

## **Nigeria's debt**

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On the face of it, this may not be the best time for an oil exporting country to ask forgiveness from its creditors. When that country is Nigeria, where for decades the proceeds of both oil and borrowing have been squandered and embezzled, it becomes even harder to get taken seriously.

Britain, which holds \$8bn (£4.1bn) of Nigeria's \$36bn foreign debt, has been pressing the country's case. Last month's report from the British-appointed Commission for Africa explicitly called for Nigeria to be included in wider and deeper debt relief, and recommended 100 per cent write-offs for countries where this would be needed to meet UN development goals. There are two strong arguments for granting Nigeria at least partial relief. The first of these is equity. Nigeria is where the rich world's generosity to Africa stops. It may be the world's eighth biggest oil exporter, but its 130m-plus population is one of the poorest. Because of its oil and gas it has been disqualified from relief under the Highly Indebted Poor Countries scheme and receives very little development assistance. Foreign aid per head is just \$2 a year, lower than anywhere else in Africa except Libya.

Although the government has not been paying its full bill for debt service - and has therefore been building up arrears - what it pays is still more than its total spending on public health. The sum of aid and debt service results in an annual net transfer from Nigeria to rich governments of about \$10 for every Nigerian. No other country as poor as Nigeria has such a burden. Of course, this indefensible situation could be corrected by other means than debt relief. By rewarding those countries that have suffered past mismanagement, debt cancellation may be an inequitable means of allocating resources. But there is a further strong reason for discussing relief for Nigeria, and sooner rather than later. Without such a gesture of support, the country's embryonic plans for economic reform have little chance of surviving.

At long last, President Olusegun Obasanjo's government is promoting a reasonably credible and rigorous programme. But many aspects of it are unpopular and up against entrenched interests. A favourable debt deal would not release all the funds Nigeria needs, but would go a long way towards providing legitimacy for the proponents of tighter economic governance.

Some creditors might prefer to see Nigeria using the foreign exchange reserves it has been accumulating from the oil price windfall to buy back debt at a big discount. But a better idea would be to funnel these extra reserves into a fund for infrastructure projects. Creditors could then use debt relief to exercise leverage on the government to stick to its reform promises. Relief could initially be staggered, with part written off and part

refinanced on an annual basis. Benchmarks should then be set to ensure that resources are managed accountably and put to good use in meeting pressing social needs.