particular in the US, there were fears that Nigeria would become a "failed state", and debt relief was considered instrumental in avoiding this from happening (Nwozor, 2009).

While on the one hand the rising oil price made it difficult for Nigeria to prove that it had an unsustainable debt, on the other hand it helped to consider a debt buyback as part of the agreement (Callaghy, 2009). This modality of debt relief was more acceptable to the creditors because they would get at least some repayments, which they probably would not have received otherwise in the near future.

In June 2005, the ministers of Finance of the G8 met in London and agreed on the contours of a deal with Nigeria that would imply an overall debt reduction of around 60%. A buyback formed part of this provisional agreement. However, the non-G8 members of the Paris Club proved to have strong objections. After several meetings and intensive lobbying by high-level Nigerian government officers, they agreed. But they had insisted strongly that there had to be an IMF programme first, and that guarantees were needed that the debt relief savings would be used for poverty reduction.

On 17 October 2005, Nigeria signed a PSI agreement with the IMF, and a few days later, after again intensive negotiations, the final agreement with the Paris Club was achieved. Nigeria would first pay all arrears to Paris Club members and the so-called levelling up.[6] This amount, about US 6.3 billion, had to be paid before 31 October 2005. The creditors then cancelled 33% of "eligible debt". In the second phase, the creditors would cancel 34% of eligible debt after Nigeria had paid all post cut off date debts and an amount for the buyback of the remaining debt at a discount of around 35%. Condition for the second phase was that the Executive Board of the IMF would approve the first review under the PSI. The overall

[6] Creditors who had been receiving less than others in the past years were compensated.

debt reduction was about 60%. Virtually the full amount of the cancellation has been registered as Official Development Assistance (ODA) by the fifteen creditors involved.

With respect to the conditions to the deal, it has been shown above that Nigeria had to put "its house in order" *before* the UK and the US were willing to propose a debt reduction to the other Paris Club creditors. The deal itself was linked to the PSI agreement with the IMF. The content of this agreement was fully based on Nigeria's own reform programme. In fact, the government wanted to include all policy reforms as outlined in NEEDS, while the IMF preferred to have fewer of these benchmarks.[7] However, the content of the PSI goes beyond NEEDS in stipulating more timelines for reforms and more quantitative targets. In addition, the PSI includes the establishment of a Virtual Poverty Fund (VPF) that is meant to use the US$ 1 billion in annual debt relief savings for poverty reduction (IMF, 2005b).

4. Methodology

This paper assesses the impact of the debt deal by examining the three different channels through which debt relief theoretically can be expected to have an effect on economic growth (Dijkstra, 2008). These include a flow effect, operating through annual savings in debt service; a stock effect, operating through a reduction of the debt overhang; and a conditionality effect, via the policy conditions attached to a debt relief agreement. The intervention theory of debt relief that includes these three channels is outlined in Table 1.

The flow and stock effects are based on the two channels through which a high debt theoretically affects economic growth: the liquidity channel and the debt overhang channel. High debt service payments affect economic growth via reductions in government expenditure and imports (Cline, 1995; Cohen, 1993). And a large debt *stock* may create a debt overhang situation (Krugman, 1988; Sachs, 1989): if creditors do not expect that debts will be fully repaid, the creditworthiness of the country is reduced, leading to lower capital inflows including foreign direct investment (FDI) and also to lower private investment in general, as investors fear that the returns to this investment will accrue to the creditors via higher taxes. A debt overhang may also reduce the incentives for policy reforms, as the benefits of reforms are likely to accrue to the creditors (Corden, 1989; Deshpande, 1997). The liquidity effect of

[7] Interview with IMF experts involved in the negotiations.

debt on growth has been confirmed in several empirical studies (Cohen, 1993; Elbadawi et al., 1997; Serieux and Samy, 2001; Weeks, 2000). However, more recent studies find that the effect of a large debt stock dominates the liquidity effect (Clements et al., 2003; Cordella et al., 2005; Imbs and Ranciere, 2005; Pattillo et al., 2002; Pattillo et al., 2004; Presbitero, 2005). Most of these studies find a non-linear effect, the debt only becoming harmful for growth above a certain threshold. Cordella et al. (2005) find that there is also an upper limit for the debt/GDP ratio to constrain growth; above a certain level, the debt becomes irrelevant.

The third channel is the conditionality channel. Debt relief from official creditors is usually accompanied by policy conditions. In practice, debtor countries can only obtain an agreement with the Paris Club after they have agreed on a programme with the IMF. It can be assumed that the conditions accompanying debt relief, if implemented, and provided the right conditions have been formulated, will also benefit economic growth. In the case of Nigeria, it is not only important to investigate the effect of the conditions on policies after 2005, but also the effect of the carrot, or the prospect of possible debt reduction.

Since one of the conditions accompanying the deal was the setting up of a virtual poverty fund, the paper also aims at investigating the effect of debt reduction on poverty reduction. Debt relief can have a *direct* effect on poverty reduction via the flow channel (if, for example, government expenditure for the Millennium Development Goals, MDGs, increases) and/or via the policy conditions. Debt relief may also have an *indirect* effect on poverty reduction via economic growth.

Table 1 around here

In analyzing the stock, flow and conditionality effects of the deal, the paper first examines whether debt relief has (immediate) outputs. Possible debt relief outputs include effects of the agreement on the debt stock, on debt service payments, and on policy changes (Table 1). In order to know to what extent actual developments ("gross output") can be attributed to the debt relief agreement, a most likely counterfactual is established for the three channels of influence. This most likely counterfactual situation (what would have happened in the absence of the debt relief agreement?) is based on interviews with key stakeholders but also to some extent on an analysis of historical developments. The "net outputs" of the debt deal then follow from a comparison between the actual and the most likely counterfactual developments.

Once the outputs are identified, it is examined whether these outputs have produced outcomes. For example, did the money allocated for poverty reduction lead to more and better service delivery, and did the combination of better policies and debt reduction improve confidence in the economy leading to higher investment and more foreign capital inflows (Table 1). As in the case of outputs, the actual developments at outcome level ("gross outcome") are again compared with the most realistic counterfactual scenario, implying the situation in which the (earlier established) outputs would not have been obtained. The difference between gross outcome and counterfactual can be considered the "net outcome" of the debt relief operation.

At impact level, conclusions are drawn on the basis of the intervention theory that underlies this logical framework (Dijkstra, 2008). If and to the extent that net positive outcomes (such as improved macroeconomic stability, higher creditworthiness, increased private investment, increased capital inflows, higher exports) have been established, it follows from theory that a positive influence on economic growth has occurred. The theory cannot quantify this effect, but a grounded expert estimate can be made, taking into account other factors influencing economic growth. On the other hand, if no outcomes are established, we can conclude debt relief has not contributed to economic growth.

The paper is based on extensive data collection from both international and local sources, and on interviews. Between May and November 2010, 63 interviews ~~have been~~ were conducted in Nigeria, Washington, Brussels and The Hague. In about 40% of the interviews more than one respondent was present, so that ~~T~~the research team spoke with ~~in total~~ 120 stakeholders, in total (Table 2).[8] These stakeholders included~~ing~~ government representatives on creditor and debtor side who were involved in the debt relief negotiations, staff of IMF and World Bank working with Nigeria both at the time of the negotiations and afterwards, and ~~current~~ representatives of relevant Nigerian government agencies, civil society and the private sector. The interviews in Nigeria have mainly been held in the federal capital Abuja, but brief visits

[8] For example, in interviews with Nigerian government agencies usually 2 or 3 officers participated, and this occasionally also happened in interviews set up with other agencies. The country coordinator for Nigeria at the IMF in Washington organized one meeting with nine IMF officers at the same time - all of them at the time of the debt relief negotiations or in the years after that working on Nigeria or on the Paris Club.

were also made to two State capitals, Kano in the North and Calabar, capital of Cross River State, in the South. ~~Table 2 gives details on number of interviews conducted.~~ All interviews were carried out by two team members and were guided by previously prepared checklists of questions. The most important stakeholders, both in Nigeria and in "Europe" (in practice: from The Netherlands and Belgium), have also been invited to comment to preliminary findings and to draft reports.

Table 2 around here

5. Debt relief outputs

The first part of this section looks at the effects on debt stock and debt service and traces the effects of a reduced debt service on government accounts and on the balance of payments. The second part looks at changes in policy and governance as a result of the deal, including changes in poverty reduction policies and the VPF.

By eliminating the full debt to the Paris Club, the debt relief agreement reduced the debt stock from US$ 36 billion in 2004 to US$ 4 billion in 2006. But the effect of the debt relief agreement on the debt stock depends on the extent to which debt service to the Paris Club creditors would have been paid in the absence of the agreement: the counterfactual.

Although most people in Nigeria, including government officers, questioned the legitimacy of debt payments to Paris Club creditors, those in office were convinced that it was important to maintain good relationships with the creditor countries. Most interviewed stakeholders agreed that Nigeria, in the absence of the agreement, would have continued to pay something, but not all debt service due to the Paris Club.[9] On the basis of these interviews it is concluded that the most likely counterfactual is that the country would have continued to pay around US$ 1 billion annually, against a debt service due of around US$ 3 billion. This would have meant

[9] The eleven stakeholders with this opinion (out of the 13 to whom the question was asked) include six high current or former government officers, three representatives of foreign embassies and two representatives of civil society. One respondent from civil society said that Nigeria would have paid the full amount due, and one respondent from the (former) government said that there would probably have been no payments in the absence of the agreement.

that the debt stock with the Paris Club would have continued to increase, most likely at around the same pace as it increased in the years 2003 and 2004. Under these assumptions, the external debt stock would have increased from US$ 36 billion in 2004 to US$ 54 in 2009, while the actual external debt was US$ 4 billion in 2009 (Figure 3). This gives a net gain (stock output) of the agreement of around US$ 50 billion.[10]

Figure 3 around here

Given the most likely counterfactual on debt service payments, the agreement produced an annual debt service gain of US$ 1 billion. However, Nigeria had to pay US$ 12 billion as part of the agreement, spread out over 2005 and 2006. This means that the net flow effect by end 2009 was still negative and will only become positive after 12 years, so in 2019.[11] As a result, and all else equal, government spending and imports were negatively affected by the debt deal. However, “all else” was not “equal”. The US$ 12 billion was paid from reserves on the excess crude account, and did not constrain imports or government expenditure at the time. The excess crude account was the result of the oil-price based fiscal rule introduced by the government in 2003. Due to the rising oil price from 2003 onwards, reserves on the excess crude account stood already at US$ 17 billion in 2004 and, as will be further argued below, it can be assumed that without the anticipation of debt reduction these reserves would have been much lower. In Nigeria, the payment of the US$ 12 billion is seen as an investment, and the US$ 1 billion in forgone debt service payments is considered real savings from 2007 onward.

In 2007 and 2008 the effect of these annual debt relief savings on balance of payments and on government accounts can hardly be observed. The oil price continued to rise, which led to increasing export revenues and tax income, allowing much higher imports and higher government expenditure anyway. The effect of a US$ 1 billion increase was not noticeable. This changed in 2009. Due to the global economic crisis and the falling oil price, exports declined from US$ 84 billion in 2008 to US$ 46 billion in 2009 and the overall balance of payments became negative (CBN, 2010). Government revenues also fell. This means that in

[10] This is a rough estimate; it can be expected that debt service due would increase over time, but then probably actual debt service paid would increase, too so that the accumulation of arrears would be roughly the same.
[11] This is a rough estimate; the US$ 1 billion in the future should be discounted, but it is likely that nominal actually paid debt service would have increased over time in line with rising debt service due, see previous footnote.

2009 a small positive flow effect on balance of payments and government accounts did become noticeable.

Around 25% of the debt service to the Paris Club was paid by the Nigerian States. As a result, these States in principle will experience debt relief savings. However, the States also contributed to the payment of the US$ 12 billion, because the excess crude account is owned by all three tiers of government.[12] When the debt deal was concluded, the federal government negotiated a compensation scheme with the States. States with a higher share in the Paris Club debt than their share in the excess crude account are paying compensation payments to States with a lower share in the debt. This means that the flow effect for these States actually is negative.

Conditionality

The analysis of the effect of the conditions attached to debt relief usually begins with the agreement itself. But in this case, the effect of the *anticipation* of possible debt reduction must also be examined. Other academic studies already concluded that the prospect of debt relief had a strong effect on the implementation of reforms before 2005 (Alsop and Rogger, 2008; Callaghy, 2009).The interviews with all higher government officers as well as with civil society representatives confirm this.[13] They were convinced that the desire for debt relief provided the political backing for politically sensitive reforms such as the oil-price based fiscal rule, civil service reforms, improved procurement processes and participation in the Extractive Industries Transparency Initiative (EITI) that led to an independent audit of the oil and gas sector over the years 1999 to 2004.

The anticipation of debt reduction can already be seen as a strong motivation behind the appointment of the new economic management team in 2003 (Callaghy, 2009). Apart from the oil price based fiscal rule, this team also carried out other macroeconomic reforms, such as trade reforms that reduced tariffs and brought them in line with those of the Economic

[12] The third tier are local governments.
[13] Eleven out of 15 respondents whom this question was asked maintained that the prospect of debt relief had a moderate (six) or strong (five) leverage on the reforms. These included all key government stakeholders and a few civil society representatives. The four respondents maintaining that reforms would have been implemented anyway were government officers who did not hold key government positions at the time.

Community of West African States, and a bank consolidation programme. The minimum capital base requirement for banks was raised, which led to a reduction in the number of banks from 89 to 25 (Okonjo-Iweala and Osafo-Kwaako, 2007). The government also intensified the fight against corruption by establishing the Independent Corrupt Practices Commission (ICPC), next to the earlier installed Economic and Financial Crimes Commission (EFCC).

The government's desire to achieve debt reduction was also one of the factors behind the establishment of the Debt Management Office in 2000. This greatly improved debt management and debt recording, bringing together the activities previously carried out in an uncoordinated manner by three different departments. The anticipation of a debt deal also helped improving poverty reduction policies and brought about a stronger focus on spending for the MDGs.

After the debt deal the "carrot" of the prospect of debt relief was replaced by the PSI. The interviews revealed that the PSI helped to maintain prudent macroeconomic policies by setting quantitative targets with a clear timeline for foreign reserves and government expenditure. The PSI also helped to continue many of the other reforms. [14] However, towards the end of the 2005-2007 period, and especially before the 2007 elections, the government missed many PSI targets. Fiscal management became weaker and the oil price based fiscal rule was not followed as strictly as before. President Obasanjo was trying to secure support in order to win a third term in office and somewhere in this process the position of Ms Okonjo-Iweala as Finance Minister became untenable. She returned to the World Bank. Mr Obsanjo bribed all members of Parliament in order to change the Constitution but this attempt failed - the members received the money but did not return the favour.[15] Mr Yar'Adua was then elected to President, but he was not in good health and he died before being able to finish his term. In this period, the federal government was weak; some reforms continued in place but in other areas there was some backsliding. In 2010, Vice President Mr Goodluck Jonathan took over but he was almost from the start mainly concerned with trying to get elected, which indeed happened early 2011.

[14] Only three out of 15 respondents were of the opinion that the PSI had no effect on policies between 2005 and 2007, and all key government officers supported the view that IMF monitoring in the context of the PSI was influential.
[15] This was openly discussed in *The Nation*, 6 August 2010.

The PSI also stipulated that MDG-expenditure had to be tracked in the budget and that a Virtual Poverty Fund (VPF) be established. Both were implemented, and can be fully attributed to the debt agreement. The money allocated to the VPF was around US$ 750 million in 2006, so around three-quarters of the US$ 1 billion in assumed debt relief savings. This was in line with the federal share in these savings. The Office of the Special Senior Advisor to the President on MDGs (OSSAP-MDG) was created as a result of the debt relief agreement. This office allocates the VPF money and organizes a monitoring and evaluation (M&E) system. Ministries, department and agencies may submit projects to be funded from the VPF. Conditions for projects include that they are additional, aimed at achieving the MDGs, are in line with NEEDS and with sector policy priorities, and they must have a quick impact. The money cannot be used for increases in salaries or allowances. In practice, most federal VPF funds have been spent in the areas of primary health care, primary education, and water and sanitation.
From 2007 onwards, the VPF has included a conditional grant scheme (CGS) to which States can apply. About a quarter of VPF resources was allocated to this CGS. From 2008 onwards, States had to match the federal contribution with a grant of equal size, and the intention was to include local governments in this scheme in 2010. The CGS increased involvement of the States in MDG achievement.

The (budgeted) VPF has increased in nominal terms over the years 2006-2010, but it decreased relative to total - increasing - government capital expenditure over the years 2006-2008, from 17% to 9%. In health and education, VPF resources represented a substantial share of capital spending in 2006, 57 and 36%, respectively, but this also decreased over time. Actual VPF spending was lower than budgeted allocations, as money not spent on the intended purpose within a year, had to be returned. Important stakeholders estimate that the VPF spending has been mostly additional to what otherwise would have been spent for the MDGs. However, in the larger federal ministries, such as education and health, there has also been some substitution.

An idea of the extent of additionality of the VPF can also be obtained by examining the spending for MDGs in the overall budget. According to a recent study commissioned by OSSAP/MDG, the budgeted spending for MDGs has remained constant at 23% of the overall federal budget between 2005 and 2009 (OSSAP/MDG, 2010b). Given that the overall budget increased, also in real terms and in percent of GDP, spending for the MDGs has increased as well. Another indicator of additionality is the share of MDG- related sectors in the total budget. The share of health and education in total actual capital spending increased between 2005 and 2008.

The VPF also contributes to poverty reduction via an influence on institutional practices. Government agencies applying for VPF resources must show that planned projects help achieving the MDGs. In addition, project implementation is monitored by an innovative M&E system introduced by the VPF. Teams consisting of representatives of line agencies, private sector and civil society visit project locations and examine the quantity and quality of the outputs. The private sector looks at the technical aspects of works and services, and civil society representatives focus on community participation issues and on satisfaction with outcomes of projects. This process has contributed to improved project performance over time.

6. Outcomes

The above analysis points to a large stock output of the deal, a limited flow effect (only in 2009), and a strong conditionality effect in the form of improved macroeconomic policies and governance, in particular *before* the deal but also somewhat in the years after the deal. In addition, the debt deal led to the establishment of the VPF. This section assesses intermediate and final outcomes in the three channels. Possible *intermediate* outcomes include effects of improved policies and governance on corruption and other governance indicators, and positive institutional changes in federal government agencies and States as a result of the changes promoted by the VPF. Possible *final* outcomes include debt sustainability, macroeconomic stability, creditworthiness, private capital inflows and private investment, and poverty outcomes.

The anti-corruption policies carried out since 2000 and especially since 2003 (not just the work of the two commissions, ICPC and EFCC, but also the fact that transfers to the 36 States were published, the new procurement regulations and the participation in EITI) had an impact on the Corruption Index of Transparency International. Nigeria moved from rank 0.99 in 2004 to rank 0.67 in 2008 but then back to rank 0.78 in 2011. A similar trend can be observed for some of the governance indicators of the World Bank Institute, in particular control of corruption, regulatory quality and rule of law (www.govindicators.org).

As described above, the VPF introduced improved practices for project planning, budgeting, implementation and monitoring and evaluation. As VPF projects are implemented through federal ministries and agencies, States and local governments, it can be expected that the VPF standards influence practices more broadly. In fact, MDG costing exercises are already becoming more common and they are integrated in Medium Term Sector Strategies of the federal ministries. The interviews also reveal that the M&E system of the VPF is widely seen as good practice, but ministries and States are not (yet) applying this framework themselves. In one of the States visited, the due process with respect to procurement that is required for the VPF, proved to be implemented also beyond VPF projects. All in all, the VPF can be considered an example of improved effectiveness and accountability within the Nigerian public sector, which is important in itself.

Not surprisingly, the external public debt has become very sustainable as a result of the debt deal. However, in the counterfactual scenario it would have been sustainable, too. The ratios of the counterfactual present value of debt to GDP, to exports and to government revenues are sustainable over the years 2006-2009, due to the growth in GDP, exports and government revenues (Table 3). The Federal government only borrowed from the World Bank and some small amounts from bilateral (non-Paris Club) creditors such as China and Korea. It did not offer debt titles on the international bond market. The two common indicators for liquidity, the debt service to exports ratio and the debt service to revenues ratio, are at highly unsustainable levels in 2005 and 2006 due to the payments by Nigeria that were part of the agreement, but fell to very sustainable levels from 2007 onward. After 2005, external debts of the States increased slightly, but this concerns debt to multilateral institutions only. For the States, no solvency indicators can be computed, but the debt service to revenue (this is federal transfers) ratio is still low in all States, namely between 0.4% and 6%.

Table 3 around here

The sustainability of the *total* public debt also depends on developments in the domestic debt. In Nigeria, the domestic debt increased from US$ 10 billion in 2004 to US$ 30 billion in 2010. But total public debt (18% of GDP) and total public debt service (13% of government revenues) are still sustainable in 2010 (CBN, 2011). The speed with which domestic debt has risen gives some reason for concern, however. Future debt sustainability will be positively influenced by strengthened debt management, at least at federal level. In the States, debt management is improving but is not yet up to standard.

The strongly improved macroeconomic policies from 2003 onward, largely as a result of the anticipation of debt reduction but continuing after 2005 under six monthly IMF monitoring in the context of the PSI, had a dampening effect on government expenditure during the oil boom and contributed to a reduction in inflation. In addition, the accumulated savings on the excess crude account allowed the government to maintain expenditure in 2009 in the face of declining revenues, and so helped cushion the effects of the global crisis. The positive flow effect in 2009 in the form of saved debt service also contributed to this. However, while the oil price recovered in 2010, the oil price based fiscal rule was hardly applied and excess crude account savings were further depleted without a strong economic reason. The year 2010 was a pre-election year, however, and there are signs that the situation is improving in 2011. President Jonathan re-appointed Ms Okonjo-Iweala as Finance Minister and co-ordinating Minister for the Economy. Furthermore, savings on the excess crude account are again accumulating (to US$ 5 billion in October 2011) and the country set up a Sovereign Wealth Fund with an initial capital of US$ 1 billion.[16] The excess crude account will gradually be transformed into this Fund (CBN, 2011).

The full elimination of the debt overhang can also be expected to have an effect on creditworthiness and on new inflows of foreign capital. In practice, Nigeria obtained a “B minus” rating from Fitch and from Standard and Poor just after the debt relief agreement - the first ever rating of Nigeria. However, this improved creditworthiness is probably only to a small extent due to the debt reduction itself. More important were improved macroeconomic policies and governance but, as shown above, these improvements can to a large extent be ascribed to the debt deal. In addition, the debt agreement itself most likely served as a signal for improved creditworthiness, in particular because the agreement included a sizable debt buyback.[17]

[16] Elisha Bala-Gbogbo, "Nigeria starts Sovereign Wealth Fund with US$ 1 billion", Bloomberg News, http://www.bloomberg.com/news/2011-10-18/nigeria-starts-sovereign-wealth-fund-with-1-billion-1-.html, accessed 23 November 2011.

[17] Acharya and Diwan (1993) showed, both theoretically and empirically, that creditworthiness was higher with a buyback programme than without.

In theory, the private sector response to the debt stock reduction and to improved policies consists of more capital inflows from abroad, both portfolio flows and foreign direct investment, and in higher investment rates. But many other factors influence the private sector response. A recent study concludes that the business climate in Nigeria is still weak and in several aspects weaker than in other comparable countries (Iarossi et al., 2009). The most serious bottleneck is the deficient power situation, causing frequent power cuts. Firms are also hindered by a lack of access to finance and by a weak transport infrastructure. Importing and exporting firms suffer from very long and costly customs procedures, and all firms face problems of crime and corruption - but in these latter areas, Nigeria was not doing worse than other countries. The power problem has not been solved in recent years, but improved policies had some positive effect on corruption and on access to finance.

The years 2005-2007 have seen a substantially higher inflow of portfolio equity flows than the preceding years. This was due to improved policies, and in particular to the bank consolidation programme (CBN, 2010) - in itself part of the debt relief induced reform package. This programme, carried out by the economic management team appointed in 2003, restored the banks' access to foreign capital and increased available credit for the private sector (Okonjo-Iweala and Osafo-Kwaako, 2007). At the end of 2008, when the global credit crisis hit, there was a large outflow of portfolio equity flows from Nigeria, but the net flow was around zero again in 2009 and in 2010 there was a record net inflow of US$ 2.7 billion (CBN, 2011). Foreign direct investment (FDI) increased after 2005, also as percent of GDP. The share of oil and gas in this new investment was only 5%, the major flow going to the services sector, in particular telecommunications and banking.[18] This suggests that private sector confidence in the economy improved. A similar upward trend can be expected for the share of private investment in GDP, but investment figures are not sufficiently reliable to confirm this.

It is difficult to assess the poverty outcomes of the debt relief agreement. One reason is that these outcomes are influenced by many other factors; another is that it is too soon to expect an effect from the VPF, which was only established in 2006. However, some positive effects can be expected from improved poverty reduction policies from the early 2000s, and part of this policy change can be attributed to the prospect of debt reduction.

[18] Figures for the years 2005-2009 from the Nigerian Investment Promotion Commission, NIPC.

To the extent that improved policies from the early 2000s and possibly the VPF have led to increased and improved service delivery, this can be expected to have led to better scores on “access” indicators. In fact, primary school enrolment increased from 81 to 89% between 2004 and 2008, and there was also an increase in the proportion of births attended by skilled health staff, from 36 to 39% (OSSAP-MDG 2010a). According to the Core Welfare Indicator Surveys in 2006 and 2008/09, there are improvements in access to water and in the average number of visits to a health facility, while access to modern toilet facilities, to pre-natal care and to electricity declined.

When looking at final outcomes in health and education, there are reductions in mortality rates between 2003 and 2008, the two years in which Demographic and Health Surveys have been conducted. But the improved access to primary education seems to have been accompanied by lower completion rates. The quality of primary education may have deteriorated (Table 4).

Table 4 around here

All in all, it is too early to see major outcomes of the VPF but some effect of improved poverty reduction policies since the early 2000s as part of the reform efforts induced by the carrot of debt relief, is noticeable.

7. Conclusions

According to the theory behind this assessment, debt relief has a positive influence on economic growth *if* outcomes of debt relief can be established. As shown above, outcomes include improved debt sustainability, improved macroeconomic stability, improved creditworthiness of the economy and increases in FDI. It can therefore be concluded that some of the high growth between 2003 and 2009 can be attributed to the debt relief agreement. These debt relief outcomes can also help explaining why growth in the non-oil sector was higher than in the oil sector from 2004 onward (Table 5). Growth in agriculture, for example, will have benefitted from improved macroeconomic stability, while growth in services can partly be related to increases in FDI.

Table 5 around here

High growth in agriculture may also augur well for a reduction in income poverty. The latest Poverty assessment (2004) shows that poverty is highly correlated with a rural occupation (Ojowu et al., 2007). Between 1999 and 2006, employment in agriculture increased, and incomes rose more than in other types of employment. On the other hand, economic growth in that same period was *not* accompanied by an increase in formal sector jobs: the share of the population outside the labour force - the unemployed - remained at about 25% (World Bank, 2009). More recent figures from the Core Welfare Indicator Survey, with another definition of unemployment, show that formal unemployment increased from 12% in 2006 to 15% in 2008. The ultimate indirect effect of growth on income poverty reduction can only be verified with the results of the new (2011) living standards measurement survey.

The sustainability of these outcomes over the medium term varies. The effect of the conditionality on macroeconomic and other policies was gradually waning after the debt relief agreement. In the area of combating corruption, institutions such as the EFCC and the ICPC are well established, but their effectiveness depends on the political situation. Corruption indicators suggest a slight deterioration after 2008, but the situation is still better than in 2003. The oil price based fiscal rule was implemented less prudently from 2007 onwards. While in 2009, the use of the excess crude account was justified to stabilize expenditure in the face of falling revenues, this was much less the case in 2010. Yet, 2010 was a pre-election year and there is evidence of a return to more prudent macroeconomic policies in 2011. The public debt situation is favourable and will remain so in the near future. It can be expected that debt management capacities in the country will further improve, especially at state level.

The VPF is still in operation and the flow of funds budgeted for the VPF has been maintained in real terms. It provides an important example of good practices regarding effectiveness and accountability. The VPF is likely to continue because the OSSAP-MDG has managed to create vested interests among a broad group of stakeholders: the President, state and local governments through the Conditional Grant Scheme, members of Parliament, and civil society. This study shows that debt relief may indeed support growth and poverty reduction, as stipulated by the intervention theory. The results of this Nigeria study are more positive than those of most other recent studies and evaluations of debt relief. What conditions would allow these positive results to be replicated in other cases? It seems there are basically two reasons for the positive outcomes in Nigeria. First, the agreement eliminated the *full* Paris Club debt stock so that the country could really make a fresh start. Second and more importantly, the conditionality effect was much stronger than in other cases. The *prospect* of debt reduction proved instrumental in bringing about a substantial improvement in Nigerian economic policies, thus breaking the political deadlock that for so long had prevented economic growth from taking off (Bevan et al., 1999; Iyoha and Oriakhi, 2008). In a way, Nigeria suffered from a collective action problem: it was a common interest to save excess oil revenues for less prosperous futures, but most individual politicians would loose from this decision in the short term. For these kind of collective action problems, external pressure can be beneficial (Van Donge and White, 1999). Furthermore, and unlike many other cases of policy conditionality with aid or debt relief, there was a credible threat that Nigeria would *not* get a debt reduction. The Nigerian debt was economically sustainable, and Nigerian policy makers really had to convince the creditors that they deserved it.

References

Acharya, S. and I. Diwan. (1993) ‘Debt buybacks signal sovereign countries' creditworthiness: Theory and tests’, *International Economic Review,* 34: 795-817.

Alsop, M. and D. Rogger. (2008) Debt relief as a platform for reform: The case of Nigeria's Virtual Poverty Fund, Paper presented to the Conference “Aiding the poorest: Ten years on from Birmingham G8”, Birmingham, 16 and 17 May 2008.

Bevan, D., P. Collier and J.W. Gunning. (1999) *The Political Economy of Poverty, Equity, and Growth: Nigeria and Indonesia*. New York: Oxford University Press for the World Bank.

Birdsall, N., S. Claessens and I. Diwan (2003) ‘Policy selectivity forgone: Debt and donor behaviour in Africa’, *World Bank Economic Review,* 17: 409-35.

Bowe, M. and J.W. Dean (1997) Has the market solved the sovereign debt crisis? Princeton Studies in International Finance No. 83. Princeton, NJ: International Finance Section, Princeton University.

Callaghy, T. M. (2009) Anatomy of a 2005 debt deal: Nigeria and the Paris Club. University of Pennsylvania, http://www.polisci.upenn.edu/faculty/TC_Nigeria_long.pdf.

Cassimon, D. and B. Van Campenhout (2008) ‘Comparative fiscal response effects of debt relief: An application to African countries’, *South African Journal of Economics* 76: 427-42.

CBN (2010) Annual report and statement of accounts for the year ended 31 December 2009. Abuja: Central Bank of Nigeria.

CBN (2011) 2010 Annual Report. Abuja: Central Bank of Nigeria.

Claessens, S., D. Oks, D. and S. van Wijnbergen (1994) Interest rates, growth and external debt: The macroeconomic impact of Mexico's Brady deal. Discussion Paper No. 904. London: Centre for Economic Policy Research (CEPR)

Clements, B., R. Bhattacharya and T.Q. Nguyen. (2003*) External debt, public investment and growth in low-income countries.* IMF Working Paper No. 03/249. Washington: IMF.

Cline, W. R. (1995) *International Debt Re-examined*. Washington: Institute for International Economics.

Cohen, D. (1993) ‘Low investment and large LDC debt in the 1980s’, *American Economic Review,* 83: 437-49.

Collier, P., P. Guillaumont, S. Guillaumont and J.W. Gunning (1997) 'Redesigning Conditionality', *World Development* 25: 1399-407.

Cordella, T., L.A. Ricci and M. Ruiz-Arranz (2005) Debt overhang or debt irrelevance? revisiting the debt-growth link. IMF Working Paper No. 05/223. Washington: IMF.

Corden, M. (1989) ‘Debt relief and adjustment initiatives’ in J. A. Frankel, M. Dooley and P. Wickham (eds.), *Analytical Issues on Debt.* Washington: International Monetary Fund, pp. 242-57.

Depetris Chauvin, N. D. and A. Kraay (2005) *What has 100 billion dollars worth of debt relief done for low-income countries?* Washington: World Bank Policy Research Working Paper, September, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=818504.

Depetris Chauvin, N. D. and A. Kraay (2006) *Who gets debt relief?* World Bank Policy Research Working Paper No. 4000.

Deshpande, A. (1997) ‘The debt overhang and the disincentive to invest’, *Journal of Development Economics* 52:169-87.

Dessy, S. E. and D. Vancatachellum (2007) ‘Debt relief and social services expenditure: The African experience, 1989-2003’, *African Development Review* 19: 200-16.

Dijkstra, A.G. (2008) *The Impact of International Debt Relief*. London and New York: Routledge.

Dollar, D. and J. Svensson (2000) 'What Explains the Success Or Failure of Structural Adjustment Programs?', *The Economic Journal* 110: 894-917.

Donge, J.K.van and H. White (1999) 'Counting the Donors' Blessings: Programme Aid to Tanzania.' Report No. 1999/17: 5. Stockholm: Sida.

Elbadawi, I.A., B.J. Ndulu and N. Ndung'u (1997) ‘Debt overhang and economic growth in Sub-Saharan Africa’, in Z. Iqbal and R. Kanbur (eds.), *External Finance for Low-Income Countries*. Washington: IMF, pp. 49-76.

Hernández, L. and S.N. Katada (1996) Grants and debt forgiveness in Africa. Policy Research Working Paper No. 1653. Washington: The World Bank.

Iarossi, G., P. Mousley and I. Radwan (2009) *An assessment of the investment climate of Nigeria*. Washington: The World Bank.

IDA and IMF. (2008). *HIPC initiative and MDRI initiative: Status of implementation*. Washington: IDA and IMF.

IEG. (2006) *Debt relief for the poorest: An evaluation update of the HIPC initiative*. Washington: The World Bank, Independent Evaluation Group.

Imbs, J. and R. Ranciere. (2005) *The overhang hangover.* World Bank Policy Research Working Paper No. 3673.

IMF. (2005a) Country Report 05/302: Nigeria 2005 article IV consultation. Washington: International Monetary Fund.

IMF. (2005b) Country Report 05/432: Nigeria request for a two-year policy support instrument. Washington: International Monetary Fund.

Iyoha, M. and D.E. Oriakhi. (2008) 'Explaining African economic growth performance: The case of Nigeria', in B. Ndulu, S.A. O'Connell, J-P Azam, R.H. Bates, A.K. Fosu, J.W. Gunning and D. Njinkeu (eds.), *The Political Economy of Economic Growth in Africa, 1960-2000.* Cambridge: Cambridge University Press, pp. 621-59.

Johansson, P. (2010) 'Debt relief, investment and growth', *World Development,* 38: 1204-16.

Krugman, P. (1988) 'Financing versus forgiving a debt overhang', *Journal of Development Economics* 29: 253-68.

Marchesi, S. and A. Missale. (2004) What does motivate lending and aid to the HIPCs? Paper presented to the conference Debt Relief and Global Governance, Rotterdam, June.

Morisset, J. (1991) 'Can debt-reduction restore economic growth in highly indebted countries?', *Revue Economique Et Politique* 4: 639-66.

Moss, T., S. Standley and N. Birdsall (2004) Double standards, debt treatment, and World Bank classification: The case of Nigeria. Working Paper No. 45, Center for Global Development, Washington

Nwozor, A. (2009) 'Echoes of divergence within: The politics and politicisation of Nigeria's debt relief', *Review of African Political Economy* 119: 23-35.

Ojowu, O., H. Bulus, H. and B. Omonona (2007) Nigeria poverty assessment. Abuja: Department for International Development.

Okonjo-Iweala, N. (2008) 'Nigeria's fight for debt relief', in L. Brainard and D. Chollet (eds), *Global development 2.0; Can philanthropists, the public, and the poor make poverty history?* Washington DC: Brookings Institution Press, pp. 101-19.

Okonjo-Iweala, N. and P. Osafo-Kwaako (2007) Nigeria's economic reforms: Progress and challenges. Brookings Global Economy and Development Working Paper No. 6. Washington: The Brookings Institution. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1080251

Oks, D. and S. van Wijnbergen (1995) 'Mexico after the debt crisis: Is growth sustainable?', *Journal of Development Economics* 47: 155-78.

OSSAP-MDG (2010a) *Nigeria Millennium Development Goals Report 2010.* Government of the Federal Republic of Nigeria, OSSAP-MDG.

OSSAP/MDG (2010b) Analysis of MDGs expenditure in Nigeria’s federal, state and local budgets (preliminary report). Abuja: Office of the Senior Special Advisor to the President on MDGs.

Pattillo, C., H. Poirson and L. Ricci (2002) External debt and growth. IMF Working Paper No. 02/69. Washington: IMF.

Pattillo, C., H. Poirson, H. and L. Ricci (2004) What are the channels through which external debt affects growth? IMF Working Paper No. 04/15. Washington: IMF.

Presbitero, A.F. (2005) The debt-growth nexus: A dynamic panel data estimation. Cuaderno di Ricerca No. 243. Ancona: Università Politecnica delle Marche.

Presbitero, A.F. (2009) ‘Debt-relief effectiveness and institution-building’, *Development Policy Review 27*: 529-59.

Rieffel, L. (2005) Resolving Nigeria's Paris Club debt problem: A case of non-performing creditors. Working Paper, The Brookings Institution, Washington. http://www.brookings.edu/papers/2005/0801globaleconomics_rieffel.aspx

Sachs, J. (1989) ‘The debt overhang of developing countries’, in G. A. Calvo, R. Findlay, P. Kouri and J. B. d. Macedo (eds), *Debt, Stabilization and Development: Essays in memory of Carlos Díaz-Alejandro*. Oxford and Cambridge, Ma: Blackwell, pp. 80-102.

Serieux, J. and Y. Samy. (2001) The debt service burden and growth: Evidence from low-income countries. Helsinki: Paper presented at the WIDER development conference on debt relief, June.

Weeks, J. (2000) ‘Latin America and the “high performing Asian economies”: Growth and debt’, *Journal of International Development* 12: 625-54.

World Bank. (2005) Nigeria’s opportunity of a generation: Meeting the MDGs, reducing indebtedness. A debt sustainability analysis of Nigeria's debt. Working Paper, Washington, The World Bank.

World Bank. (2009) *Nigeria: Employment and Growth Study.* Report No. 51564-NG. Washington: The World Bank.

Table 1. Intervention theory debt relief

	Stock channel	Flow channel	Conditionality channel
Input	The debt relief deal: payment, cancellation and buyback		Conditions for policies and governance
Output	Debt reduction	Lower debt service, increased government spending	Changes in policies and governance
Outcome	Higher inflow of private capital; Increased private investment	Better quality of and more access to public services	Improved investment climate leading to higher private investment Improved public service delivery
Impact	Economic growth and poverty reduction		

Table 2. Number of interviews and number of stakeholders interviewed

	# Interviews	# Stakeholders
Current government institutions Abuja	14	36
High representatives former federal government	3 (+ 2 in other institutions)	4
Bilateral and multilateral donor agencies in Abuja plus IMF resident representative	11	16
Civil society and private sector, federal level	10	11
Government, donors and civil society in two States	17	24
Staff IMF and World Bank Washington	6	15
Creditor representatives and experts The Netherlands and Belgium	12	15
Total	63	120

Table 3. External debt sustainability ratios, actual and counterfactual, and thresholds, 2003-2009, in percent

	2003	2004	2005	2006	2007	2008	2009	Threshold[1]
Actuals:								
NPV debt/GDP	48	40	18	2	2	2	2	40
NPV debt/exports	115	90	33	6	5	4	7	150
NPV debt/revenues	157	116	46	7	8	5	10	250
debt service/exports	10	8	21	30	4	1	1	15
debt service/revenues	15	13	28	38	5	4	6	25
Counterfactuals:								
NPV debt/GDP	48	40	34	27	26	23	31	40
NPV debt/exports	115	90	64	68	64	57	98	150
NPV debt/revenues	157	116	87	83	94	71	138	250
debt service/exports	10	8	6	6	6	6	9	15
debt service/revenues	15	13	8	8	9	7	13	25

[1] These are the thresholds for low income countries with a low score on the Country Policy and Institutions Assessment (CPIA) of the World Bank; Nigeria has less than 3.25.
Source: own elaboration of data from DMO and CBN, Nigeria

Table 4. Some outcome indicators in relation to the MDGs

	2003	2008
Pupils starting grade 1 who reach grade 5	84	72[1]
Primary 6 completion rate	82	68[2]
Infant mortality	100	75
Under 5 mortality	201	157
Maternal mortality	800	545

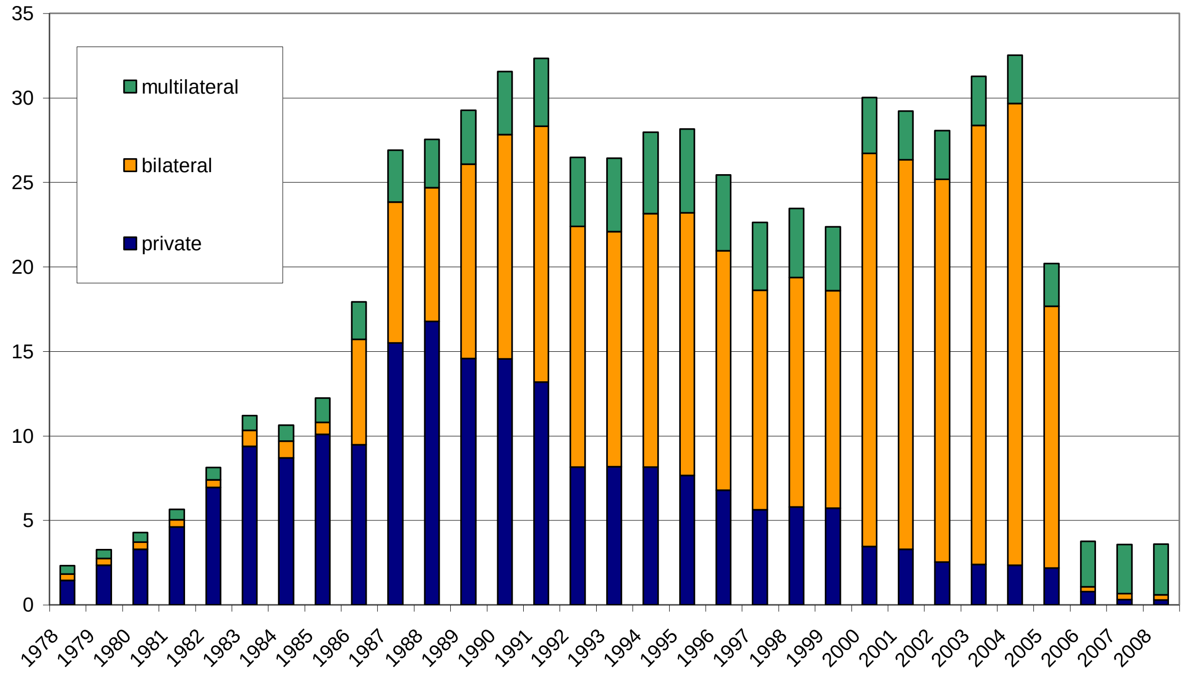
[1] Preliminary.
[2] Figure for 2007.
Source: OSSAP-MDG, 2010a; the three health indicators are from Demographic and Health Surveys.

Table 5. GDP growth and growth by sector, in %

	2002	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
GDP	1.4	10.9	6.1	7.2	6	6.5	6	7	7.9
GDP oil	-11.6	26.5	3.5	4.2	-4.5	-4.5	-6.2	-4.8	
GDP non-oil	8	4.4	7.4	8.6	9.4	9.5	9	8.3	8.5
Agriculture			6.5	7.1	7.4	7.1	6.3	5.9	5.7
Industry			4.2	1.7	-2.5	-2.2	-3.4	2	5.3
Services			8.8	8	9.2	9.9	10.4	10.8	11.9

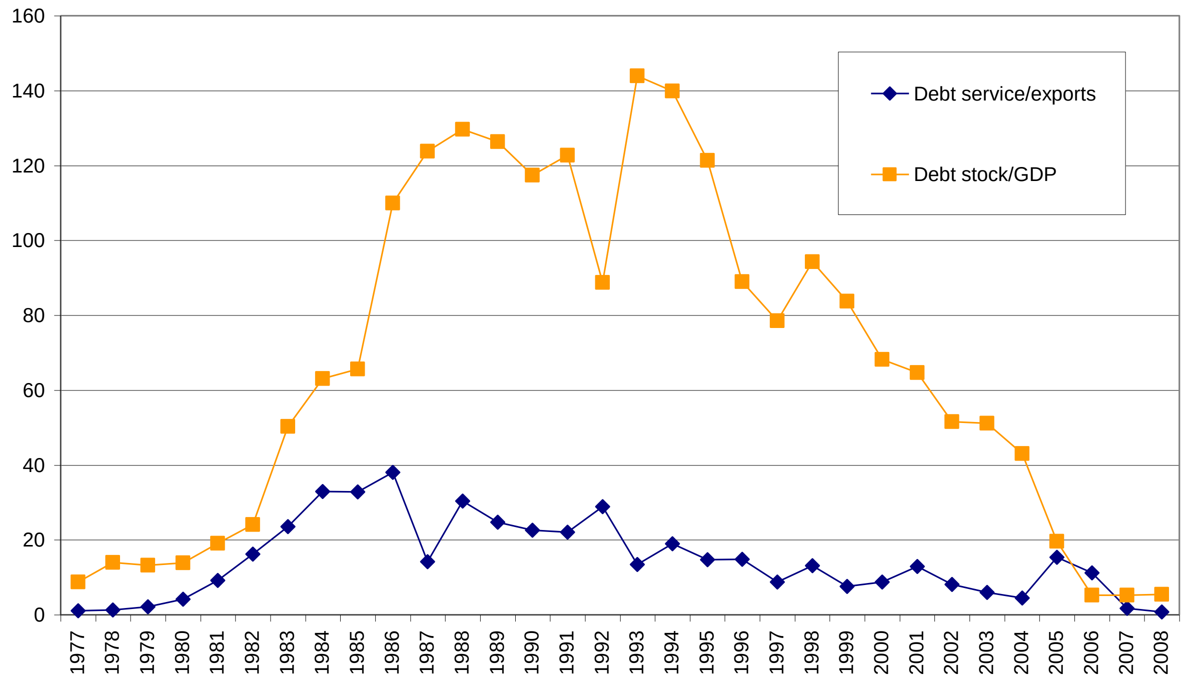
Source: IMF and Central Bank of Nigeria.

Figure 1. Debt stock of Nigeria in US$ billion, by type of creditor, 1978-2008.



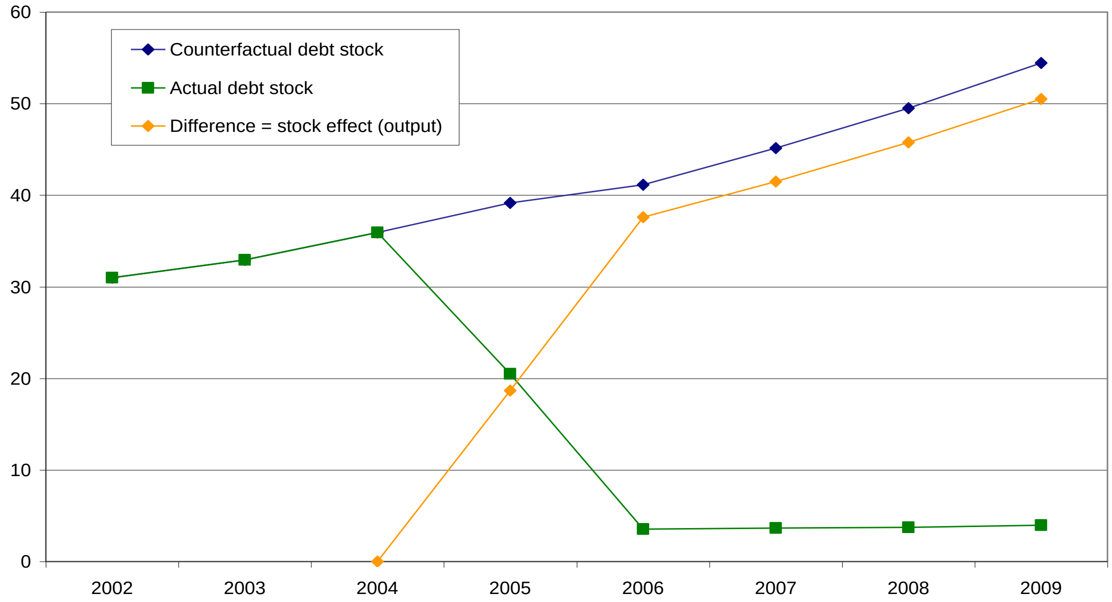
Source: Elaboration of data from World Bank, GDF-online, 2010.

Figure 2. External debt to GDP ratio and external debt service to export ratio, in %, 1978-2008



Source: World Bank, GDF-online, 2010.

Figure 3. Actual and counterfactual external debt stock, in US$ billion, and stock output of the deal



Source: Elaboration of figures from DMO, Nigeria