



Working Paper

**Anatomy of a 2005 Debt Deal:
Nigeria and the Paris Club**

[Long Version]

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“The road is hard and long... No one can guarantee that we’ll get debt relief. We might make all the efforts and still not get it. But there is no reason why we shouldn’t try our very best to qualify and then leave the rest in God’s hands!”

Dr. Ngozi Okonjo-Iweala

It is easy to be cynical about Nigeria, often with very good reason, but, as we shall see, not always. This paper is about a period when things started to go right in Nigeria. It took a while to really gather momentum, but that it did so at all is a stunning achievement. Nigeria’s October 2005 Paris Club debt reduction deal was an important event that generated very little attention at the time in part because of two events that closely preceded it – the Paris Club deal for Iraq in late 2004 and the Group of 8’s (G-8) creation of the Multilateral Debt Relief Initiative (MDRI) in mid 2005 to help some poor countries with their multilateral debt. The October 2005 debt deal was an exit from the Paris Club for Nigeria, Africa’s largest debtor, the first such exit for an African country and the second largest Paris Club debt deal ever after Iraq. It brought an \$18 billion debt reduction on Nigeria’s \$30 billion Paris Club debt – an overall reduction of 60 percent and a 76 percent reduction of the non-arrears portion of the debt stock; it was also the first time the Paris Club had allowed a discounted buyback of a portion of debt stock. The deal was tied to Nigeria’s most comprehensive and important economic reform effort in its history, and made possible by a “perfect storm” of events and forces, which included: (1) the rise an NGO debt relief movement that led to the Heavily Indebted Poor Country Debt Initiative (HIPC) debt relief program; (2) Britain’s 2005 “Year of Africa” when it was chair of the G-8, which led to MDRI; (3) the important work of a Washington development think tank, the Center for Global Development (CGD); (4) efforts by NGO debt campaigners to support Nigeria; (5) the war in Iraq and rising oil prices; (6) and the geo-strategic importance of a Nigeria – Africa’s most populous country – that had recently returned to democracy after being pillaged by a brutal military dictatorship.

This then is our story; it is both a very simple and an extremely complicated and contingent tale. The simple part was a longstanding and consistent deal offered by two of Nigeria’s major country creditors that if Nigeria established a credible track record of economic reform, they would work to see that it got substantial debt reduction. The complex and contingent part was *how* this deal played out over time, both in Nigeria and outside it. As Okonjo-Iweala notes above, the road was long and hard and nothing was guaranteed.¹

¹ In the above quote, Nigerian Finance Minister Okonjo-Iweala was speaking in early 2005, well before it was clear that Nigeria would get *any* sort of Paris Club debt deal and four months before a deal in principle was cut; Ngozi Okonjo-Iweala, “Understanding Nigeria’s Debt Situation,” Federal Ministry of Finance, February 27, 2005. The first draft of this paper was

Nature of Nigeria's Paris Club Debt

Nigeria's Paris Club debt has a long history; its first bilateral loan came from Italy in 1964 for the Niger Dam. Much of Nigeria's total disbursed debt was from the Shagari and Buhari periods. The civilian Shagari regime had the highest annual disbursements, followed by the Babangida, Buhari, and Obasanjo military regimes. For Paris Club debt, there were modest amounts of disbursement until 1980, then a rise, with about \$1.0 billion under Shagari, \$0.5 billion under Buhari, and \$3 billion under Babangida. By 1984 the total Paris Club debt was about \$8 billion, but totaled \$31 billion by the end of 2004. Private debt disbursements rose significantly under Obasanjo, increased stunningly under Shagari with a civilian democratic government, declined but remained significant under Buhari, and tapered off under Babangida. Both Paris Club and private flows ceased after 1992. Multilateral debt started under Shagari and Buhari, with the bulk coming under Babangida, and Abacha.² The Babangida regime had quite irregular servicing of Paris Club debt, while the Abacha regime paid very little debt service at all,³ leading to a huge increase in the debt owed to the Paris Club due to the build up of payment and interest arrears and other penalties. The Abacha regime continued, however, to service private and multilateral debt, dropping the total about \$4.5 billion by early 1997, but it also wanted and *expected* Paris Club debt relief under Naples terms. Under Obasanjo in 2004, Nigeria claimed that much of its debt "could be considered illegitimate, bordering on 'odious,'" making debt "an emotive issue in the country, fuelled as it were by the complexities of democratic transition in a poor, multi-ethnic and multi-religious society" whose citizens "believe they have paid the debt many times over." As a result, "there appears to be a shared responsibility between some creditors and previous Nigerian rulers (both military dictators and corrupt civilians)."⁴ In a report in May 1999, the World Bank issued a damning report on Nigeria's financial and economic situation. Paris Club arrears had grown \$10 billion in three years, totaling \$19.1 billion, while lots of oil revenue was missing.⁵ At the end of 2003, Nigeria's Paris Club debt was estimated to be \$27.5 billion; at the end of 2004, it was put at

completed in early December 2007 and slightly revised in mid 2008; new material was added in early September 2008 and January 2009. I want to thank Megan Davidow for her wonderful research assistance and the University of Pennsylvania's Christopher H. Browne Center for International Politics and the University Research Foundation for their financial support. In recounting this tale, I try as much as possible to let the various players tell it in their own words, knowing full well that what people say at a given time is influenced by the audience they are addressing and their own goals, interests, and strategies. Using the players own words also helps to give texture to the story while highlighting its complexities and ambiguities.

² Most of this data is from Todd Moss, Scott Standley, and Nancy Birdsall, "Double Standards, Debt Treatment, and World Bank Classification: The Case of Nigeria," Working Paper 45, Center for Global Development (CGD), September 1, 2004, revised in November, Appendix 1, especially Figure A8, p. 30; see <http://www.cgdev.org/content/publications/detail/2741>; and Nigeria's Debt Management Office (DMO), "Nigeria's External Debt: Structure, Evolution and Development Challenges," typescript, n.d. but probably early 2004, provided by the DMO to CGD staff; and DMO, "Nigeria's Debt Relief Deal with the Paris Club," Briefing Paper, October 6, 2005. Also see Lex Rieffel, "The Paris Club Owes Nigeria A Fair Deal," Brookings, June 27, 2005; "Nigeria's Paris Club Debt Problem," Brookings Policy Brief 144, August 2005; and a longer version, "Resolving Nigeria's Paris Club Debt Problem: A Case of Non-Performing Creditors," Brookings, August 1, 2005.

³ DMO claims that "Nigeria stopped paying its debts altogether" during the 1985-93 and 1993-98 periods "after the Paris Club refused to substantially reduce Nigeria's debt," DMO, "Nigeria's Debt Relief," p. 3; it is not clear, however, that the military stopped payments completely, and the paper does admit that Nigeria had three Paris Club reschedulings during this period, p. 5; see: <http://www.clubdeparis.org/sections/pays/nigeria/viewLanguage/en>.

⁴ DMO, "Nigeria's External Debt," pp. 2-3, 16, 9.

⁵ Michael Holman, "Nigeria debt arrears soar to \$17.4 billion," *Financial Times*, June 19, 1997.

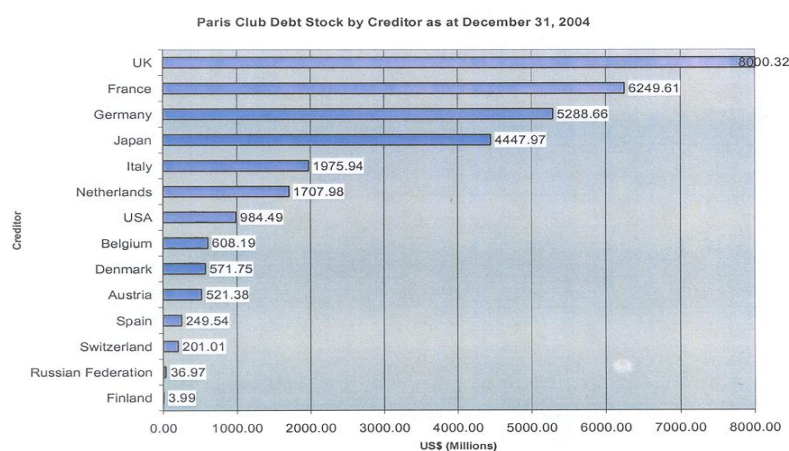
about \$30 billion. Nigeria had Paris Club reschedulings in 1986, 1989, 1991, and 2000. By the time of the October 2005 Paris Club deal, Nigeria’s Paris Club debt was \$30.1 billion; its debt to GDP ration was 58 percent, nearly double the recommended maximum of 30 percent; its debt to government revenue was 412 percent; and debt to exports was 152 percent.

Table 1
Nigeria’s External Creditors, end 2003

Creditor	Debt Stock (US\$ bn)	Share of Total (%)
UK	7.0	21%
France	5.6	17%
Germany	4.6	14%
Japan	4.2	13%
Italy	1.8	6%
Netherlands	1.4	4%
USA	0.9	3%
Other Paris Club	1.9	6%
<i>Total Paris Club</i>	<i>27.5</i>	<i>83%</i>
Multilateral Creditors	3.0	9%
Private Creditors	2.4	7%
Other Bilateral Creditors	0.1	0%
Total Debt Stock	32.9	100%

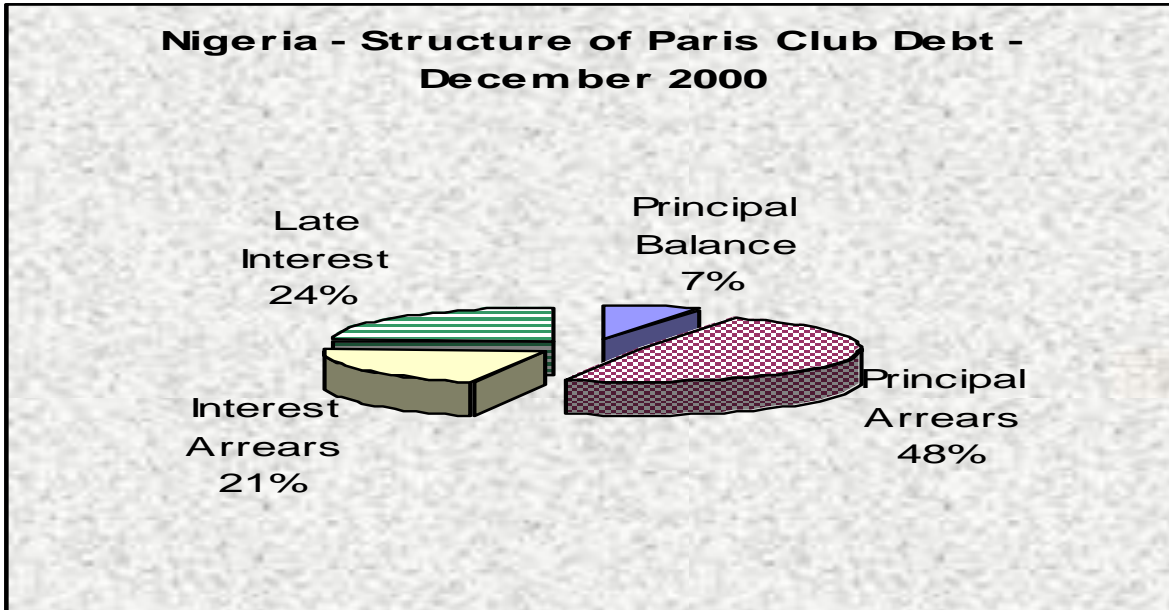
Source: Moss, “Resolving Nigeria’s Debt Through a Discounted Buyback,” CGD, April 2005, p. 1

Figure 1



Source: DMO, “Nigeria’s Debt Relief Deal with the Paris Club,” Briefing Paper, October 6, 2005, p. 4.

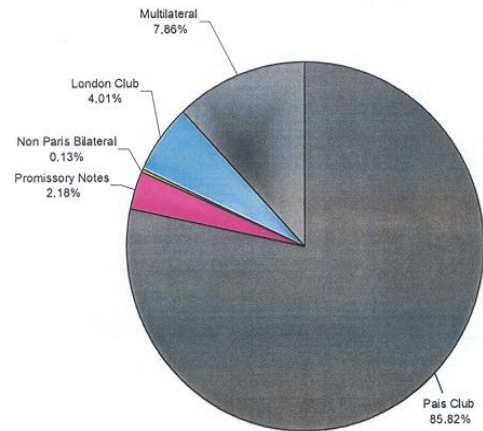
Figure 2



Source: DMO, "Nigeria's External Debt," p. 11.

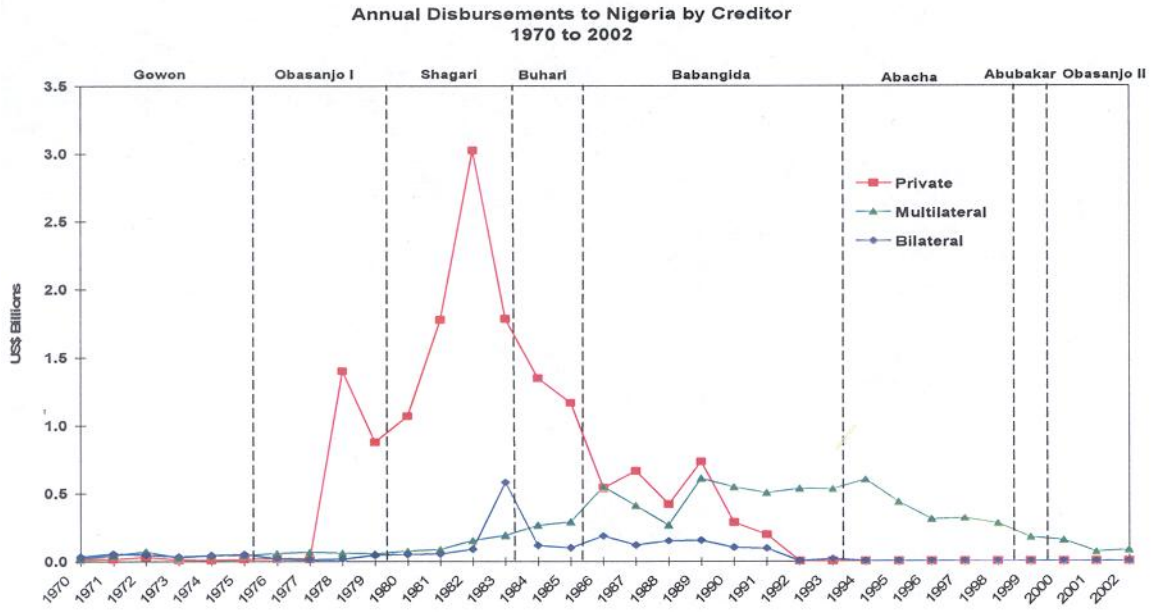
Figure 3

*External Debt Outstanding by Creditor Category
As At December 31, 2004*



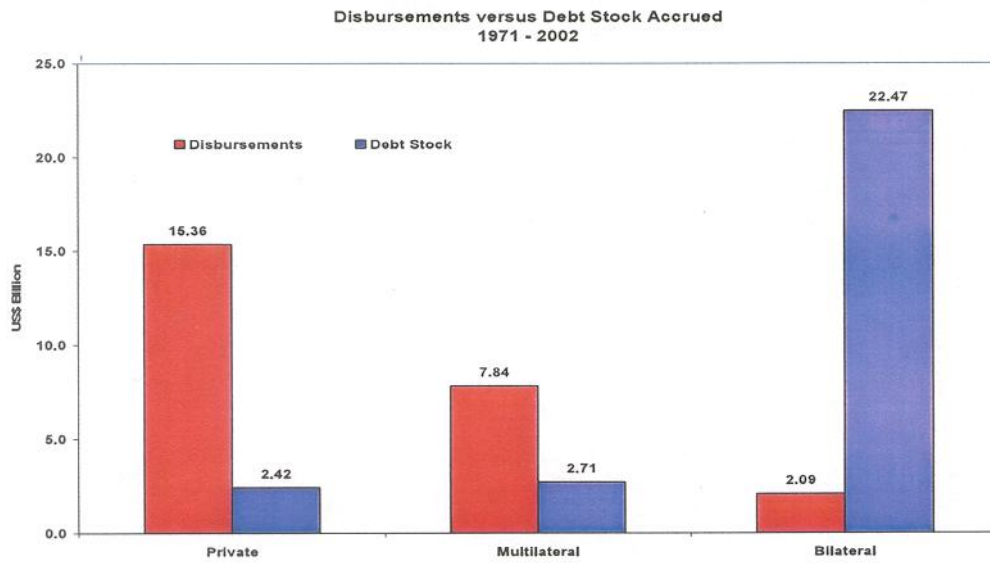
Source: DMO, "Nigeria's Debt Relief Deal with the Paris Club," Briefing Paper, October 6, 2005, p. 4.

Figure 4



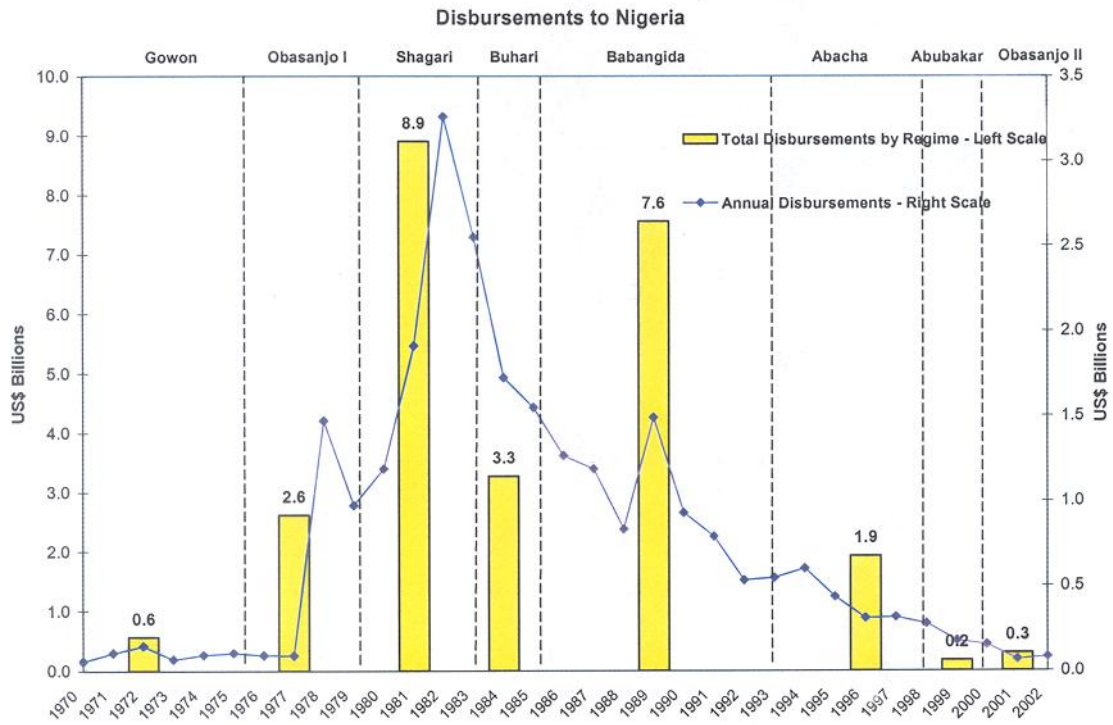
Source: CGD, "Double Standards," p. 30.

Figure 5



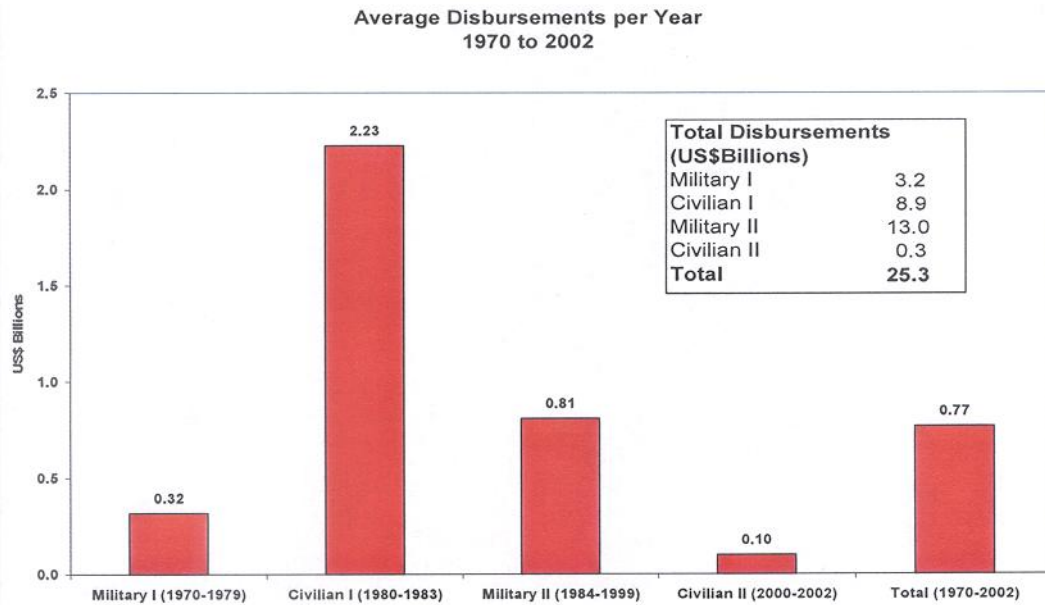
Source: CGD, "Double Standards," p. 27.

Figure 6



Source: CGD, "Double Standards," p. 29.

Figure 7



Source: CGD, "Double Standards," p. 28.

Two Linked Arguments that Help Explain the Case

The process of Paris Club debt relief is a complex political game closely tied to both the political economy of reform in the debtor country and the political economy and creditor politics of the international governance processes on debt, and on development more generally. This process encompasses numerous levels and actors, both nationally and internationally, and they are increasingly tightly linked. Any argument about how debt relief takes place needs to take into account the evolution of the international sovereign debt regime since the late 1980s and the causes of this evolution. New actors and processes have opened up fresh spaces of maneuver and brought novel perspectives and ideas on debt and how it should be handled. Two sets of arguments are relevant to our tale – one on the political economy of attempted economic reform in Africa and another on the evolution of the international debt regime since the late 1980s.⁶

The Political Economy of Economic Reform: Technocrats, Politicians, and States

Compared to other regions of the world, economic reform in Africa has been feeble for well over 20 years, but it has also been quite varied in its nature and outcome. The task is to explain this variation. How do we explain the differing ability of African governments, caught as they are between strong and often contradictory internal and external pressures, to engage in sustained economic reform? The argument here is that the degree to which an African government can adjust is determined by its ability to insulate itself from the logics, characteristics, and effects of the dominant African form of political economy in the post-colonial period, one of patrimonial politics and state forms, patron-client relations, and a patrimonial political economy that has been heavily, but ineffectively, statist – hence “lost between state and market.” The ability to insulate is affected primarily by the following variables: (1) how the economic crisis is perceived

⁶ The argument here draws on two parts of my work over the last twenty years – one on the politics of attempted economic reform in Africa, the other on the nature and causes of the evolution of the international regime for sovereign debt. The first part is most clearly laid out in Thomas M. Callaghy, "Lost Between State and Market: The Politics of Economic Adjustment in Ghana, Zambia, and Nigeria" in Joan Nelson, ed. *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World*, Princeton University Press, 1990, pp. 257-319; also see "Toward State Capability and Embedded Liberalism in the Third World: Lessons for Economic Adjustment" in Joan Nelson, ed., *Fragile Coalitions: The Politics of Economic Adjustment*, ed., Overseas Development Council, 1989, pp. 115-38, "The State and the Development of Capitalism in Africa: Theoretical, Historical, and Comparative Reflections" in *The Precarious Balance: State-Society Relations in Africa*, eds. Donald Rothchild and Naomi Chazan, Westview Press, 1988, pp. 67-99; and T. Callaghy and J. Ravenhill, eds., *Hemmed In: Responses To Africa's Economic Decline*, Columbia University Press, 1993. The second part is most clearly laid out in "Networks and Governance in Africa: Innovation in the Debt Regime," in T. Callaghy, R. Kassimir, and R. Latham, eds., *Intervention and Transnationalism in Africa: Global-Local Networks of Power*, Cambridge University Press, 2001, pp. 115-49; also see "Innovation in the Sovereign Debt Regime: From the Paris Club to Enhanced HIPC and Beyond," Operations Evaluation Department Working Paper, World Bank, 2004: [http://inweb18.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/4BC77E9BEC2CAAF85256E4A00536A04/\\$file/hipc_wp_sovereign_debt.pdf](http://inweb18.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/4BC77E9BEC2CAAF85256E4A00536A04/$file/hipc_wp_sovereign_debt.pdf); "The Paris Club and International Economic Governance: Double Crisis and Debt" in Vinod K. Aggarwal and Brigitte Granville, eds., *Sovereign Debt: Origins, Crises and Restructuring*, Royal Institute of International Studies, London, 2003, pp. 201-28; and "Is Debt Relief Smart Aid?" in Richard Joseph, ed., *Smart Aid for African Development*, Lynne Rienner Publishers (LRP), 2009, pp. 87-101. The argument about economic reform was based largely on three cases – Ghana, Zambia, and Nigeria, the latter in the mid and late 1980s with Babangida's attempt at economic reform.

by the rulers and how this perception affects the commitment to reform; (2) the degree to which decision-making is influenced by the technocratic half of a dualistic decision-making structure – that is, by economic rather than political logics; (3) the degree of government autonomy from the powerful forces of the dominant political economy as affected by political structure and the statecraft skill of the rulers; (4) the capacity of the state apparatus and the overall level of economic and administrative development; and (5) the nature, dependence on and extent of external influence and support, and resource flows, including the forces of the world economy.

The perception of the economic crisis by the ruler and the populace is affected by its nature, duration and severity, and whether they think it is caused primarily by external or cyclical factors or internal factors linked to the dominant political economy. The worldview or ideology of the rulers can play an important role, as can the extent of sociopolitical shredding – the degree to which the cohesiveness of the dominant political economy has been weakened by political regime change and economic crisis. How the crisis is perceived influences the commitment of the rulers to weather the inherent costs of attempting to alter the dominant political economy. This perception also helps to determine the government’s willingness to use external advice and the timing and scope of the attempted reforms.

Effective and sustained reform is greatly affected by the degree to which decision making is dominated by the economic logics of the technocratic team rather than the political logics more common to the dominant political economy. Rulers need to insulate and protect a team of technocrats while keeping them informed of the political consequences of their reform policies. The more savvy technocrats will become “technopols,” taking political factors into account at all stages. In addition to insulation, the ability of the technocrats to operate effectively is largely determined by staff size, technical and administrative capabilities, depth, cohesiveness, continuity over time, and the degree to which they are allowed to interact and bargain with external actors. Their level of cosmopolitanism and their external connections and experience are crucial for both their legitimacy with external actors and their effectiveness. Cosmopolitanism is knowledge about how the world actually works, not just how it is supposed to work theoretically. Connections and competence, rather than just the more normal connections of patron-client politics are very important. The essential data, analytic skills, and other capabilities required to formulate and implement adjustment policies in Africa have been, compared to other regions of the world, quite limited. The technocrats’ insulation, influence, and level of interaction with external actors will vary over time given the statecraft skills and commitment of the rulers and the political impact of attempted economic reforms on the groups most affected by them – state, party, and political officials, the military, state employees, parastatal enterprises, labor, students, and the urban population. It often seems as if little leaky technocratic boats are getting tossed about in a turbulent patrimonial sea.

The ability to implement economic reforms is also influenced by the government's degree of autonomy or insulation from the powerful forces of the dominant political economy. This autonomy is determined by the extent to which these forces are coherent and have formal and informal lines of influence to the top leadership and middle-level officials responsible for implementing reforms. The level of insulation is also affected by the cohesiveness of the system, the nature of the economic crisis, and the degree of any prior shredding. The statecraft skill of the rulers can significantly influence the creation and management of given or changing levels of insulation. Legitimacy given to new regimes may help, at least in the short run; political business or electoral business cycles may weaken reform efforts. Transitions back to democracy can make insulation more difficult and diminish the sustainability of reform efforts. This does not rule out successful economic reform under democratic or transitional conditions, but it tends to make it more difficult. Insulation may be reinforced by support from groups that benefit from the reforms, but given the dominant African political economy, a major dilemma is that few viable coalitional supporters exist and, where they exist, they are often difficult to organize to effectively support the reforms.

The ability to implement economic reforms is also greatly affected by the quality and depth of state technical, administrative, data gathering and analytic capabilities *beyond* those of the technocratic team. Domestic capabilities are often weak and uneven, and foreign efforts to support them are frequently very sensitive politically and may be useful in the short run, but their longer-term utility is often questionable. The capacity to formulate, implement, and monitor economic reforms is strongly influenced by external actors, especially the major powers and the IMF and World Bank – what some Africans refer to as the “terrible twins.” African officials commonly react strongly to their dependence on external actors and the high-handedness and heavy policy conditionality that often result from it. The more external actors and African officials engage in effective dialogue and learn to pay attention to the conditionality load, timing, policy pace, sequencing, and policy fine tuning, the greater the chances are of success. While proper crisis perception, ruler commitment, and capable and insulated technocrats with good connections and experience, that is, high levels of cosmopolitanism, effective state capacity, and insulation from sociopolitical pressures all facilitate successful reform efforts, sufficient and timely external resource flows are also required. They can come from export earnings, borrowing, and internal and external investment, but they must come and be used effectively, if reforms are to be implemented and sustained. This argument maintains a balance between voluntarist perspectives that stress “political will,” commonly the view of external actors, and pessimistic perspectives that stress structural constraints, so common to academic and African analyses. Adequate levels of understanding, commitment, and statecraft skill are necessary but not sufficient; state capacity, sociopolitical insulation, and external resources are also necessary but not sufficient. Some combination of both sets of factors is required. Given this argument, it is not surprising that few examples of sustained economic reform exist in

Africa; at the same time, it is clearly not impossible either, although it is a highly complex and contingent process.

Evolution of the International Sovereign Debt Regime: A Triple Helix of Change

The International Debt Regime: One of the primary results of attempted economic reform was a higher level of external debt. It was mostly “official” debt owed to major Western countries, the International Monetary Fund, and the World Bank. Since the late 1950s bilateral debt has been rescheduled by creditor countries organized into a mechanism that came to be known as the Paris Club, while multilateral debt could not be rescheduled. The Paris Club became the core of an international debt regime for official or sovereign debt--that is the actors, norms, processes, and mechanisms focused around countries unable to service their bilateral debt. Via the process of mandated economic reform, the IMF and the World Bank were major players in this regime. The practices of the international debt regime evolved in important ways from the 1980s as it became increasingly clear that poor countries, for which economic reform worked least well, were usually unable to cope with their mounting debt loads.

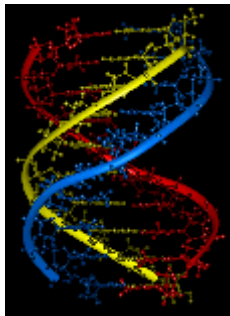
The rising debt burden of poor countries, most of which were African, thus became an increasing concern of key actors in the international arena – some creditor countries, agencies of the United Nations system (UNCTAD in particular), a wide-ranging group of non-governmental organization (NGOs), and, of course, the debtor countries themselves. During the New International Economic Order (NIEO) negotiations of the 1970s and early 1980s, debtor countries insistently demanded more generous relief of sovereign debt, a simplified debt restructuring process, including generalized norms, and special treatment for the poorest debtor countries. In short, they wanted a reform of the Paris Club debt process, especially its case-by-case norm. None of this came to pass as a result of the struggle for the NIEO. Yet by the late 1980s, the Paris Club countries began slowly and incrementally to offer more generous (the debtors would say less onerous) terms for its poorest debtors, and occasionally for some of its biggest and most strategically important debtors (Poland, Egypt, and Russia). By the end of the 1990s, however, the debt regime for poor countries had changed dramatically, first with the advent of the Heavily Indebted Poor Country Debt Initiative in 1996 and then a major revision of it in 1999, creating the “Enhanced HIPC Debt Initiative.” How did this happen and why?

The sources of change in the debt regime lay elsewhere than in the state-to-state bargaining of the NIEO, although slow and uneven learning by the Paris Club creditors, the IMF and the World Bank certainly were part of the story. The sources of change lay primarily in the complex and uneven relations among these actors of the international debt regime; in the activities of NGOs focused on debt, constituting what have been called principled-issue networks with their largely normative discourses and evolving capacities; and in fragments of an epistemic community of economists, other scholars, and think tanks that worked on development issues; some of them

played key roles as consultants and advisers to actors on both sides of the battles over debt. These three sets of actors have come to constitute a triple helix of relationships, of connections, which have led to important innovations in the way the international debt regime functions, helping in a fragile but interesting way to recapture some sovereign space for some African governments.

The Emergence of a Triple Helix of Change

The three strands of the triple helix – (1) the international debt regime, (2) the NGO networks on debt, and (3) the more amorphous epistemic community – were wrapped around a central



structural dilemma of the international political economy to which actors in the three strands reacted in varying ways: the emergence of a group of weak states and economies that have not been able to benefit as easily or quickly from economic reform, democratization, and globalization as countries elsewhere in the world. This dilemma poses major difficulties for the functioning and evolution of the international political economy and for international peace and conflict. The driving force for change in the governance of official debt has been the synergy between various forms of

power, knowledge, and discourse as they interacted with the underlying structural dilemma. Each of the strands has used its power, knowledge, and discourses to alter or retain the overall pattern of governance of official debt. The actors of the international debt regime reacted haltingly and unevenly as they slowly came to the realization that something had to be done about the structural dilemma despite its non-classic geostrategic character. This realization, too slow in coming, was fostered, forced to the fore, by the networks of NGOs working on debt and development who deployed an increasingly coherent moral discourse about social purpose that was meant to gain more representation, transparency, and accountability for debtors.

This NGO discourse has been backed by growing social movements and progressively more sophisticated knowledge about the technicalities and functioning of the international regime for official debt. The NGOs were assisted by sympathetic fragments of the epistemic community of economists, mostly but not exclusively those outside the institutions of the international debt regime. Some of those inside the organizations of the international debt regime accepted or were influenced by the content of the moral policy discourse. The outsiders, mostly academic economists, used their technical knowledge of economic theory, debt, restructuring, and the operations of the international financial institutions to propose alternative mechanisms, norms, and practices to tackle the underlying structural dilemma of official debt. In the process, both groups of economists contributed to and were influenced by the NGO moral policy discourses on debt and development. Loose, mostly informal but increasingly dense networked connections were made between the three strands of the triple helix, which in turn pushed the evolution of the governance structures as the synergy between various forms of power, knowledge, and discourse

interacted with the underlying structural dilemma. The triple helix of governance on official debt both helped to reproduce existing national and international structures and to alter the way they worked and were structured.

A key implication of this argument is that governance on debt was shifted haltingly and unevenly beyond the largely state- and international financial institution (IFI)-centric strand of the international debt regime. The major difference from the NIEO era was that these new governance patterns resulted in real change this time because the NGOs took the debt battle *into the domestic and political arenas* of the world's industrial democracies rather than developing states just pounding away from the outside. Over time, despite the absence of major positions of structural power, the NGOs and the sympathetic fragments of the epistemic community grew in strength and influence, resulting in a much more complex web of global governance – one rooted in the democratic context of the world's highly industrialized states; this was strikingly different from the pattern of the early Bretton Woods era. But, given the power structures of the international state system and the growing power of global markets, there continue to be distinct limits to elasticity and change. Such helix-like structures across a variety of issues may slowly weave a more coherent lattice-like structure of global governance.

NGO Principled-Issue Networks on Debt: Over the last three decades several hundred largely religious, humanitarian, labor, and environmental NGOs have focused on the issue of Third World debt and its negative impact on the welfare of millions of people. Their activities have revolved largely around a moral discourse that portrays developing country debt as an immoral burden on the backs of the poor. This discourse employs powerful notions of justice, representation, accountability, transparency, and equity. It challenges the notion of who should have authority over such issues in the global community, calls for intervention to rectify injustices and end what is considered to be blatant exploitation, and aims to provide space for debtor representation and agency in the governance processes involving debt. Over time, the NGOs began to influence who was empowered and who was not, who was represented and who was not. In 1997, for example, a loose coalition of over 50 NGOs in Britain created the Jubilee 2000 Coalition that called for “a one-off cancellation of poor country debt by the year 2000 of the backlog of unpayable debt owed by the world's poorest countries, under a fair and transparent process” that would involve the establishment of a new international bankruptcy procedure. Characterizing this as a debt-free start to the next millennium, this network of NGOs portrayed itself explicitly as “New Abolitionists” out to abolish the “slavery of debt.” The activities, capabilities and interests of the NGOs that work on debt varied significantly. These principled-issue networks⁷ came to have some of the characteristics of transnational social

⁷ On principled-issue networks, see Kathryn Sikkink, “Human Rights, Principled Issue-Networks, and Sovereignty in Latin America,” *International Organization*, 47/3, Summer 1993, pp. 411-41; Margaret E. Keck and Kathryn Sikkink, *Activists Beyond Borders: Advocacy Networks in International Politics*, Cornell University Press, 1998; Martha Finnemore and Kathryn Sikkink, “International Norm Dynamics and Political Change,” *International Organization*, 52/4, Autumn 1998, pp. 887-917. On NGOs and international change, see: Ann M. Florini, *The Third Force: The Rise of Transnational Civil Society*, Carnegie Endowment for International Change, 2000; Robert O'Brien, Anne Marie Goetz, Jan Aart Scholte, and Marc Williams, *Contesting Global*

movements. Most of the network members were Northern NGOs, but increasingly they helped to create, link up with, and foster Southern NGOs interested in debt. Several of the strongest Northern NGOs have a network of offices in poor countries through which they can gather information, work with local governments and social organizations, and interact with the local representatives of the IMF, the World Bank, and the major aid-providing “donor” countries, who are, of course, also the major creditors. Many of the debt NGOs believe that IMF and World Bank structural adjustment programs are an evil that must to be abolished. Jubilee 2000 was specifically meant to become a social movement that consciously likened itself to the nineteenth-century international anti-slavery movement. It operated with considerable verve and kept the pressure on the IFIs and the G-7 for much more substantial debt relief. It was backed by major celebrities, from rock stars such as Bono of U2 to heavy-hitter academics such as Harvard’s Jeffrey Sachs, and religious leaders such as the Pope.

Coordination increased considerably over time, facilitated by growing fax, Internet, and email capabilities as well as frequent travel and network conferences. Information and documents collected by one organization have been shared quickly with others. Above all, as NGO capabilities and sophistication grew, personal ties based on respect if not always on agreement developed between some NGO representatives and officials in creditor governments and the Fund and the Bank – in other words the density of the contacts between the three strands of the triple helix became more dense; this significantly improved the exchange of views on growing debt problems. In turn, this led to more influential position and briefing papers and special issue alerts about the functioning of the international debt regime and ongoing discussions about what to do about debt. This process both facilitated and fostered the growing professionalization of the more important NGOs working on debt, which was also promoted by increasingly close relations between fragments of a large and amorous epistemic community on development rooted to varying degrees in neoclassical economics. It remains unclear, however, whether the activities of the debt NGOs networks and those on other issues represent the rise of a new global civil society.

An Epistemic Community on Debt: Mainstream economics, in its academic, business, and official varieties, provides a relatively widely shared set of understandings, language, causal and policy ideas, and technical knowledge about both the functioning of the global economy and the complex issues of development, including debt.⁸ Within this community and its various fragments, however, there exists considerable diversity of views about specific policy issues and creativity about how to tackle them. Members of this loose community dominate the structure of

Governance: Multilateral and Global Social Movements, Cambridge University Press, 2000; Sanjeev Khagram, Kathryn Sikkink, and James V. Riker, *Restructuring World Politics: Transnational Social Movements, Networks, and Norms*, University of Minnesota Press, 2002; Richard Price, “Reversing the Gun Sights: Transnational Civil Society Targets Land Mines,” *International Organization*, 52/3, Summer 1998, pp. 613-44; and P.J. Simmons and Chantal de Jonge Oudraat, “From Agenda to Accord,” *Managing Global Issues: Lessons Learned*, Carnegie Endowment, 2001, pp. 663-89.

⁸ On epistemic communities, see Peter M. Haas, ed., “Knowledge, Power, and International Policy Coordination,” special issue, *International Organization*, 46, Winter 1992.

the institutions and processes of the international debt regime, primarily the Paris Club and its member governments, the IMF and the World Bank. In short, they are the insiders of the international debt regime. At the same time, the outsiders, those not in major positions of structural power – academic and think tank scholars, officials of “soft” international organizations such as the Commonwealth Secretariat, and private consultants – have played an important role in the ongoing debates about debt by providing independent analyses of the existing state of the debt regime and about the status of individual country cases for NGOs, creditor and debtor governments, and the international financial organizations.⁹ The individuals and the networks created between them often become an important bridge between actors because they were perceived to share at least the basic tenets, technical knowledge, and analytic capabilities of the epistemic community, and their input became important as tensions in the debt regime mounted and policy uncertainty grew. Their influence is facilitated by the fact that key actors in the international debt regime are far from homogeneous in their views and sympathies. An important factor in the evolution of the international debt regimes has been the role played by some epistemic community members inside the major units of powers who were sympathetic with the NGO discourse on debt. When conjunctural conditions permit, they formed important network connections with “outsiders” of the epistemic community and with the more sophisticated NGOs that have helped to move things along. In part they helped to do this by legitimating new ideas, knowledge, and approaches in their own institutions and delegitimizing existing ones.¹⁰

These two sets of arguments help to explain the creation of a striking new context within which our Nigerian debt story plays out, to which we now turn.

The Case

A “perfect storm” created the context for the Nigerian Paris Club deal, and part of this perfect storm was the general “softening of the debt” regime since the late 1980s but particularly with

⁹ For some early examples about debt, see: Percy Mistry (International Development Centre, Oxford University), “The Problem of ‘Official’ Debt Owed by Developing Countries,” August 1989, written for the Forum on Debt and Development (FONDAD), a predecessor to Eurodad; Jan Joost Teunissen (a Dutch academic), “The Scope for European Initiatives on Debt,” March 1989, written for FONDAD; Tony Killick (Overseas Development Institute London), “Solving the Multilateral Debt Problem: Reconciling Relief with Acceptability,” November 1995, written for the Commonwealth Secretariat; Marinus Verhagen (Utrecht University), “Economic and Social Indicators of Debt Sustainability: An Empirical Study,” January 1997, written for Eurodad; David Woodward (a British private consultant), “The Multilateral Debt Facility Proposal: Comments” and “The HIPC Initiative: Latest Developments,” April 1997, written for Christian Aid, Debt Crisis Network, and Jubilee 2000; Matthew Martin (at the time a private consultant with close ties to British universities and research institutions), “Official Bilateral Debt: New Directions for Action,” April 1994, written for Eurodad; “Multilateral Debt: Key Issues,” a report to G24 and Commonwealth Ministers, London, 20 July 1997; and last but certainly not least, the set of research papers organized and edited by G. K. Helleiner of the University of Toronto for the Group of 24 under UNCTAD auspices and published in annual volumes of “International Monetary and Financial Issues for the 1990s,” United Nations, New York and Geneva, 1992-98; the 1997 volume, for example, included pieces by MIT and University of Maryland professors, a Brookings Fellow, senior officials of the Bank of Uganda and the Uganda Finance Ministry, two fellows of the Korea Institute of Finance, and officials of the State Bank of Pakistan and the Central Bank of Chile.

¹⁰ See Nicholas Stern with Francisco Ferreira, “The World Bank as ‘Intellectual Actor’” in Devesh Kapur, John P. Lewis, and Richard Webb, eds., *The World Bank: Its First Half Century*, vol. 2, Brookings, 1997, pp. 161-274.

HIPC in 1996. Another important factor with Nigeria was that by 2005 great fatigue about Nigeria had set in among the creditors; they wanted to get Nigeria done, to get past it. In the context of Britain's "Year of Africa," Nigeria needed to be out of the way, at least to have a basic deal hammered out before the Gleneagles G-8 meeting in early July 2005. The Paris Club deal for Iraq in late 2004 was certainly part of this context. Also central were Nigeria's oil windfall and the fact that the creditors were going to get money up front, a "get what you can now attitude." The additive effects of these factors, in addition to the geo-strategic and political ones, really helped to push the deal along.¹¹ Ultimately, however, it was the Nigerians who did the work. They lived up to "the deal;" they did the hard economic reform with outside help from all three strands of the triple helix.

An Early Bargain

General Sani Abacha died on June 8, 1998, and General Abdusalami Abubakar became interim president. He visited both British Prime Minister Tony Blair and French President Jacques Chirac in September; he asked for major debt relief and investment and promised to eliminate the dual exchange rate by the end of the year. At the time oil was down to \$12 a barrel. The British told him clearly that economic reform and an agreement with the IMF were needed first. All the major creditors stuck consistently to this line over the next several years despite a political inclination in some quarters to support Nigeria's return to democracy sooner.

In early 1999 Olusegun Obasanjo announced that he was willing to work with the IMF if Nigeria received substantial debt reduction; his major argument was the need to sustain the coming democratic transition, in short, that Nigeria deserved a democratic dividend. An IMF staff monitoring program (SMP) was agreed to in January 1999, with the Nigerians expecting it to lead to an IMF ESAF agreement with modest funds and a Paris Club deal in 2000. Obasanjo was elected president on February 27, 1999 as Nigeria emerged from the darkness of a horrific military dictatorship. In his first term, Obasanjo made significant debt relief a major issue and spent a good deal of time overseas demanding it. By one estimate, Nigeria has squandered over \$280 billion in oil revenue over 25 years, leading to a huge "reputational overhang" to go along with its debt overhang. The former clearly made the latter much more difficult to deal with.

Michel Camdessus visited Nigeria in late March 1999, but Obasanjo remained noncommittal about economic reform, especially privatization, while he continued to lobby European governments for major debt relief. On April 30, about a month before Obasanjo was to be sworn in, British Chancellor Gordon Brown wrote to Mallam Ismaila Usman, Nigeria's interim finance minister, with a very clear response to Nigerian demands for debt reduction; he delivered the message to Usman personally in Washington. It was a "no punches pulled" message. Brown

¹¹ Interview with Okonjo-Iweala, July 30, 2007; also interviews B, K, P. On oil, one observer noted correctly that "It is exactly the high oil prices that enable this deal at this time. Nigeria will use a big chunk of its oil windfall to clear its arrears and buyback its debt. So the creditors are not giving anything away for free, nor is Nigeria avoiding past obligations;" Todd Moss, "Nigeria Wins Debt Relief," CGD, October 11, 2005: <http://www.cgdev.org/content/article/detail/4420/>.

pledged that the U.K. would champion Nigeria's cause *if* it seized this opportunity to engage in serious reform, saying that "Nigeria is now at an historic juncture, and it is essential that the Nigerian government and its people grasp this unique window of opportunity to take the lead on reform."¹² Brown was willing to work for an IMF program with a concessional element by fall and a rapid return to World Bank borrowing in return for certain conditions; these included permanent IMF monitoring missions in the central bank and finance ministry, independent audits of the central bank and the state-owned oil company, and legal reforms. He expressed Britain's dismay that the January 1999 SMP had gone off track so quickly; he said, "First and foremost, we are looking for you to demonstrate a real commitment to reform by getting back on track with the Staff Monitored Programme." If this were done, Britain would work to arrange a Paris Club rescheduling, including a three-year grace period to give the government some breathing room. The U.K. Treasury was willing to send a team to help Nigeria prepare for a Paris Club rescheduling. In addition, *if* Nigeria completed the IMF program in good standing and established a second one with the Fund, Britain would argue for at least partial debt cancellation, provided Nigeria still needed it. Brown believed, given Nigeria's vast oil reserves, that it could pay restructured Paris Club debt.

On May 4, 1999 the *Financial Times* held a conference on Nigeria, at which, in an unusual move, a senior U.K. Treasury official quoted the letter at length. The bargain was detailed, demanding, and public, insisting that "a clear commitment to openness, transparency and good financial management are essential parts of the reform process, and will be seen by the international community as major steps on Nigeria's reform path." In sum, Gordon Brown said that, given Nigeria's huge reputational overhang, it had to do reform before debt relief while the Nigerians were saying the opposite – that they could only do real economic reform if they received debt relief first. At the beginning of his first term, Obasanjo knew clearly what his Paris Club creditors expected if Nigeria were to erase its pariah status; the question was whether he would act on it. The answer was not long in coming.

Obasanjo is sworn in as president on May 29, 1999, taking charge of a newly democratic "enfeebled giant."¹³ Nigeria rejected the demand for central bank and finance ministry monitors as politically unacceptable, saying it would do the job. In late July an IMF team visited Nigeria for the first time since the transition. Adamu Ciroma, the new finance minister and a veteran politician from the north, declared that "having monitors in the central bank assumes that we are incapable of doing our job. That kind of proposition is unacceptable. We want to do the right thing on our own account not because the International Monetary Fund or the World Bank or anybody else wants us to do it."¹⁴ In mid October Obasanjo asserted that Nigerians had very high expectations about a democratic dividend: "These can only be sustained if Nigerians have a

¹² This and other quotes from the letter come from Larry Elliot, "Brown's Nigeria aid has strings," *The Guardian* (London), May 4, 1999, and Michael Holman, "Nigeria told to accept IMF monitors," *Financial Times*, May 4, 1999.

¹³ William Wallis, "Forty years after independence an enfeebled African giant stirs: Can Nigeria's fresh attempt at democracy succeed?" *Financial Times*, May 28, 1999.

¹⁴ William Wallis, "Nigeria rejects IMF internal bank check," *Financial Times*, August 3, 1999.

democracy dividend in terms of an improvement in the quality of their lives. That will not happen if we have to service debt (at current levels). We need to show Nigerians that democracy not only has intrinsic value but value in the real sense of the word,”¹⁵ but the best hope was for an IMF one-year Stand-By agreement by the end of the year. Obasanjo visited President Clinton in Washington in late October, and Clinton expressed general support for debt relief for Nigeria.

Nigeria had serviced its private debt all along, but the military had capped Paris Club payments in the 1990s, ostensibly in partial response to western efforts to isolate the military regime. The new Obasanjo government had budgeted to pay only about half of the roughly \$3.0 billion it owed in debt service to the Paris Club each year. In February 2000, Obasanjo visited Paris to discuss this situation, with some support from Britain and the IMF. He argued that debt relief was needed to sustain a fragile democracy. Some Paris Club creditors, including Holland, Italy, and France itself, however, expected higher payments since oil was more than \$24 a barrel; they insisting that Nigeria pay over \$2.0 billion as a sign of good faith. At a meeting in March, the Paris Club was unable to reach a consensus on this issue, a task made more difficult by a dispute over the Nigerian purchase of a new presidential jet, along with what were perceived as weak efforts at economic reform. This situation was complicated by the assertion of Professor Jeffrey Sachs that the Paris Club had “no choice” but to cancel Nigeria’s debt, a position disputed by the British who were attempting to help the Nigerians.

In the U.S., the State Department was strongly inclined to seize the moment and provide Nigeria a democratic dividend sooner rather than later. Treasury, on the other hand, was more skeptical but not adamantly opposed; it had been deeply involved in the creation of HIPC in 1996 and with its revamping in 1999. Senior Treasury officials understood the notion of illegitimate or odious and economically useless debt. Debt relief for Nigeria was not, however, a major preoccupation of the Clinton administration. The skeptics were not sure that debt relief made sense, and, more broadly, whether economic reform would emerge, much less be sustained. Many believed that any debt relief would be wasted; others argued that this worry should not rule out debt relief in advance, noting that there was a sort of twisted logic to the view that “the Nigerians would waste it all anyway; so lets not give it to them.” After all, the new Nigerian government inherited twenty years of bad debt. It was clear, however, that the Nigerians were going to have to earn it.

In late March 1999 the Nigerian High Commission issued an unsophisticated and politically naïve manifesto, *Debt Cancellation: A Case for Nigeria*, that asserted Nigeria was willing to work with the IMF and World Bank on economic reform but “only within the context of debt cancellation:” “Nonetheless, the mutual commitment of Nigeria and the creditor nations to deep debt cancellation should, however, be agreed *at the beginning of the process, and not left to the*

¹⁵ Interview with Obasanjo, “Nigerian president relents on close IMF supervision: Olusegun Obasanjo tells Michael Holman and William Wallis his country deserves debt relief and a 'democracy dividend,’” *Financial Times*, October 16, 1999.

vagaries of subsequent negotiation.”¹⁶ A Consultative Group donor meeting on Nigeria was held in Paris in April, but the IMF monitoring agreement was already off track.

A joint U.S. State and Treasury team went to Nigeria in April 2000 and discovered to the surprise of some that the SMP was going better than expected. Rising oil prices were beginning to help the overall macroeconomic situation, and the Nigerians were beginning to move towards a more balanced budget. The dual exchange rate still existed but would be eliminated by the end of the year. By the time Treasury Secretary Larry Summers visited Nigeria in June, things “looked fairly real,” as one Treasury official put it.¹⁷ During this visit the U.S. proposed a basic deal to Obasanjo. It was a deal that tried to balance all of the contending U.S. views and issues and had been in the works for quite some time. The deal was broadly as follows: if Nigeria graduated from the staff monitoring program to a new Stand-By program with the IMF and implemented it fully and in good standing for a year, the U.S. would support a regular Paris Club *rescheduling* in 2000, which would, along with higher oil prices, provide sizeable new resources over the course of the coming year.

The U.S. would look with great interest at Nigerian performance as an indication of how it might use a more permanent windfall from debt reduction. In short, if the Nigerians completed the Stand-By in good standing and used their resources well, the U.S. would support “a more comprehensive solution.” The deal was presented to Obasanjo at a breakfast meeting; he literally jumped out of his chair and shook Secretary Summer’s hand, saying that he would take the deal, implement the program, and make good on Nigeria’s commitments. Obasanjo realized that this was potentially a breakthrough. Summers stated that “Beyond this year, provided Nigeria makes significant progress on meaningful economic and financial reform, we would support positive consideration by the international financial community of multilateral [Paris Club] debt reduction for Nigeria consistent with, and on the basis of Nigeria’s continued performance, under appropriate arrangements with the IMF and World Bank.”¹⁸ Summers left Nigeria earlier than planned because of a general strike called to protest higher petrol prices, part of the effort to cut back the costly subsidy that had been one of the most explosive issues since General Ibrahim Babangida’s failed first efforts to reduce it in the 1980s.

The U.S. State and Treasury departments negotiated the phrase “comprehensive solution” very carefully in order to narrow down the many contending versions of what it meant, both within each department and between them. After Obasanjo had accepted the deal, the U.S. really had to decide what these words would mean if the Nigerians lived up to their part of the deal. Nigeria did not qualify for Naples terms because it was classified as a “blend” and not an “IDA-only” country with the World Bank.¹⁹ Treasury did some work on this issue. A paper was written that

¹⁶ Nigeria High Commission, *Debt Cancellation: A Case for Nigeria*, London, March 31, 2000, p. 20 [emphasis added].

¹⁷ Interview H; Stephen Fidler, “Nigeria wins US backing for big debt cut,” *Financial Times*, June 13, 2000.

¹⁸ Stephen Fidler, “Nigeria wins US backing for big debt cut,” *Financial Times*, June 13, 2000.

¹⁹ IDA is the International Development Association part of the World Bank; it works primarily with low income countries. A “blend” country is one that technically could borrow from both the IBRD, the main part of the Bank, and from IDA; an “IDA-only” country is one that can only borrow from IDA.

argued that Nigeria should be IDA-only, in part by comparing it to other African IDA-only countries. One of the most common arguments against debt relief for Nigeria was that it was a wealthy oil-rich member of OPEC and should be able to pay its debts. But when Nigeria was compared to other African countries on an exports per capita basis, Nigeria, given its huge population, did not look so unusual. Debt was not discussed explicitly in the paper, and it never saw the light of day outside of Treasury. As it turned out, Treasury never had to decide definitively what “comprehensive solution” meant because the Nigerians did not live up to their end of the bargain. Since Nigeria was still not an IDA-only country, any debt reduction deal would have had to be a special one along the lines of the obviously special, very political deals with Poland and Egypt in the spring of 1991, both of which Obasanjo mentioned frequently in his demands for major debt reduction for Nigeria.

On August 4, 2000, the IMF’s Executive Board approved a 12-month Stand-By agreement for Nigeria with \$ 1.0 billion to support the government’s economic program for 2000-01. Nigeria would treat it as precautionary and did not intend to draw any funds. The agreement would, however, allow debt negotiations with the Paris Club for a new rescheduling to take place, as promised. Such an agreement was fiercely debated among Paris Club creditors. The U.S. and Britain supported the agreement, but other creditors thought that, given the very thin reform track record, any agreement was clearly premature. In fact, two Letters of Intent - an initial one on July 20 and a supplemental on August 3 – were required before the deal could be sealed. Obasanjo stressed the importance of Nigeria’s peacekeeping efforts in West Africa. Speaking of the upcoming Paris Club agreement, his chief economic advisor, Philip Asiodu, noted, “We recognize that this year we will probably only confirm acceptance of the \$ 1.5 billion ceiling on debt service but we hope that come next year we will be able to win debt reduction on concessional terms.”²⁰

When Clinton went to Nigeria in late August 2000, the first visit by a U.S. president in 22 years, debt was on the agenda, but he stuck to the carefully negotiated deal of June and pointed to U.S. support of the August IMF Stand-By agreement. Ironically, the visit also marked the return of Export-Import Bank cover, after a ten-year hiatus during military rule in the 1990s, leaving open the possibility of the creation of *new* Paris Club debt. Clinton also stressed Nigeria’s economic

²⁰ William Wallis, “Nigeria pins debt relief hopes on Clinton,” *Financial Times*, August 26, 2000. At the insistence of Paris Club creditors, the IMF Stand-By agreement controversially required efforts to bail in private creditors on comparability terms before any Paris Club deal could be completed. The July 20 Letter of Intent said, “We are also seeking to restructure outstanding Brady bonds and promissory notes by exchanging these two instruments for a single new debt instrument, which would be relatively liquid. By end-July, we will retain through a transparent process, the services of reputable financial and legal advisors subject to our being convinced of significant benefits, without damage to our credibility, from a possible debt exchange. A successful exchange of private debt would both reduce payments in 2000 and help ensure comparability with official creditors.” It was expected that Salomon Smith Barney would assist the Nigerians in these efforts. Considerable private sector opposition to this mandate was made clear. As one banker put it, this meant that “political factors can allow countries to renegotiate [obligations] that they have proven capable of meeting;” this, of course, was true from one point of view, as the Nigerians had been fully serving their private debt while servicing, at best, roughly half of the Paris Club debt. Banker quote is from Rebecca Bream and Anthony Goldman, “Nigeria names advisers for commercial debt revamp,” *Financial Times*, August 15, 2000. On the August Stand-By see, <http://www.imf.org/external/NP/LOI/2000/nga/01/Index.htm>, <http://www.imf.org/external/NP/LOI/2000/nga/02/INDEX.HTM>, and <http://www.imf.org/external/np/sec/pr/2000/pr0047.htm>.

and strategic importance. In September and October Obasanjo visited London again to continue his pleas for debt reduction needed for economic reform to work. Oil had now reached \$30 a barrel and a windfall was building, which made it harder to convince all of the Paris Club creditors that Nigeria really needed major debt relief, especially without prior economic reform.

Originally slated for October 2000, Nigeria finally received the promised Paris Club rescheduling on December 13. The British and U.S. positions had been closely coordinated, which was important because the U.K. was the largest creditor. The agreement was done on concessional Houston terms and consolidated \$23.4 billion, *\$21 billion of which was arrears and penalties*. As Asiodu, who led the Nigerian team, had predicted, the effect was that Paris Club debt service due by Nigeria would be reduced to \$ 1 billion in 2001. The agreement had three crucial clauses – [1] an “entry into effect” one specifying that the agreement would become active April 15, 2001 as long as Nigeria made its payments to the Paris Club *and* lived up to the terms of the IMF August Stand-By agreement, [2] a “pullback” clause that would make the agreement void if Nigeria did not live up to its terms, and [3] a pretty standard comparability clause that, at least in theory, would apply to Brady bond debt. In addition to the normal Paris Club creditors (now including Russia), Israel attended as a creditor while Canada and Norway observed as *de minimus* creditors; other observers were the IMF, World Bank, African Development Bank, OECD, and UNCTAD. One final, and important, clause was part of the deal – a “good will clause.” “In addition, looking forward to Nigeria's negotiation of a follow-on program with the IMF, and subject to satisfactory implementation of the current IMF program and Paris Club agreement, Paris Club creditors also agreed in principle to consider possible options in further restructuring of Nigeria's debt falling due after July 31, 2001 consistent with Nigeria's medium and long term capacity to repay.”²¹

This non-concessional, but still generous, rescheduling deal on Houston terms was consistent with the deal Obasanjo had made with the Clinton administration in June and the one offered by Brown in April 1999, including the goodwill clause. Much of the discussion at the December 2000 Paris Club meeting was thus really about what would happen next. The French were not happy about a possible future debt reduction deal for Nigeria, believing that it would have to be a special deal, since Nigeria was not eligible for Naples terms, which would have been the appropriate ones, because of its “blend” status. The French maintained that “their” countries that had transitioned to democracy were not getting special treatment; thus why should Nigeria get it, especially when it did not deserve it. They were adamant that any relief would have to be within the Paris Club’s normal rules, and these did not allow significant debt reduction short of a special “ad hoc” agreement such as those for Poland and Egypt in 1991. According to the French, the Club had rules and procedures, and they should be followed. They were not even pleased about the Houston terms of the current rescheduling. If, however, Côte d’Ivoire or Senegal had been in similar circumstances, the French position might well have been different. As we shall see, Côte

²¹ Paris Club press release, <http://www.clubdeparis.org/sections/services/communiqués/nigeria/viewLanguage/en>.

d'Ivoire was IDA-only because it had become a "reverse grad" orchestrated by the French. The Germans and the Japanese raised their usual objections but ultimately went along, and the Dutch were worried about setting any kind of precedent. If Nigeria were to receive significant debt reduction *within the rules*, it would have to become IDA-only. Yet at the World Bank it was very clear that Nigeria was not IDA-only precisely because it would allow debt reduction, and it was not a HIPC and had very little multilateral debt anyway.

Thus, as we shall see, the 2000 and 2005 Nigeria Paris Club agreements are clearly linked. The stunning Paris Club deal of June/October 2005 was in many ways the actual fulfillment of the stance taken by the British, and held to consistently, and the bargain the U.S. extended and Nigeria accepted in June 2000. Much of the importance of this story was *how* the 2005 deal finally came to fruition. In this sense, our story, as a fulfillment of earlier deals, is really quite simple, but now we need to look at the complexities and processes of this overarching simplicity.

Obasanjo's First Term: Lots of Demands but Little Reform

Nigerian economic performance continued to lag in early 2001 to the displeasure of the Paris Club creditors and the IMF. In March 2002 an IMF team did go to Nigeria, but the scheduled April 15 review built into the December 2000 Paris Club agreement was never formally conducted. It was clear that Nigeria had not lived up to its side of the bargain by the time Obasanjo came to meet President Bush in May 2001, only five months after the December 2000 Paris Club rescheduling and four months before 9/11. Obasanjo placed the blame on tensions with the National Assembly. The Paris Club creditors, while acknowledging some political constraints, saw it differently, pointing to muddled Nigerian policy, lack of budgetary restraint, especially in regard to the states, white elephant projects, including a space program, and spending rather than saving the emerging windfall oil revenue, with oil double what it had been when Obasanjo came to power. Some cynics called the oil windfall the real democratic dividend and pointed to how the Nigerians were using it; from this point of view, why should Nigeria be given a second democratic dividend when it had failed to deliver the first one to the people for whom Obasanjo said he was pleading.²² A new sports stadium, for example, was to cost slightly less than the total education budget for 2001. As the *Financial Times* put it, "Obasanjo has pretended to reform [Nigeria's] economy, and the IMF has pretended to monitor the process."²³ The high level of spending did seem to keep the political lid on, but it resolved little else.

At the same time, in the months after the Paris Club agreement, Obasanjo continued to raise the debt issue, using all of his normal arguments – democratic dividend, peacekeeping, economic reform, crucial oil producer, while still mentioning the Poland and Egypt deals. For his part, Asiodu claimed Nigeria deserved 80 percent debt reduction, but these arguments did not resonate, and Bush was noncommittal. It was very clear that debt relief was not high on the new

²² One Nigerian businessman noted that "For every one reformer, there are 10 blockers;" in Tony Hawkins, "Nigeria Survey: Oil boom fails to give lift-off," *Financial Times*, March 30, 2001. In this sense, Obasanjo himself failed to deliver the democratic dividend he referred to so incessantly in his talks with Nigeria's creditors.

²³ "IMF and Nigeria," *Financial Times*, July 30, 2001.

administration's agenda, despite some sympathy by Treasury Secretary Paul O'Neill for the fact that much of Nigeria's Paris Club debt was "garbage," in this case, bad debt not fully serviced by military dictators.

At the end of June 2001, the IMF completed a very sobering Article IV consultation, but it was not announced until August 6, four days after the 2000 Stand-By was to expire. In the meantime, the Nigerians tried belatedly to improve their performance, especially on spending, and sought a six-month extension of the Stand-By agreement with the hope that improved performance would lead to a three-year Extended Fund Facility with the IMF and the long hoped for major debt reduction from the Paris Club. In a hard-hitting editorial at the end of July, the *Financial Times* declared it "time to call a halt to this policy of pretense," saying that "neither party has anything to gain from perpetuating a facade of reform."²⁴ On August 6, the Fund did agree to a technical extension of the Stand-By until the end of October at which point the situation would be reevaluated. The staff was willing to recommend that it be extended for another three months if performance improved, but it did not, and the extension expired at the end of October. This was followed by an informal IMF monitoring process with reevaluation to come in February 2002. In March 2002 the Fund announced the end of the informal monitoring arrangement, but declared its willingness to provide Nigeria with technical assistance in devising its own home-grown reform program. Despite all this, the Paris Club let the December 2000 rescheduling go into effect as the bilateral agreements were slowly negotiated and signed.

The Nigerians called the collapse of the informal monitoring agreement their move and tried to put a good face on it.²⁵ The minister of state for finance claimed, "We now have the power to run our economy as we deem best and not take dictation no matter how technically competent." In a more honest statement, Finance Minister Adamu Ciroma said, "You must understand that there are forces at play that we cannot always control. We realized that it would be damaging for us to set more benchmarks that we could not meet. We knew there would be costs that we could not continue with our debt relief, that we might not get trade credit guarantees. But we are ready to pay them."²⁶ As one Nigerian economist put it, however, "There is an obvious danger now that if the politicians sacrifice macro-economic stability to suit their own concerns about re-election, it will blow up in their faces."²⁷ In short, the deal that Obasanjo had made with the British and the Americans had failed completely. Since there had been no real economic reform, there would be no debt reduction.

Hit with falling revenue, Nigeria failed to make a June 2002 Paris Club payment, but insisted it was not a default, merely a deferral. The price of oil was dropping, and Nigeria had to cope with a lower OPEC quota. But in September 2002, Finance Minister Ciroma asserted that Nigeria

²⁴ "IMF and Nigeria," *Financial Times*, July 30, 2001.

²⁵ A 2004 DMO report put it this way: "The economic adjustment program under the IMF had to be suspended due to growing poverty-driven social unrest, fuelled by ethnic and communal differences. The emphasis of the government was necessarily diverted towards stabilizing the polity and preserving the country's fragile democracy;" DMO, "Nigeria's External Debt," p 14.

²⁶ William Wallis, "One step forward, then one step back," Nigeria Survey, *Financial Times*, April 9, 2002.

²⁷ William Wallis, "Mixed reaction to Nigeria's decision on IMF," *Financial Times*, March 8, 2002.

was in no hurry to restart payments, adding: “The members of the Paris Club are themselves not very keen to allow us to liquidate our debts. They have their own reasons for wanting to hang around our neck, and we haven’t got the means to forcibly remove them.”²⁸ At the same time, the IMF was planning to send a mission to Nigeria in October for the annual Article IV consultation, and one senior Nigerian official declared that Nigeria hoped to have a new agreement with the Fund after the elections in 2003. In the meantime, progress was finally being made in signing the bilaterals for the December 2000 Paris Club rescheduling, but falling revenue led the government in November 2002 to offer a voluntary discounted buyback of Brady bonds with the assistance of Citigroup, an effort that failed with less than 30 percent participation, complicated by the revelation that the Abacha family held Brady bonds and had tried to take part in the buyback. Nigeria finished off a bad year by managing to make a token Paris Club payment of \$70 million, the first since June. It was a final, embarrassing end to the early and promising 1999 debt deal, and, essentially, to Obasanjo’s first term, now in its remaining months. He justified the lack of progress on the need to assure political stability.

A Second Term and a Second Try

Obasanjo was sworn in for his second term on May 29, 2003. The first term had, however, planted a couple of seeds that were to play a very important role in the revival of the second term, one that could easily have been a lame duck term. The first seed was a major effort to get the debt statistics in order and included the creation of the Debt Management Office in October 2000. These efforts were carried out with the help of the British and a remarkable World Bank vice president, Dr. Ngozi Okonjo-Iweala, who took a six-month leave of absence from the Bank to tackle this task. The second seed was convening of an international conference in Abuja in May 2001, “On a Sustainable Debt Strategy for Nigeria,” which helped to lay the analytical groundwork for a new debt relief strategy for Nigeria.²⁹

2003: Gearing Up

The Team

Dr. Ngozi Okonjo-Iweala is at the center of our story – one might say its heart, head, and soul. Born in south-eastern Nigeria in 1954, daughter of economics and sociology professors, she lived through the turmoil of the Biafra war before getting an economics undergraduate degree *magna cum laude* from Harvard in 1976 and a Ph.D. in regional economics from MIT in 1981, where she wrote her dissertation on informal Nigerian financial markets. The next year she entered the World Bank via its prestigious Young Professionals Program and moved up through the ranks, from Country Director for the South East Asia and Mongolia Country unit, Director of Operations in the Middle East and North Africa region, eventually to Vice President and

²⁸ Quoted in “Foreign Debts not Nigeria’s priority,” Agence France Presse (AFP), September 3, 2002.

²⁹ A book was produced from the conference: Ngozi Okonjo-Iweala, Charles C. Soludo, and Mansur Muhtar, eds., *The Debt Trap in Nigeria: Towards a Sustainable Debt Strategy*, Africa World Press, 2003.

Corporate Secretary. When she was in charge of macroeconomic issues for West Africa she had become well versed in Paris Club processes and issues. In early 2000 she took the six-month leave of absence to help sort out the terrible condition of Nigeria's debt statistics as an informal economics advisor to the president. With the help of the UK's Department for International Development (DFID), she pulled together debt data from seven offices across the country, some of it on computers, but much of it on paper. In the process she helped to create the Debt Management Office. When this task was complete, she returned to the World Bank. "By the time I left six months later, he had his dream," she said, speaking of Obasanjo's dream to have centralized and reliable debt records: "Now, you literally just push a button and you get a print out."³⁰

Mother of one daughter and three sons, she lived in Washington where her husband was a surgeon. In mid 2003 Obasanjo had World Bank President James Wolfensohn ask if she would return to Nigeria and become finance minister and head of his economic reform team. It was both an easy and tough decision. "I was in a bit of shock. I really loved what I was doing, but when I was asked to come, how could I not go?" she said: "It never crossed my mind to be finance minister. Not because I don't want to serve my country but because of my family. I don't want to miss their growing up. And my youngest was still in school. But I was persuaded this was a once-in-a-lifetime opportunity. I felt Nigeria didn't have to succumb to the image of being a corrupt country; we didn't have to let the economy stagnate... We've got to get real; not just talk. Africans have to start looking after themselves and working and trading with each other."

At 49, Ngozi Okonjo-Iweala became Nigeria's first woman finance minister on July 17, 2003³¹ and had a huge, some would have said impossible, task in front of her. But she attacked it with her normal passion, commitment, hard work, and direct no-nonsense style. "It is a sense of anger that drives me. Anger that this country [and] Nigerians that I know are being maligned by a small percentage. You have to do something to clean this up. You can't always look up to other people to do it. The fight begins with you." And doing this creates enemies: "When I became finance minister they called me Okonjo-Wahala – or Trouble Woman. It means 'I give you hell.' But I don't care what they call me. I'm a fighter; I'm very focused on what I am doing, and relentless in what I want to achieve, almost to a fault... When I see vested interests still try to undermine me, I know it means I am being successful. When I manage to convince one person to

³⁰ "Alumna Answers Nigeria's Call: Okonjo-Iweala Answers Nigeria's call to be Minister of Finance, *Technology Review*, MIT, August 2005; also see "Profile: Nigeria's respected finance minister," BBC News, April 24, 2006. Also, interview with Okonjo-Iweala, Brookings, Washington, DC, July 30, 2007.

³¹ She received a terms of reference letter from Obasanjo that made debt relief one of the goals on which she had to deliver, thus making a Paris Club debt reduction deal a personal as well as a national priority and "placed me at the centre of this daunting challenge;" Ngozi Okonjo-Iweala, "Nigeria's Fight for Debt Relief: Tracing the Path," paper for the 2007 Brookings Blum Roundtable, "Development's Changing Face: New Players, Old Challenges, Fresh Opportunities," Aspen, August 1-3, 2007, p.2: <http://www3.brookings.edu/global/aspen/2007okonjo-iweala.pdf>. One G-8 financial official said Obasanjo picked her "because she knew her way around;" he indicated that indeed "personalities do matter" in the Paris Club context; interview B. Obasanjo chose Okonjo-Iweala precisely because she could get him a debt deal, something he wanted very much. In short, she was perfect.

change, I think this is why I am here. The ability to change things is a powerful incentive... There's so much wrong with the economy and so much to do, you can see me any day in my office multi-tasking, dealing with five or six people, ranging from a state governor to a businessman."³²

But one person is not enough to reform a system. Obasanjo needed a politically savvy team of technocrats to create, launch, implement, and sustain serious economic reform; Okonjo-Iweala understood perfectly – it was about finally tackling “the deal” Obasanjo had made:

When President Obasanjo won his second term, I gave leadership – and this is very important. He took the initiative to say look, *it's time to turn away from politics which he focused on in the first term to center on reform of the economy*. And, the economy had a lot of problems. To do this, he assembled an economic team when he approached me to be finance minister, learning lessons from how the Brazilians had done their reforms. So, we talked about it and we accepted this way to go, and under my leadership we got a team together,³³ and of course he was the political inspiration, and he gave the commitment that made the team function. So, he deserves credit for having backed us on the reforms. But what we decided to – these 12 men and women initially³⁴ – excellent colleagues – and, you know, they deserve all the credit because each person or set of people were responsible for a set of reforms, and that's what really made it happen – we focused on trying to identify the key issues in the economy and then what the types of reforms would be necessary in order to turn the economy around.³⁵

Of the twelve, two played crucial roles, and along with Okonjo-Iweala formed a reform triumvirate, especially in regard to the search for major Paris Club debt relief. The first was Mansur Muhtar, a Harvard educated, quietly passionate, and efficient technocrat who had been a senior economist at the World Bank; he became the Director General of the DMO. The second was Professor Charles Soludo, head of the of the African Institute for Applied Economics in Enugu, who became Obasanjo's economics advisor and then, in a surprise move, Governor of the Central Bank of Nigeria (CBN); with a doctorate in economics, he also did consulting work with the IMF, the World Bank, USAID, and various UN agencies. Beyond the triumvirate the

³² Quotes are from Simon Robinson, “The Corruption Cop,” *Time Europe*, 164/14, October 11, 2004; and “I keep my ego in my handbag, *The Guardian* [London], August 1, 2005. The latter article also quoted her oldest son, Uzodinma Iweala, a rising novelist, as saying, “I had no idea what she was going through until I got [to Abuja]. I've never seen a more stressful house. My mum is off to work at 6am, then she's not back until after 11pm... Even on Sunday the phones start ringing at 7am.” Uzodinma is the acclaimed author of *Beasts of No Nation* (2005); and his mother is the co-author of a Chinua Achebe biography – *Chinua Achebe: Teacher of Light* (2003). In 2004 she was proclaimed a “Hero of the Year” by *Time* magazine and received the EuroMarket Forum Award for Vision and Courage, and in 2005 *The Banker* designated her one to the “Eight Most Noteworthy Figures” working to improve African economies. Gordon Brown described her as a “brilliant reformer.” Early on in the reforms, when Obasanjo moved to take the budget and planning departments from her purview, she resigned, returning only when he relented.

³³ In Okonjo-Iweala, “Nigeria's Fight for Debt Relief,” she refers to “the excellent economic team that President Obasanjo had assembled and which I led,” p. 2. She expands on the Brazil connection: “I said to [Obasanjo] we need a team. I had this idea from Amaury Bier, the former first deputy finance minister of Brazil before the Lula government. They also did sweeping reforms. And they did it by forming a very tight team that supported each other. So we formed a team, with some really excellent people in it;” Paul Vallye, “Transcript of interview with Mrs Ngozi Okonjo-Iweala, Nigerian Finance Minister, *The Independent*, May 16 2006: <http://news.independent.co.uk/world/africa/article484595.ece>. She also said that President Obasanjo “has a vision of Nigeria becoming the true economic powerhouse of Africa...but we can't keep describing ourselves as the giant of Africa unless we perform.”

³⁴ They were called Obasanjo's “twelve apostles” by some; see Olusegun Adeniyi, “Obasanjo Moment in the Sun,” *This Day*, July 1, 2005.

³⁵ “State of Nigeria's Economic Reforms,” Brookings (event transcript), March 23, 2007, pp. 3-4 [emphasis added].

team included the following: Oby Ezekwesili, “Madame Due Process,” a chartered accountant with a Masters of Public Administration from the Kennedy School of Government at Harvard, a founding member of Transparency International and its Director for Africa, became Senior Special Assistant to the President for Budget Monitoring; in 2004 she later added responsibility for the Nigeria Extractive Industries Transparency Initiative (NEITI); Nenadi Usman, Minister of State for Finance; Olabode Augusto, an accountant and financial analyst who became Director General of the Budget Office; Nuhu Ribau, a former senior police official, became Chairman of the Economic and Financial Crimes Commission (EFCC); Nasir el-Rufai, former head of the Bureau of Public Enterprises was Minister of the Federal Capital Territory; Professor Julius Ihonvbere, with a doctorate in Political Science from the University of Toronto, became Special Advisor to the Nigerian President on Program and Policy Monitoring; Funsho Kupolokun, was Managing Director of the Nigerian National Petroleum Corporation (NNPC); Dr. Kayode Naiyeju, became Accountant General of the Federation; and Irene Chigbue, was Director General, Bureau of Public Enterprise.³⁶

The Debt Strategy

Okonjo-Iweala and her team devised a comprehensive, multi-pronged strategy for “getting through the uncertain waters of Paris Club debt negotiation:” “In the past, creditor countries of the Paris Club granted debt relief because it was politically useful even though the countries still had to meet Paris Club technical criteria. My strategy for persuasion focused on getting attention on our important economic reforms rather than pleading for debt relief” – in other words of living up to the longstanding deal. “This strategy, coupled with the assistance of civil society organizations and our commitment to fulfill *informal* promises worked.” The strategy would have “to deliver on the Paris Club core criteria for debt relief whilst at the same time mobilizing key constituencies and individuals in Paris Club creditor countries to support Nigeria’s cause.” There were four key elements to the “core criteria” or the first half of the strategy: (1) implementing an economic reform package “under a *formal* IMF program;” (2) obtaining IDA-only borrowing status at the World Bank; (3) establishing a good record of debt service; and (4) demonstrating that Nigeria did not meet IMF and World Bank debt sustainability in the long run. Above all, Nigeria “approached its quest for relief strategically, flexibly and pragmatically using a combination of tested and new instruments to make it work.”³⁷

³⁶ Each of these elements will be discussed in more detail below. See “Nigeria: 2005 Article IV Consultation, Concluding Statement,” IMF, March 25, 2005; Paul Ibe, “Debt Buy-Back for Nigeria on the Table,” *This Day*, June 12, 2005.

³⁷ Okonjo-Iweala, “Nigeria’s Fight for Debt Relief,” pp. 1, 5, 15 [emphases added]; and an interview with her July 30, 2007. Okonjo-Iweala’s sketching of her team’s strategy has an ex post facto element to it, as we shall see, which makes it sound neater than it actually was, all of which is perfectly normal under such circumstances and with a case as unique as Nigeria’s debt situation and as complex and contingent as the search for debt relief proved to be. It is not, for example, clear *when* the strategy was designed and by whom. It was an evolving process limited and shaped by key structural facts. The last points about acting strategically, flexibly and pragmatically are on target. Okonjo-Iweala said that before she was sworn in Obasanjo, who was to meet Prime Minister Blair soon, “wanted him to know that we were turning over a new leaf;” so Okonjo-Iweala and members of her team put together “a 17-page paper that became the basis for many of the reforms” that Obasanjo could show Blair; “Next I then laid out a matrix of reforms – showing the order of priority, how they would be implemented, what the sequence of action would be... This is where my background at the World Bank was enormously helpful. I knew how to set about ordering a

In many ways members of the economic team had to be “technopols” rather than just technocrats. Okonjo-Iweala was aware of the issue and honest in her response, saying “So, technopols is a very good term. We’ve got a little bit of that technopolish but we could have done more:” “I don’t think we were as politically savvy as your analyses seem to think. I actually think that that was one area of big weakness on my part and on the part of the economic team. We went in there – there’s technocrats, and I think the president also had two boxes – you know, a box of technocrats and a box of politicians... But we could have been more savvy. We learned as we were going. You know initially interaction with, say, the legislature, and I’ll speak for myself, was not maybe as much because there was this fear that they would untie the reforms. They were trying to distract you from doing the right thing. They were bringing all the arguments why you shouldn’t do this or that. And so there was this feeling that look, if we – if you interact too much or water down what you want to do, it may be diverted. They can actually block you and, as you know in the first term the president also had issues with the National Assembly and things were blocked. So, we began to even convince him and for ourselves to interact with them much more, you know, and to sell our stories, and we found allies within the National Assembly, and that’s when we began to be a little more politically savvy... We could have done more of that. I think the president could have mixed it up a bit more and that would have been maybe not as hard.”³⁸ It is clear from this statement how delicate the political balancing act was for all.

The first criterion of the strategy – economic reform with a formal IMF program – was a major hurdle because of the combustible nature of Nigeria’s past relations with the IMF; it was going to be very difficult politically. The strategy was to develop a homegrown program “as strong or stronger than what the IMF would have put in place” and formally invite the IMF to monitor it “in the hope and expectation that such an approach would be acceptable to the Paris Club.” In short, this formal monitoring would actually be an *informal* staff monitoring program (SMP).³⁹

massive task like this. But the joy of it was that this was our plan;” Okonjo-Iweala noted that “on my first day I sat in that chair and said ‘Oh My God I can’t do this. There are just too many things’... But once I had the matrix, which became like a bible, I suddenly got a burst of confidence; she then put the matrix on the finance ministry website for all to see: “So that anybody who wanted to could monitor us. That was a bit of a breakthrough. People were surprised – in the IMF, the donor agencies and so on;” she did something similar with the monthly federal allocation to the states: “So in January 2004 I talked to the President and said ‘can I start publishing in the newspaper what each state and local government gets each month?’ He said ‘sure go ahead’... It was very costly but it was so popular the papers sold out... Putting information in the hands of the people didn’t make me popular at all with the state governors. Some of them felt I was deliberately after them. Even today some of them are still sore. But the bottom line was that it unleashed this national conversation. People began to talk, to question, to write in the papers. It just took off. And things began to happen;” Valley, “Transcript of interview with Mrs Ngozi Okonjo-Iweala.”

³⁸ “State of Nigeria’s Economic Reforms,” Brookings (event transcript), March 23, 2007, pp. 49-50. Professor Peter Lewis, a leading specialist on Nigeria, first brought up the notion of “technopols,” which led to Okonjo-Iweala’s response. Professor Lewis observed that Nigeria’s economic team “was clearly the most significant, the most talented, the most effective team in Nigeria’s post-colonial history. There just simply has never been an assemblage of talent with the commitment and the focus and the sustained effort on changing the economy that we’ve seen in the last three and a half, four years.” He referred to “the skill of the team – their exceptional training, the exceptional level of experience, and their ability to embark on a political learning curve;” pp. 28-29. Technopol was a term first used by John Williamson, a specialist at the Institute for International Economics (IIE), in *The Political Economy of Policy Reform*, IIE, 1994, which he edited.

³⁹ Okonjo-Iweala said of herself that there was “already a suspicion that people like myself who come from these institutions would try to force the country into” an IMF program; Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” p.5. Of the IMF and the Bank, she noted: “The IMF and World Bank teams responsible for Nigeria at the time were good listeners,

But “ultimately, the Paris Club insisted that this approach was too informal and could set ‘dangerous’ precedents for other countries.” It insisted that it had to be a more formal IMF arrangement. Clearly, informal formal was not going to fly, but “by sheer coincidence” there was debate under way about a new instrument that just might work, what eventually became known as the Policy Support Instrument (PSI).⁴⁰

The second criterion – obtaining IDA-only status – was just as important: “We were only interested in this for the purposes of meeting the Paris Club requirement of IDA-only status *for Naples terms or other deep discount debt relief*.”⁴¹ With the creative help of the Center for Global Development in Washington, Nigeria achieved the change to IDA-only status in mid 2005, which helped to lay the ground work for a debt reduction deal on Naples terms with the synergy from another suggestion from CGD – a discounted buy-back.⁴² The third criterion – establishing regular debt service – was based on the fact that after the DMO was established in 2002 a real if strained dialogue with the Paris Club was established for the first time since the long dark years of military rule. An “informal, unwritten agreement” was reached with the Paris Club “to pay about US\$1 billion of the US\$2.3 billion that was due annually... The trick was then to maintain this informal agreement to establish good faith and create a reasonable track record” on the payment as well as the economic reform front.⁴³ This understanding that Nigeria would pay only about half of what it owed each year was maintained under Okonjo-Iweala even if it got a bit bumpy from time to time; the strategy was to save half of the ever increasing oil windfall and spend it in ways that would be useful politically, while using the other half to maintain this debt service deal with the Paris Club. The deal also allowed Nigeria time to find a way to gain the type of debt service agreement it sought, which would, hopefully, obviate the need for the informal debt service deal.

The fourth criterion – demonstrating that Nigeria did not meet IMF and World Bank debt sustainability criteria over the long run – was closely tied to this third one, only on the long-term

smart, confident and excellent partners and they recommended to their management that they partner with us in the way requested. We were so lucky that senior managers at the Fund at the time were willing to listen and support us;” *ibid*, p. 6. In “State of Nigeria’s Economic Reforms,” pp. 25, 13, Okonjo-Iweala said that Nigerians wondered “who are these spies in our midst;” and on collaboration with the IMF: “We just needed them to work with us and support us in implementing these reforms and to provide a certificate, if you will, of good performance... And we managed to have a wonderful relationship. It was very difficult at times. Heated arguments, particularly at headquarters, but we managed something pretty revolutionary that people don’t – may not know about.” Okonjo-Iweala noted that “After 12 months [of reform] I thought we could go and chat to the Paris Club. They said: ‘It sounds fine. But sign up with the IMF so we know what you’re really doing.’ So I said the Nigerian people had a referendum in the mid 1980s where they decided against an IMF programme. So politically it’s a non-starter. We’re getting the result; why do we need the IMF? Because, they said, we can’t all send a mission to verify what you’re doing. So I said, well let the IMF come to monitor us, we won’t mind that. And that’s what happened; we got to own all the pain and gain and the IMF *just observed*,” Valley, “Transcript of interview with Mrs Ngozi Okonjo-Iweala.” As seen above, this was far from the first staff monitoring program Nigeria had with the IMF, and, on the “just observed” comment, it was clearly more complex than that; see the section below on the ambiguities of the PSI, pp. 70-73 below. On the role of the IMF, interview with Okonjo-Iweala, July 30, 2007 and interviews D, P, B.

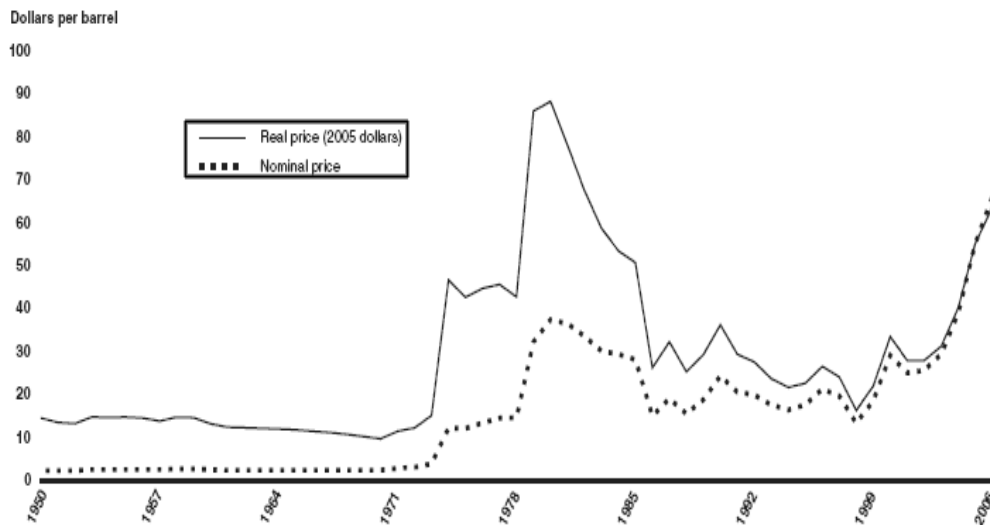
⁴⁰ Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” p. 7 [emphasis added].

⁴¹ Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” p.7 [emphasis added].

⁴² For a more extensive discussion of the role of CGD, see pp. 38-41 below.

⁴³ Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” p.8. She also referred to it as “a tacit agreement with the club,” p. 4.

level. Oil revenue was a big problem for Nigeria: the average price in 2003 was \$28.9 a barrel, rising to \$37.8 in 2004, and \$53.4 in 2005, with many analysts predicting even higher prices.⁴⁴ Given this, as Okonjo-Iweala noted, “Paris Club members were in no mood to entertain debt relief for a so called oil rich country;” this brought the informal and unwritten debt service deal under increasing strain. To counter this, the Nigerians argued that a standard debt sustainability



analysis (DSA) did not adequately take price volatility into account or deal at all with domestic debt and a country’s ability to achieve the Millennium Development Goals (MDGs).⁴⁵ Okonjo-Iweala made an

interesting and accurate observation: “The push by the international community to get developing countries to work towards meeting these goals on the one hand whilst at the same time insisting on debt service on the other seemed contradictory and hypocritical.” In other word, creditor aid agencies and their treasuries often did not see eye to eye, and this had to be changed. The notion of factoring in the MDGs into DSAs was “scary to Treasuries,” and “we were warned that this approach would not be accepted by the Paris Club as it could be precedent setting.” DSAs by the IMF were showing Nigeria debt to be sustainable, which pushed a number of Paris Club countries to insist that the informal payment deal be scrapped and Nigeria pay more of what it owed each year. So Okonjo-Iweala asked the World Bank to do a DSA that took the MDGs and potential oil price volatility into account. The 2005 study, “Nigeria’s Opportunity Of A Generation: Meeting The MDGs, Reducing Indebtedness”⁴⁶ did show that Nigeria’s debt would not be sustainable from this point of view. This Bank study “found its way to both

⁴⁴ The price of oil figure is from <http://www.mindfully.org/Energy/2007/Crude-Oil-Uncertainty14feb07f04.gif>.

⁴⁵ Yet, at the same time, the Nigerians praised an IMF DSA done in late 2002 and published in 2003 that indicated that it would take a Paris Club flow and stock rescheduling at Naples terms to make Nigeria’s debt sustainable and provide a comprehensive solution, assuming good policy performance; DMO, “Nigeria’s External Debt,” pp. 17-18; the report drew on IMF, “Nigeria: Selected Issues and Statistical Appendix,” Country Report No. 03/60, March 2003.

⁴⁶ World Bank, “Nigeria’s Opportunity Of A Generation: Meeting The MDGs, Reducing Indebtedness,” PREM [Poverty Reduction and Economic Management] Anchor Report Prepared for the Africa Region, April 2005. The report was not released publicly and cannot be found on the Bank’s website, although vigorous digging did turn up references to it. I want to thank Brian Pinto, the study’s lead author, for finally providing me with a copy of the report. The report team worked under a tight time constraint and pressure “to stick with conventional approaches;” confidential correspondence. Ann Pettifor said this report proved “vital in the final stages of this complex geo-political exercise;” Ann Pettifor, “New Debt-Free Start: Inside story of how Nigeria convinced the world it was a good bet for debt relief,” DFID, Development Magazine, n.d., <http://www.developments.org.uk/articles/new-debt-free-start/>. Also Okonjo-Iweala interview, July 30, 2007. From the vantage point of January 2009, the Nigerian insistence on taking oil price volatility into account proved to be very prescient.

members of the G-8 and the Paris Club,” and the Nigerians used it “to demonstrate that Nigeria would need Paris Club debt relief.”⁴⁷ As we shall see, whether the Paris Club countries would accept this argument was another thing altogether.

Since debt relief was “at once an economic but also a supremely political issue,” the other half of Nigeria’s debt relief strategy involved the larger international environment in which the search for debt relief operated – shaping and using it to create a perfect storm: “There were other factors that contributed such as the role played by civil society, academics and think tanks in the debt relief and poverty reduction debate, as well as the lobbying of Paris Club country officials of various levels.⁴⁸ In addition, “the Nigerian Legislature played an important role, while other personal contacts in major Paris Club treasuries were also often helpful.” For Okonjo-Iweala there were direct and indirect ways in which NGOs and their social movements helped the Nigerian cause. She viewed the indirect way as more crucial – the role of the debt relief movement from Jubilee 2000 onwards, which softened the terrain and brought about HIPC-I, then HIPC-II and eventually the Multilateral Debt Relief Initiative that emerged from the British-led “Year of Africa” G-8 summit in early July 2005.⁴⁹ Okonjo-Iweala asserted that “Nigeria had all of the characteristics of a HIPC and was in fact initially listed as one and then removed.” The debt relief campaign evolved into the Make Poverty History campaign with its celebrities such as Bono and its legions of rank and file. On the direct side, Nigeria enlisted the services of Ann Pettifor, a “perfect partner:” “We realized sometime at end-2004 *in the middle of our campaign* that getting more direct support and partnership with both domestic and international civil society would be helpful to Nigeria’s quest.” A wide “array of academics, think tanks, and individual practitioners” also contributed, especially, as we shall see, CGD.⁵⁰

The efforts of British Prime Minister Tony Blair, Gordon Brown, and Hilary Benn with the Commission for Africa and the G-8 “Year of Africa” leading up to the Gleneagles summit also played crucial roles. The Nigerians realized that they needed a Paris Club/G-8 patron or sponsor

⁴⁷ Okonjo-Iweala, “Nigeria’s Fight for Debt Relief,” pp. 8-10 [emphasis added]; the G-8 countries are all permanent members of the Paris Club, but the Club has eleven other permanent members, and insufficient attention to this distinction eventually posed a major obstacle to a Paris Club debt reduction deal. In regard to the role of the MDGs, which has to do with the second half of my argument and the second half of the Nigerian debt strategy, the MDGs were created and used by the UN system and international civil society groups and NGOs as a weapon to increase resource flows to poor developing countries. The Fund, the World Bank, and the Paris Club countries found the MDGs politically useful as legitimating tools, as they had with good governance, poverty reduction, and pro-poor growth, but in the process got caught in their own trap in ways they had not anticipated; the DSA-MDG issue is one good example. As for oil, Okonjo-Iweala said, “Nobody believed that at the time of high oil prices Nigeria would ever be given debt relief. But it happened;” Brookings, “State of Nigeria’s Economic Reforms,” p. 11.

⁴⁸ Okonjo-Iweala stated that “we spent two years of really intensive work – that is a story by itself – trying to get a deal with the Paris Club. We had tried for years and years;” she said “there are very dramatic stories of Okonjo-Iweala skulking the halls in the corridors of hotel rooms” but that “with very hard work,” which was also very political; Brookings “State of Nigeria’s Economic Reforms,” p. 10. She said, “When we first started G8 finance ministers would see me and say Oh My god she’s coming to talk about debt. And they all tried desperately to look the other way,” even the first time she tried to see Gordon Brown; Valley, “Transcript of interview with Mrs Ngozi Okonjo-Iweala.”

⁴⁹ On the MDRI, see: <http://www.imf.org/external/np/exr/facts/mdri.htm> and http://siteresources.worldbank.org/INTDEBTDEPT/Resources/mdri_eng.pdf; and Todd Moss, “Briefing: The G-9’s Multilateral Debt Relief Initiative and Poverty Reduction in Sub-Saharan Africa,” *African Affairs*, 105/419, April 2006, pp. 285-93.

⁵⁰ Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” pp. 10-13[emphasis added].

to argue their case, and Britain filled the bill perfectly and was more than willing as long as Nigeria lived up to the original deal, which Okonjo-Iweala and her team were now doing. She wanted “at least 15 months” of a track record⁵¹ and would only directly ask for support after they had succeeded with the reforms for at least a year – “the deal” again. “This strategy worked,” she said. Lastly, there was the importance of direct personal connections – people who knew her and her track record, which Okonjo-Iweala (and others) had developed over their years in international financial circles, often from the World Bank or the IMF. These included Nicholas Stern at HM Treasury, Caio Koch-Weser, German deputy finance minister, and Emmanuel Moulin, the Paris Club’s Secretary General. Obasanjo had his own very high level political connections, and Okonjo-Iweala lobbied “at the level of the finance ministers whilst trying to make sure the technical work they would ultimately look at and rely on for decisions was done to a high standard to help justify the debt relief.” Such connections “brought an unprecedented level of trust,” and she noted “how agile one had to be to get the right kind of attention.”⁵²

Finally, there was the issue of what to ask for. As Okonjo-Iweala pointed out Nigeria was not a HIPC and was not going to become one, despite occasional rhetorical jabs, thus they worked to become IDA-only so that Nigeria could get at least Naples terms. However, she also noted that “we had resolved to ask for debt relief under Evian terms, which were discussed at the Evian Summit at the June 2004 [actually 2003] and formalized by the Paris Club in October [2003];” yet she described the deal as, in part, being a “Naples terms treatment on the remaining US\$24 billion” after the payment of the arrears, “which was a standard Paris Club requirement.”⁵³ It is not clear that Nigeria benefitted from the Evian Approach or in the end even formally asked for it. Its treatment is listed as “Ad Hoc” by the Paris Club website, but the press release of the October 2005 final deal describes it as built around Naples terms plus a buy-back. It is not, however, on the list of countries that have received Naples terms.⁵⁴

⁵¹ Okonjo-Iweala noted: “We received good advice based on past lessons that it may be best to have a G-8 creditor who would be Nigeria’s sponsor during internal creditor debt relief discussions,” which “could help first convince fellow G-8 members or our case *and then* further help push it at the Paris Club... a treasury and DFID team presented Nigeria’s case to the G-8 finance ministers meetings;” Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” p. 14 [emphasis added]. Also, interview with Okonjo-Iweala, July 30, 2007.

⁵² Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” pp. 10-13.

⁵³ Okonjo-Iweala has the date of the Evian summit wrong; it was in June 2003, not 2004; Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” p. 13. This makes a difference for her argument, as it means that *both* Evian and Naples terms were around as the Nigerians were deciding on their strategy - what to ask for and when. On the “Evian Approach,” see: <http://www.clubdeparis.org/sections/termes-de-traitement/approche-d-evian/switchLanguage/en>. Interviews indicate that Nigeria could have had a deal on Evian terms, if it had wanted one in the end. Also DMO in 2004 implied that it would be a strategic mixture of both: “To address Nigeria’s debt burden, the expectation is that major reform embarked upon by Nigeria would, in a few months, provide a platform for re-engaging the Paris Club creditors on discussions regarding such *comprehensive approaches to Nigeria’s debt problems on Naples terms, or with the framework of the recently enunciated ‘Evian Approach’*,” DMO, “Nigeria’s External Debt,” p. 17 [emphasis added]. Mansur Muhtar noted in March 2004 that the new Paris Club’s Evian Approach opened “a window of opportunity for Nigeria to get debt relief,” going on to say that it was gratifying that the Paris Club was beginning to appreciate Obasanjo’s argument about debt relief, see “Creditors to blame for Nigeria debt, says Abuja management office,” Deutsch Presse-Agentur, March 17, 2004.

⁵⁴ See http://www.clubdeparis.org/termscountry_view?t=NA. Two G-8 financial officials suggested that Nigeria could have obtained a Paris Club deal on Evian terms, given the one for Iraq in 2004, but it might have been harder.

External observers were both impressed and skeptical about the Nigerian strategy developed by Okonjo-Iweala and the economic team. As one leading analyst put it, “If Africa is going to change, it will be these and other technocrats who are architects of the renaissance.” Two others noted that Obasanjo’s “new economy team is widely regarded as one of the best in sub-Saharan Africa. But so far it makes just a thin layer of core aides, with little experience of Nigeria’s administration or politics and questionable power.” A Nigerian observer observed that “Okonjo-Iweala’s efforts and those of her boss are met with a mixture of cynicism and disinterest. Nigerians know little about their minister’s labours and they are largely distrustful of government,” and there is “opposition from those who believe Okonjo-Iweala is part and parcel of the international establishment and others who mouth the argument of the international community that Nigeria is a ‘rich’ country... But Okonjo-Iweala sees nothing wrong in giving debt-forgiveness a try, despite the odds.”⁵⁵ And the odds were steep, but major reforms were created and launched in a very tough domestic and international environment. As Okonjo-Iweala said, the reforms came “in three main blocks: macroeconomic reform, structural reform [especially banking sector, civil service, privatization and trade policy], and institutional and governance reforms.” These will be discussed here only as they apply to the effort to obtain major debt relief from the Paris Club, and particularly their political economy aspects. In this regard, Okonjo-Iweala points out, “These are some of the most difficult things to deal with – that there were people who were rent seekers and in whose interest it was not to do these reforms – so all along the way there were constant challenges, constant blockages to the team in terms of the way they worked.”⁵⁶

At the 2003 G-8 Summit in Evian, France, Obasanjo was included in the “Enlarged Dialogue” along with Hosni Mubarak, Thabo Mbeki, Vincente Fox, Luiz Lula da Silva, Hu Jintao, and the heads of the IMF, the World Bank, and the WTO. He was playing in the big leagues and needed to demonstrate that he belonged there. Obasanjo had promised to make self-imposed and designed economic reform the centerpiece of his second term. He desperately needed his technocrats and their strategy. While many creditors remained hawkish, the IMF signaled that it was ready to help; the Fund’s Menachem Katz declared: “We will be ready to come as soon as they are ready, to assess the situation and help them move forward. But I think it will be very

⁵⁵ James Eedes, “The Policymakers of the African Continent Face Some of the Toughest Challenges in the World Today,” *The Banker*, April 1, 2005; David White and Michael Peel, “A crucial year for credibility,” *Financial Times*, February 24, 2004; and “Okonjo-Iweala: the Brain Behind the Brawn,” *This Day*, March 19, 2005.

⁵⁶ See Brookings, “State of Nigeria’s Economic Reforms.” Okonjo-Iweala said the reforms “sought to stabilize the macro economy, fight corruption and bring transparency to government business, strengthen fiscal policy and improve the management of the budget, privatize inefficient state assets and liberalize key sectors and implement public service reform as well as financial sector restructuring. The program was comprehensive and touched on all key areas where Nigeria had serious economic problems. The program was result oriented.” Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” pp. 5-6. On the reforms, see Ngozi Okonjo-Iweala and Philip Osafo-Kwaako, “Nigeria’s Economic Reforms: Progress and Challenges,” Brookings, Global Economy and Development Working Paper 6, March 2007; Abdoulaye Bio-Tchané, Director, African Department, IMF, “Making Reforms Work for Nigeria,” *This Day*, May 18, 2006; Economist Intelligence Unit (EIU), Nigeria Country Reports; key IMF documentation, especially Article IV and PSI reports: see “Nigeria and the IMF,” <http://www.imf.org/external/country/nga/index.htm>; and key World Bank documents: www.worldbank.org/ng.

important not to rush into things. It's important to do it right this time."⁵⁷ One prominent member of the new Nigerian economic team asserted that "This president is going to shock us all."⁵⁸

The Deal is back in 2003...

President Bush, in his first trip to Africa, visited Nigeria in mid July 2003, and Obasanjo and Okonjo-Iweala laid out their plans for economic reform. Then in late July Okonjo-Iweala and Charles Soludo had discussions about debt and economic reform with British and World Bank officials in London in advance of a visit by Obasanjo on July 28-29. The deal was back and being relaunched. Obasanjo declared that the economic reforms "emanated from the frustration I had in my first term where I went round the world talking about debt relief and debt reduction with no tangible result." He was now more optimistic because "This time I have an economic team they respect" and because there were concrete discussions at the technical level rather than just at the political one. He met with both World Bank President James Wolfensohn and Prime Minister Blair. During a meeting at 10 Downing Street, Blair pledged support for "long over due" economic reforms. Obasanjo wanted Britain to champion debt relief for Nigeria from the rest of the Paris Club creditors. Both the British government and the World Bank "endorsed" the planned reforms and agreed to provide assistance that would help to make them work. Speaking after his 45- minute meeting with Blair, Obasanjo said, "We know what we are going to do, what benchmarks we must achieve before (expecting) a lifeline from the international community."⁵⁹

Professor Soludo was more direct. Describing Nigeria's debt situation as "scary" in late July 2003, he said, "We need significant debt relief. Nigeria is not pleading for mercy, because we have an agenda and expect the international community to show understanding." He declared that the World Bank and the British government had agreed to champion a campaign for debt concessions as long as the reforms were pursued vigorously.⁶⁰ After considerable domestic consultation, Okonjo-Iweala and her team began work on a detailed policy program statement that became the National Economic Empowerment and Development Strategy (NEEDS). It was to be the centerpiece of the reform effort and facilitate some sort of agreement with the IMF in 2004 that might eventually lead to major Paris Club debt reduction. Okonjo-Iweala was well aware that her team faced deeply rooted vested interests at home and an external reputational problem. "Some of these reforms are very, very difficult," she noted. "We need to demonstrate that if we ask people to bear this they will see results at the end of the day. There is a lack of

⁵⁷ Michael Peel, "'Act fast before the enemies of reform regroup'," Special Report: Nigeria, *Financial Times*, June 10, 2003, p. ii.

⁵⁸ Nasir el-Rufai in Michael Peel, "'Act fast before the enemies of reform regroup.'"

⁵⁹ "First Term Frustrations Responsible for Reforms – Obasanjo," *This Day*, July 31, 2003; "World Bank, Britain Endorses Government's New Economic Reforms," *Daily Trust*, July 31, 2003; and "Nigeria, Britain agree on reforms needed by Nigerian economy," AFP, July 29, 2003

⁶⁰ "Nigeria's Debt Profile Now \$31 bn," *This Day*, August 1, 2003 and "No clear prospects for reduction of Nigeria's debt burden – economic advisor," *The Guardian* (Lagos), August 1, 2003, and "Nigeria 31 billion dollar debt is 'quite scary': economy official," AFP, August 1, 2003. In an August 12, 2003 commentary on the London visits, the *Daily Champion* noted, "Happily, the President has assembled a team of finance and economic managers that are familiar with western financial institutions and their thought process... We hope they can tell the President the truth. And that Obasanjo will listen to them."

trust. There is tremendous impatience also, because they think they have suffered over time – and we share that.”⁶¹ Yet, as part of the early moves of the reforms, the government raised petrol prices as part of an effort to attack the fuel subsidy issue, leading to an eight-day general strike in late June and early July. This had been one of the hot button political issues in Nigeria for 20 years. The strike was finally settled after the government agreed to reduce the amount of the increase. Economic reform and debt reduction efforts were going to have legions of enemies, as many Nigerians believed that debt was one of the main causes of their difficulties, not one of the symptoms. In October 2003 the government, in an important and courageous move ended fixed petrol prices. This deregulation of fuel price received intense opposition and would lead to real political trouble for the new reform effort.

In mid July 2003 Nigeria finally signed bilateral agreements with the U.S. and Japan for the December 2000 Paris Club rescheduling, hopefully reopening the door for badly needed export credit cover. By the end of the year, only Italy, Finland, and Russia had not completed a bilateral agreement.⁶² As noted above, the Paris Club announced in October, based on discussions at the June G-8 summit in France, a new more flexible approach to be used for non-HIPC countries that could be used in exceptional cases.⁶³ This Evian Approach would come to play an interesting role in our story, as the Nigerians believed that the new approach could be used for Nigeria.

U.K. support from DFID and Crown Agents Consulting was used to build the capacity of the DMO. Dr. Mansur Muhtar became the Director-General of the DMO in December. He noted that “The IMF has done a very detailed study on debt sustainability, taking into account, Nigeria’s budget projection situation and it shows that Nigeria really needs debt relief. But the IMF added that we have to do other things to be able to get relief.” He also acknowledged that “the U.K. is now the one championing our case behind the scene and softening the ground for debt relief,” with the same caveat.⁶⁴ The U.K. was the largest Paris Club creditor, holding about 25 percent of the debt.

One of the major obstacles to the economic reform effort was inherent in the federal system – the central government’s relations with the 36 states and 774 local authorities, which made both spending and corruption hard to control. In December 2003 Okonjo-Iweala proposed a Fiscal Responsibility Bill aimed at controlling unrestrained spending of oil revenue allocated to the states and localities, which received about 55 percent of total revenue. In a highly unusual move, Okonjo-Iweala started publishing in newspapers the monthly allocations of oil revenue from the

⁶¹ Michael Peel, “Nigeria seeks to reassure wary lenders,” *Financial Times*, September 24, 2003.

⁶² In fact, Italy had not even begun serious negotiation. Brazil, the creditor nobody mentions, had participated but withdrew from the rescheduling agreement; Israel was a creditor and signed its bilateral in January 2002. Canada and Norway were *de minimus* creditors and attended only as observers. It took until the end of 2004 to get all the bilaterals negotiated and signed.

⁶³ See <http://www.clubdeparis.org/sections/services/communiqués/approche-d-evian/switchLanguage/en>. Also see EIU, Nigeria Country Report, February 2004, p. 35.

⁶⁴ “Creditors acknowledge Nigeria’s need for debt relief,” Xinhua, December 28, 2003.

federation account to states and localities, a move that proved to be very popular with some and extremely unpopular with others.

2004: Building and Selling a Track Record

The New Year brought the first real reform budget, making 2004 the “year of credibility,” both with the creditors and with Nigerians themselves. The budget was drawn up in consultation with the National Assembly and the IMF, but Okonjo-Iweala insisted, “This is not an IMF programme. This is Nigeria’s own budget.” An IMF official described the reform effort as ambitious and said, “This is the best chance Nigeria has had for a long time,”⁶⁵ but the new budget was savaged in the Nigerian press. At the same time, there were worries about the ability of the new economic team to actually operate with decent political protection. At one point, Okonjo-Iweala threatened to resign unless she had real control over the budget process. The budget projected paying \$1 billion of the \$2.2 billion due the Paris Club in 2004 “under the deal negotiated with creditors in 2003.”⁶⁶ In line with Okonjo-Iweala’s recognition of the need for a track record of reform, she said that the Nigeria would *not* seek a debt deal in 2004. A key step toward external credibility was Nigeria’s decision to enroll in the U.K. Extractive Industries Transparency Initiative.⁶⁷ The trick was to show macro-economic prudence while increasing social service expenditure for its own sake *and* for the political legitimacy it might bring, a task that would eventually be eased by rising oil prices. In his budget speech for 2004, Obasanjo said that Nigeria could not service its debt without greatly reducing spending for education, health care, and infrastructure. Above all, this meant overcoming the resource curse of oil. One of the authors of an IMF study of its effects on Nigeria asserted, “Nowhere are all the pathologies associated with oil as clearly manifest as in Nigeria... Thus, oil and the institutional deterioration that it has led to, has perhaps been the single most important cause of Nigeria’s economic and political problems.”⁶⁸ The IMF concluded its 2004 Article IV consultations with Nigeria in March, expressing a positive view of the new economic effort but also a worry about the use of the incipient oil windfall. In a visit to Nigeria the same month, Wolfensohn praised the new economic effort and the team behind it and pledged support, yet reminded Nigerians of “the

⁶⁵ “Profile: Ngozi Okonjo-Iweala” and “Crucial year for credibility,” both part of a “Special Report: Nigeria,” *Financial Times*, February 24, 2004. Okonjo-Iweala had the details of the budget put up on the web.

⁶⁶ EIU, Nigeria Country Report, February 2004, p. 34. Also see, “Okonjo-Iweala And Paradox of Integrity,” *This Day*, March 17, 2004: “Our failure to pay \$1 billion at the scheduled time last year on account of the 2003 general election incurred the wrath of the Paris Club which then demanded the payment of \$2.5 billion for the year, but the club reversed itself *when Okonjo-Iweala personally spoke with its top officials*” [emphasis added].

⁶⁷ There was strong backing from the NGO community for this effort, a coalition that included Amnesty International, CAFOD, Christian Aid, Friends of the Earth, Global Witness, Oxfam, Save the Children, and Transparency International, with additional support from Georges Soros. Obasanjo founded NEITI, the Nigerian EITI, in February 2004; see “NEITI: Moving From Secrecy to Transparency,” *This Day*, March 15, 2005.

⁶⁸ Xavier Sala-i-Martin in “Tackling the natural resource curse: An illustration from Nigeria,” *IMF Survey*, 23/5, March 15, 2004; the IMF paper is: “Addressing the Natural Resource Curse: An Illustration from Nigeria,” July 1, 2003, <http://www.imf.org/external/pubs/cat/longres.cfm?sk=16582.0>. The curse can be overcome; see the fine book by Peter Lewis, *Growing Apart: Oil, Politics and Economic Change in Indonesia and Nigeria*, University of Michigan Press, 2007.

deal”: “You will not get debt relief unless you show it’s a new day in Nigeria. The important thing is to stick to it.”⁶⁹

At the Davos meeting in late January 2004, Okonjo-Iweala had a chance conversation with Nancy Birdsall. Although they both had backgrounds at the World Bank, they knew each mostly by reputation because Birdsall had left the Bank in 1993 to become Executive Vice-President of the Inter-American Development Bank for five years and then a senior fellow at the Carnegie Endowment in charge of its economic reform project until she became the founding president of CGD in 2001. They talked about Nigeria’s campaign for major Paris Club debt relief and how it was not going as well as Okonjo-Iweala would have liked. Birdsall inquired whether Nigeria’s IDA-only status was getting in the way. Okonjo-Iweala replied that indeed it was; she felt that it was a convenient excuse that unsympathetic creditors and international financial officials could hide behind. Birdsall asked if the CGD could be of any assistance, and Okonjo-Iweala was pleased to accept the offer. The CGD’s first major publication had been an influential book on debt, with Birdsall as one of the co-authors; it had sections on Nigeria, and Okonjo-Iweala knew of the book.⁷⁰ To work with Nigeria on its debt relief effort was a brave task for the CGD to take on because much of official and think-tank Washington believed at the time that a debt reduction

⁶⁹ “World Bank expresses confidence in Nigeria emerging reforms,” M2 PressWIRE, March 24, 2004. One version of Wolfensohn’s remark indicated that he said Nigeria could not be a HIPC because its oil wealth put it over the initiative’s thresholds; see EIU, Nigeria Country Report, May 2004, p. 37. Wolfensohn was very supportive of the Nigerian reform effort and debt reduction campaign, as were many people at the Bank and the Fund; interview with Okonjo-Iweala, July 30, 2007.

U.S. Treasury Secretary John Snow provided support and a reminder about the deal in a speech in Washington on April 21 to a gathering in the “U.S.-Nigeria Dialogue. The next month Joseph Stiglitz, in a visit to Nigeria, provided his own endorsement: “Clearly Nigeria ought to get debt relief. One of the things I am impressed with the present government is how they are handling the difficult position of the donor community, that is the Paris Club are putting them in;” “How to Grow Nigeria’s Economy, Stiglitz,” *This Day*, May 11, 2004. The same month the departing British High Commissioner lent support while reminding Nigeria about the deal, “We’ve been very impressed by the Finance Minister and her team and we want to help mobilize support for Nigeria in the international community, so that she and her team can drive forward the process. Nigeria cannot expect the outside world to produce miracles on its behalf;” “How Nigeria can get debt relief,” *This Day*, May 28, 2004. Yet dramatic rhetoric for domestic and international consumption remained part of the strategy. In a speech in Abuja on May 29, Obasanjo asserted that the Paris Club creditors “hold debt over us like a sword so it has become a means of intimidation and control. We reject it.” He went on to say that “we have paid our debts twice over” and, in an example of his characteristic use of humor, he made an offer: “If the debt of Iraq can be written off after the downfall of Saddam Hussein, we don’t want the downfall of anyone in Nigeria before you (creditors) write off our debt. But if a downfall of someone is what it takes, I volunteer to step down if our debt will be written off.” The applause was thunderous. Quoted in “Obasanjo sees external debt as a weapon of intimidation,” PANA, May 29, 2004.

The battle over debt relief for Iraq was a central issue at the June 2004 Sea Island, Georgia, G-8 summit. France and others had been vigorously resisting President Bush’s call for nearly total debt write off for Iraq. President Chirac had used Nigeria in his counteroffensive, “How would you explain to heavily indebted poor countries and other heavily indebted countries like Nigeria that in three months we are going to [do] more for Iraq than we have done in 10 years for 37 heavily indebted poor countries? It makes no sense. It is not decent.” He claimed France would not go beyond 50 percent. In response, at the U.S.-led G-8 Summit, President Bush made a stunning surprise, even to many in his own administration, proposal for eliminating most poor country debt. It was a ploy to get a major Paris Club deal for Iraq. After making the surprise offer, the U.S. stalled, waiting for the British to take over the G-8 in 2005. And it worked; right after President Bush was re-elected in November a deal was cut for Iraq with a reduction of 80 percent, quite a step beyond Chirac’s 50 percent; see “World powers leave divided on Iraq debt,” AFP, June 11, 2004. On the link between Iraq and President Bush’s surprise call for poor country debt relief, see Thomas M. Callaghy, “Debt and Debt Relief for Africa” in Donald Rothchild and Edmond Keller, eds., *Africa-US Relations: Strategic Encounters* (Boulder: LRP, 2006), pp. 191-216. It is interesting that John Taylor, the Under Secretary of the Treasury for International Affairs at the time, makes no mention of Bush’s last minute G-8 proposal in his book, *Global Financial Warriors: The Untold Story of International Finance in the Post-9/11 World*, Norton, 2007, despite the fact that it has a chapter on the 2004 Iraq Paris Club deal, “Negotiating the Mother of All Debt Deals.”

⁷⁰ Nancy Birdsall and John Williamson, *Delivering on Debt Relief: From IMF Gold to a New Aid Architecture*, CGD, April 2002. In return, Birdsall was aware of *The Debt Trap in Nigeria* that Okonjo-Iweala had co-edited based on the 2001 DMO conference.

deal for Nigeria was a non-starter at best, both economically and politically, and ludicrously unjustified at worst. In fact, CGD was advised, given Nigeria's reputational overhang, not to go out on a limb that was going to get sawed off, that it was not wise to risk the new Center's credibility on this issue.⁷¹

The British also remained supportive, all the while reiterating "the deal." In March 2004 a senior British Treasury official visiting Nigeria noted that Nigeria's new attempt to deliver economic reform had "helped in terms of the perception of Nigeria in the Paris Club," adding that "in the medium-term the international community will respond sympathetically on the debt issue once Nigeria has built up a track record on economic reform."⁷² For three days in April, Okonjo-Iweala and her team had discussions with French government and business leaders and with the Paris Club Secretariat on April 7, in part to brief it on the new economic reform effort. Nigeria paid only \$251 million in debt service in 2003. The Nigerians indicated that Nigeria could not pay the full amount due in 2004 either, despite rising oil prices, arguing that the rest was needed for economic and social investment. Okonjo-Iweala said, "We met with the Paris Club and we discussed our payment schedule. The Paris Club has agreed that Nigeria should pay the sum of 1 billion dollars as her payment for 2004 as against \$2.2 billion dollars. This is really commendable because it would free resources for other sectors of the economy." A senior member of the economic team, Mallam Nasir el-Rufai, said, "We are paying for our past mistakes:" "Our relations with the Paris Club [have] been very bad because past military regimes have said they will not pay any money to the Paris Club." He went on to state that Nigeria's "relationship with the Paris Club has worsened over the years and we are trying to build that relationship;" he asserted that "there is something unfair about the system that will lend you about \$13 billion and you pay \$10 and you still owe about \$32 billion." He also reported that, for its part, the French government had agreed to provide capacity-building assistance for the reform effort.⁷³ After months of wrangling with the National Assembly, which worked with some success to increase the budget, Obasanjo finally signed an appropriations bill on April 2, 2004. In what some saw as a surprise move, Professor Soludo was appointed the new governor

⁷¹ Interview with Okonjo-Iweala, July 30, 2007; and interviews D, K, P, M, and H. The Center offered Okonjo-Iweala the fusion of connections and competence that is so important to this story in its status as an independent, non-commercial, widely-respected research center. In a sense it brought an additional layer of cosmopolitanism to what Okonjo-Iweala and the economic team already had. Todd Moss explained some of CGD's rationale for helping the Nigerians: "The economic reforms that Okonjo-Iweala and Soludo were trying to push through all threatened the status quo, and there was obviously the normal resistance from people and the parliament is so politicized... We thought that if they could get a debt deal that would give them momentum, political momentum, and would give them more credibility in parliament. It would undercut a lot of parliamentary resistance to some of these more fundamental reforms, like fiscal responsibility;" interview, June 13, 2006. As it turned, by the time the debt deal came, the political business cycle had kicked in for the 2007 elections, further complicated by Obasanjo efforts to run for an unconstitutional third term. Also, the debt deal did not provide as much political cover as was hoped. The Fiscal Responsibility Bill was not passed by both houses of the National Assembly until early November 2007 and then in a watered down form. Nonetheless, given when CGD made its decision to help Okonjo-Iweala, the rationale made good sense. If this had been done in Obasanjo's first term when it should have been, the chances for consolidation might have been better.

⁷² Quoted in "UK pledges to increase financial assistance to Nigeria," *This Day*, March 22, 2004.

⁷³ "Nigeria gets debt relief from Paris Club," Panafrican News Agency, April 14, 2004, and Josephine Lohor, "We've Broken 20-Year Borrowing Record," *This Day*, April 15, 2004. Also see: "Nigeria cannot honour obligation to creditors, minister says," Deutsch Presse-Agentur, April 14, 2004; "Nigeria, Paris Club meet over external debt," Panafrican News Agency, April 7, 2004; and "Nigeria can't meet its debt obligations," SAPA, Business Report, April 16, 2004.

of the Central Bank of Nigeria (CBN), a position from which he was to launch a skillful and badly needed overhaul of Nigeria's banking sector.

Help from Part of the Epistemic Community – the Center for Global Development

On a Saturday morning in late April 2004, people from CGD met with Okonjo-Iweala and Muhtar in Washington. Okonjo-Iweala explained their situation, what they had been doing, and the fact that they had not been making much progress with the Paris Club. Okonjo-Iweala knew the IFI and donor world, but she needed some credible independent backup to assess the major options and obstacles. Making demands was not enough; Nigeria needed to figure out *how* debt relief could be obtained under existing rules, as vague as they sometimes were. Okonjo-Iweala asked how CGD might be able to help. Knowing that Nigeria's IDA status was a key sticking point, Birdsall offered to have the Center take a look at this issue. Steve Radelet, a CGD senior



fellow, suggested this was the place to start and sketched out how to go about making the argument; he had experience with precisely this issue for Nigeria when he was at Treasury.⁷⁴

Birdsall was also aware of the Larry Summers' U.S. version of the "deal" with Obasanjo and that Treasury had been irritated that he had not lived up to it in his first term. Okonjo-Iweala assured Birdsall that it would be different this time. Birdsall believed that she might be right, and the CGD was in a perfect position to help her: "I think the key frankly was that Okonjo-Iweala needed an honest broker. We weren't for hire for the Nigerians; we weren't beholden to the World Bank or the IMF or the British or the Americans." She added "We had this magic combination of honest broker on the one hand and the technical skills and credibility" on the other.⁷⁵

The Center is a think tank not an NGO, or even linked to any NGOs, and is made up primarily of "insider/outsider" former officials of the World Bank and the U.S. Treasury, which gave it a distinct comparative advantage in dealing with the kind of debt relief issues faced by Nigeria, complementing Okonjo-Iweala's own comparative advantage. It felt that it first had to look at Nigeria's debt profile, using Fund, Bank and DMO figures, in order to determine how they might best be able to help. Even by early 2004 there were discrepancies that were hard to explain. Odious debt and repudiation strategies were discussed but quickly rejected as non-viable dead ends, despite rumblings in the National Assembly and among NGOs along these lines.⁷⁶ The Evian terms route was also discussed, but after Iraq it would be difficult to make such a case and get major G-8 support for it. Eventually, CGD decided to focus on the IDA-only issue so that Nigeria would be eligible for Naples terms. To the Nigerians the IDA-only rules appeared unclear and very political.⁷⁷ Even with excellent contacts at the World Bank it was hard to

⁷⁴ Interviews D, K, P, M, and H. CGD subsequently provided similar assistance for Ellen Johnson Sirleaf in Liberia for its own Paris Club deal in April 2008, efforts led by Steve Radelet; see <http://www.cgdev.org/section/initiatives/active/liberia>.

⁷⁵ Interview, July 12, 2006.

⁷⁶ As we shall see, the odious debt issue was examined in an appendix of the Center's major paper on debt relief for Nigeria.

⁷⁷ Okonjo-Iweala said that if the major powers could give Yugoslavia IDA-only status for political reasons, with a higher per capita income than Nigeria, then they should give it to Nigeria; interview with Okonjo-Iweala, July 30, 2007.

determine what the rules really were. Besides, they kept hearing that it was a delicate political issue with the Bank's board where creditor countries were using this issue as a convenient excuse not to pursue debt reduction for Nigeria. In fact, it turned out that the change in status was not a decision the Board had to make formally; it could be a staff decision, obviously with the informal blessing of the Board, but there was considerable implicit pressure on Bank staff not to take up this issue. Besides being a World Bank classification, the IDA-only obstacle was a Paris Club rule about whether a country could get Naples terms,⁷⁸ and, although Nigeria had some characteristics of a HIPC country, and the CGD discussed this issue, it was clearly not likely to become a HIPC country under the best of circumstances, despite continued demands from NGOs, activist economists like Jeffrey Sachs, and statements by Nigerian politicians and occasionally still from high Nigerian officials.

When CGD actually got a good look at the numbers and ran its own analyses in the spring of 2004, it became pretty clear that indeed Nigeria should not be a blend country, but should have IDA-only status.⁷⁹ Todd Moss, the CGD senior fellow who became the point person on this issue was initially skeptical that Nigeria had a case, but once he looked at the comparative numbers carefully he “was stunned actually how clear it was.” Nigeria was simply not being treated fairly. Even if Nigeria never borrowed on IDA terms, being IDA-only would help to make a much stronger case for at least Naples debt reduction. The Center's strategy was not to make a big political case out of this issue, but to make a very solid technical case. As Moss put it, “What we were hoping to do was actually say, look, you guys have these criteria, take a look at the numbers” in order to get around “this sort of gut reaction of ‘debt relief for Nigeria, are you insane, forget about it.’” CGD had to make a case and make it in public, and it set out to do so. It had a draft paper ready by June that was circulated first to Okonjo-Iweala and her team then around Washington, in particular to key IMF and World Bank officials, during the summer of 2004. Even though John Taylor, then Under Secretary of the Treasury for International Affairs, was a big supporter of debt relief, they were afraid of opposition elsewhere in Treasury and other parts of the Bush administration. The paper, “Double Standards, Debt Treatment, and World Bank Classification,” was completed in early September,⁸⁰ and on October 5, 2004 CGD

⁷⁸ According to the Paris Club, “Eligibility for the Naples terms is assessed on a case-by-case basis, taking into account the track record of the debtor country with the Paris Club and the IMF and of various criteria, including having a high level of indebtedness, *being only eligible for IDA financing from the World Bank*, and having a low GDP-per-capita (755 \$ or less);” <http://www.clubdeparis.org/sections/termes-de-traitement/termes-de-traitements/61-les-termes-de-naples/switchLanguage/en> [emphasis added]. Also: “The two main sources of financing provided by the World Bank Group to its member countries are IBRD and IDA financing... Countries are classified by the World Bank in three groups: eligible only for IBRD, eligible for a blend of IDA and IBRD, eligible only for IDA. One of the conditions necessary for a debtor country to be eligible for a Paris Club concessional treatment (currently Naples terms) is to be eligible only for IDA financing. ‘IDA-only’ countries are considered as having few prospects of regaining market access rapidly, because of their low creditworthiness;” <http://www.clubdeparis.org/sections/termes-de-traitement/termes-de-traitements/71-eligible-aux-seul/switchLanguage/en>.

⁷⁹ CGD used data from the OECD, the Bank's *Global Development Finance*, and data supplied by DMO itself. Only DMO had a breakdown of the Paris Club debt by creditor; interview G.

⁸⁰ Todd Moss, Scott Standley, and Nancy Birdsall, “Double Standards, Debt Treatment, and World Bank Classification,” Working Paper 45, CGD, September 1, 2004, revised in November; see <http://www.cgdev.org/content/publications/detail/2741/>; the discussion here is based on the November version. In addition to Okonjo-Iweala and Muhtar, the authors got feedback from Steve Radelet at CGD, John Williamson and Ted Truman at IIE, and the World Bank's Nigeria country director and the head of its HIPC unit.

held a seminar to discuss the paper and the proposed change to IDA-only status for Nigeria. It invited more than 30 people from various think tanks, the IMF, the World Bank, including the Bank's new Nigeria country director, as well as current and former creditor country officials. Okonjo-Iweala and Muhtar attended the meeting, and, along with CGD staff, made the case. On November 1, just before the U.S. elections and a major Paris Club deal for Iraq, CGD formally issued "Double Standards" publicly on its website.

In "Double Standards," CGD made the basic argument for fair treatment: "Our argument is thus that Nigeria ought to be considered for aid and debt relief *in the same way and through the same channels and processes as other low-income countries.*" Of the three Bank criteria, Nigeria clearly met two of the three criteria because of its low per capita income level and its lack of creditworthiness. The third criterion – the record of policy performance – appeared "intentionally ambiguous" and "subjective." The paper very nicely demolished the judgment that Nigeria had a significantly worse policy record (*prior* to its economic reform efforts under way at the time) than other low income countries, much less IDA-only ones, by comparing it to three peer groups – all African IDA-only countries, three African "reverse-graduate" – from "blend" status back to IDA-only – countries, and three African IDA-only oil producing countries. It concluded that Nigeria deserved reclassification, which, in turn, would open the possibility of debt reduction on Naples terms – the terms of non-HIPC IDA-only countries, African or otherwise. As a "blend" country, Nigeria had not borrowed from the IBRD in eleven years; hence a reclassification would only recognize the existing *de facto* situation. This argument greatly strengthened the larger argument that, given debt relief changes for low income countries since the late 1980s, Nigeria was "Africa's forgotten debtor" – the one critical country that "continued to fall through the cracks."⁸¹

The paper makes a convincing case based on comparative policy performance using all of the African IDA-only cases. Angola, Cameroon, and Congo were the three African IDA-only oil producers used for comparison; the comparison with Angola is particularly telling. The three African "reverse grads" used in the paper were Côte d'Ivoire, Cameroon, and Congo, all of them former French colonies and two of them oil producers. All three became IDA-only again "with strong support from France," suggesting that "Nigeria requires a large creditor to champion its cause with the World Bank and the Paris Club" and that "absent a push from a major creditor power, reclassification or a meaningful debt reduction deal are unlikely to occur." The authors imply that Britain should be that champion, but it, as well as the U.S., had already agreed to be that champion if Nigeria lived up to "the deal," something it was finally beginning to do when

⁸¹ Moss, "Double Standards," p. 22, 4 [emphasis added]; and "Nigeria: Africa's Forgotten Debtor," CGD website, n.d., which points out that the creation of Evian terms in 2003, largely with Iraq in mind, technically made it possible for Nigeria to get debt reduction as a "blend," but it was not likely to get such terms for political reasons. The fairest way to go was to treat Nigeria like other low-income countries. The only other African "blend" country at the time was Zimbabwe. In fact, "Double Standards" points out that Nigeria was technically a "notional blend" because it did not have access to IBRD borrowing due to lack of creditworthiness. Nigeria graduated from IDA in 1965 and partly returned as a "blend" in 1989. CGD ruled out calling for HIPC status, and early versions of "Double Standards" focused less directly on the debt issue than later versions. Finally, CGD staff had no idea how important both the IDA-only and buyback papers would eventually become; interview G.

the paper was written. “Double Standards” also argued “that the external debt has in fact become a major political sticking point, inhibiting the ability of the current government to move forward on economic policy change.”⁸²

More Track Record and Paris Club Bumps

In June 2004 the National Labor Council (NLC) called another strike, which took place despite a court order, because petrol prices had more than doubled in the previous year, and another 31 percent in May 2004 alone. The unrest over petrol prices intensified the existing opposition call for a national conference to review the condition of the country and possibly propose constitutional changes. Obasanjo was vehemently opposed to the idea.⁸³ Political opposition to the reforms was clearly rising.

Not long afterwards, Nigeria requested that the IMF informally monitor the home-grown reform effort on a quarterly basis; it would not be a formal program. Rodrigo Rato, the new Managing Director of the IMF, made his first visit to Nigeria in August and praised NEEDS, but said that it needed to be implemented effectively – “the deal” again. He felt it necessary to discuss Nigeria’s tricky relationship with the IMF: “Perhaps, it is important to make this clarification: Nigeria does not owe the IMF any money. It is important to explain this because some Nigerians think that you owe the IMF. This is not so. In addition, Nigeria has never [fully] implemented any IMF programme. There have been four programs but they all have been terminated at one point or another.”⁸⁴ Rato promised to use the Fund’s influence to seek debt relief for Nigeria provided it implemented its own new reforms. “The government wants to engage in talks with the Paris Club,” he said, “and we understand that. If the policy is credible enough I think there is room for negotiations, but it will be up to the Paris Club members to make the final decision.”⁸⁵

⁸² Moss, “Double Standards,” pp. 19-22. The paper deals nicely with the issue of odious debt: “This is not to suggest, as some others have, that Nigeria’s debts are odious, but rather that creditors have some solid reasons to consider a more lenient stance,” and “while there is certainly a case to be made that some lending to Nigeria’s more notorious leaders, such as Sani Abacha may be odious, there are legal and practical reasons this is unlikely to be a successful or effective strategy” [p. 21 and note 16]. The paper provides more analysis of this issue in Appendix 3. Another reason why the “creditors have some solid reasons to consider a more lenient stance” was the balloon effect of the meager debt service of the military regimes; the consequence was that the \$2.1 billion the Paris Club lent Nigeria after 1970 had “snowballed” to more that \$22 billion of the debt owed to the Paris Club.

One of “Double Standards” key arguments was that with the debt problem solved the economic reforms would be easier to do. It is possible to argue that this argument is backwards: Obasanjo only did the reforms *because* he had a debt problem, which was also a political problem for him, and he finally realized he was going to have to at least look like he was living up to the deal that had been offered to him by Britain and the U.S if he wanted to solve it. The Paris Club debt overhang was the primary cause of Nigeria’s economic reform effort, as debt relief blocked access to more external resources, even if it only involved the return of official trade cover, which has been at the heart of Paris Club politics since its founding in 1956. Hence the claim by “Double Standards” that obtaining major debt reduction “might enhance the ability of the government to push through its reform agenda more quickly and effectively” assumes that Obasanjo’s main concern was reforming Nigeria’s economy in a major and lasting way and that Nigeria’s political barons would be swayed in a significant enough way by debt relief that they would swing full force behind the reforms. It is not at all clear that either of these was the case; the technocrats were serious but Obasanjo was less so and the barons even less. A debt deal might have lessened opposition based on the frequently used opportunistic charge by those opposed to the reforms that Obasanjo had failed to get a debt deal, but this did not mean that a debt deal would greatly enhance the chances for sustained economic reform.

⁸³ In February 2005 Obasanjo eventually held a mini-version called the National Conference on Political Reforms.

⁸⁴ “IMF boss lists conditions for Nigeria’s debt relief bid,” *Vanguard*, August 3, 2004; note the incongruity between Rato’s remarks and the title of the article – a sign of the political times in Nigeria.

⁸⁵ “The IMF has agreed to Monitor Nigeria’s Economic Reforms,” *Liquid Africa*, August 4, 2004.

He hoped the Fiscal Responsibility Bill would quickly become law and put into place and that Nigeria would use its emerging oil windfall revenue wisely. Oil reached \$40 a barrel in the first half of 2004. Fiscal restraint had only begun to become real at the end of 2003 and had been only roughly sustained in the first half of 2004.⁸⁶

By September 2004 roughly a year of reform effort had taken place. Much was accomplished by the “dream team” under Okonjo-Iweala, Soludo, and Muhtar, but much remained to be done. Also, a year does not a track record make, especially in Nigeria, and, given its huge reputational overhang, the Paris Club creditors still had to be convinced. NEEDS and the IMF were seldom mentioned together yet the IMF was monitoring a program that was largely home grown but was a pretty standard IMF set of reforms. The key was to keep up the head of steam and to institutionalize the reforms – sustainability was a crucial imperative and the reform team was well aware of it. The *Financial Times* put it cogently: “The country’s reformists are pragmatic, fast-tracking reform implementation and – more importantly – preparing legislation to entrench it. The hope, they say, is that laws and stronger institutions that are created now will prevent a new leader from rolling back reform.”⁸⁷ The question remained as to whether passing legislation and building or reforming institutions would be enough to entrench reform over the long haul. As Indonesia shows, the road is long, bumpy, hard, politically messy, and highly contingent.⁸⁸ A revealing indicator was that it took until early fall to even have a draft of the Fiscal Responsibility Bill. It was hoped that the team’s reform efforts might, with luck and skill, just be enough to get major debt reduction negotiations started with the Paris Club. In early September 2004, Hilary Benn, the British Secretary of State for International Development, told a group of civil society leaders in Nigeria that there had been “significant improvements in relations between Nigeria and the Paris Club creditors in the past year and between Nigeria and the IMF.” He reiterated Britain’s commitment to helping Nigeria get debt reduction via the Paris Club’s Evian Approach, possibly in 2005⁸⁹ This was particularly important because the U.K. would assume the presidency of the Group of Eight in 2005, what it would call “The Year of Africa.”

At the 2004 Annual Meetings of the IMF and the World Bank in Washington in late September-early October some Paris Club creditors approached Okonjo-Iweala asking for increased debt

⁸⁶ It became known in the summer of 2004 that Nigeria was to become a *creditor* to two other African countries by lending roughly \$45 million to Ghana and São Tomé. A commentator in the *Vanguard* observed wryly, “Just look at the embarrassment President Obasanjo caused us by granting 45 million dollars as loan to Ghana and São Tomé. What does this really mean? Can somebody tell me what brand of wisdom we are going to credit our President with such an act? Where was Mrs. Okonjo-Iweala when this decision was taken? Nigeria deserves an answer to why we should be carrying a debt burden and yet be granting loans to other nations;” Ifeanyi Agbogu, “Debt forgiveness request: Matters arising, *Vanguard*, August 27, 2004. *The Guardian* expressed similar views, “The Obasanjo government must not give the impression that it cares more about the plight of other countries and their peoples than for Nigeria and Nigerians. That is why it must reconsider the loan package for the two countries, or else the initiative will be seen as another of such measures that put the seriousness of the government to question;” quoted in *Africa Research Bulletin*, July 16-August 15, 2004, p. 16180.

⁸⁷ “Special Supplement: Nigeria – New Look Wanted – Nigeria Has Put in Place A Reform Strategy That Aims Not Only to Improve Economic Performance But To Change People’s Negative Perceptions Of The Country,” *Financial Times*, October 1, 2004; this supplement is a fine summary of the reform efforts of the first year.

⁸⁸ See Lewis, *Growing Apart*.

⁸⁹ “UK to Tie Aid to Nigeria to NEEDS,” *This Day*, September 8, 2004. Also see “Impact of oil windfall raises hope for Nigerian progress, *Financial Times*, October 14, 2004.

service as oil was approaching \$50 a barrel. Okonjo-Iweala pushed back, and out of it came an offer from Jean-Pierre Jouyet, the Chairman of the Paris Club, to address a meeting of the Club on Nigeria's situation. It is worth quoting Okonjo-Iweala at length:

They were coming to ask for (more money), especially now that we have oil money and I just blew them away... I know their members would be saying that oh, they have earned more in oil money, pay us more and I said you cannot even think about it. And you know, they went away. And he (Jouyet) said I am going to allow you to do something that we have never allowed anybody else which is to arrange a special session of the Paris Club, where I would address the members to explain what we are doing. He said just tell them what you told me... Just tell them what Nigeria is doing. Come and tell them. Present what you have done.⁹⁰

The meeting took place in December 2004. "At the presentation," Okonjo-Iweala said, "I made a case based on the reforms, our human development indicators as well as our need to reach the MDGs. The case was compelling and was key to convincing Paris Club members that Nigeria had a case."⁹¹

On the home front, however, opposition to the reforms gathered steam as petrol prices rose 25 percent on September 23, 2004 leading to a call for yet another general strike beginning October 11, all while the situation in the Niger Delta grew steadily worse. At about the same time, the DMO announced that by the end of 2003 Nigeria's external debt stock had grown to \$32.92 billion, equivalent to 64.4 percent of GDP, a ratio of debt to exports of 177 percent, and debt service to exports of 19.4 percent. The DMO asserted that this classified Nigeria as a severely indebted low income country (SILIC). The rise in the international price of oil would affect these numbers, however. The draft 2005 budget, announced in mid October 2004, indicated that spending would rise by 25 percent because of the accumulating oil windfall, although half of the revenue above \$25 a barrel would be set aside for reserves and not spent. In November 2005, Okonjo-Iweala recalled: "We are at a position where we have reserves of \$29 billion. We have done this through instilling fiscal prudence. We put in play what we call a fiscal rule. That is delinking the management of the budget and our public finances from the price of oil. We had never managed to do this in the past. You know, people would say to me, of course we would do well now because oil prices are high. No, we did well in spite of high oil prices. Because Nigeria's history has been one in the past of spending highly when oil prices were high, which meant inefficiency, even corruption in the management of our money, and then crashing down when oil prices fell... we have broken that cycle... So part of our savings on the oil we call excess crude has gone into doing this."⁹²

⁹⁰ "Debt: Nigeria to address Paris Club," *This Day*, October 7, 2004. Some date this as the beginning of Nigeria's real negotiations with the Paris Club; see "Nigeria completes PC pre-payment," *International Financing Review*, April 29, 2006.

⁹¹ Okonjo-Iweala, "Nigeria's Fight for Debt Relief: Tracing the Path," p.14. Okonjo-Iweala had members of her team from DMO with her; see Michael Peel and David White, "Nigeria sets sights on reduction of its Dollars 34bn debt," *Financial Times*, February 4, 2005.

⁹² "Transcript: Economic Outlook for Nigeria, Speaker: Ngozi Okonjo-Iweala," Council on Foreign Relations, November 9, 2005, New York City.

Yet in late October 2004, the chairman of Nigeria's House of Representatives Committee on Loans and Debts called for Nigeria to be classified as a HIPC. Okonjo-Iweala, in fact, did the same in an interview with the *Financial Times*, asserting that "The developed countries don't know when to back a reformer. They always miss the window of opportunity." She added, "Right now the government is not very popular. They're hitting us from all angles" while the Paris Club was demanding debt service beyond the \$1 billion of the \$2.2 billion due in 2004; with arrears payments it would be about \$5 billion. Okonjo-Iweala said, "Now they want to take the little money we have and take it all for themselves."⁹³ In November, Jeffrey Sachs re-entered the fray with a letter to the *Financial Times*: "It would be unconscionable for Paris Club creditors to grant [80 percent] debt cancellation to Iraq without simultaneously extending debt cancellation to Nigeria... The neglect of Nigeria's urgent needs by the creditors comes despite its remarkable recent progress in re-establishing democratic institutions, fighting corruption, and reforming the economy. As usual, Africa comes last in the queue for help from the world."⁹⁴

Opposition to the reforms continued to build in Nigeria; in late October 2004 the NLC and civil society groups called a general strike for mid November that was to last until the September petrol price increase was reversed. This was to take place as the Paris Club creditors, including France, cut an 80 percent deal for Iraq. On December 2, Obasanjo visited President Bush in Washington as President of Nigeria and Chairman of the African Union with debt reduction as a key topic, but debt was overshadowed by the Charles Taylor issue. The Nigerians realized that the U.S. was not going to be a major advocate as Britain was, but they had to make sure that the U.S. provided at least passive support and did not try to block it. The U.S. Treasury eventually became actively supportive. In mid December Anne Krueger, First Deputy Managing Director of the IMF, visited Nigeria and praised the Nigerian economic reform effort while urging continued implementation, but without mentioning debt.

By the end of 2004 Okonjo-Iweala and others were getting frustrated that the IDA-only issue was not getting much traction, despite some discussion by World Bank Board Executive Directors, but there were still major objections about corruption, the high price of oil, and so on. CGD did not press the issue at this point, but let it run, with some of the staff believing the issue was dead.

By the end of 2004 oil had reached \$42 a barrel, and CBN reserves were \$16.9 billion, up 10 percent in a month; the reserves at the end of 2003 had been \$7.3 billion. The inflow in the first eleven months of the year was 62 percent higher than the same period in 2003 – the windfall was real and growing. Thus, Nigeria found itself in the tricky (and some would say, ironic) position

⁹³ "Lawmakers seek debt relief for Nigeria from creditor nations," Xinhua, October 26, 2004, and David White, "Interview with Ngozi Okonjo-Iweala," *Financial Times*, October 27, 2004.

⁹⁴ Jeffrey D. Sachs, "Letters to the Editor: Africa – last in the queue for help from the world, as usual," *Financial Times*, November 24, 2004. Sach's comments reverberated in the African press; see "Paris Club 'Should Take Note of Africa,'" *Business Day Africa/ Liquid Africa*, December 7, 2004, which stressed the Iraq-Nigeria comparison. Nancy Birdsall and Todd Moss wrote an op-ed piece on this issue, which the *Financial Times* chose not to publish: "If Iraqi debt reduction, then Nigeria too," December 2, 2004.

of arguing for significant debt relief while in the middle of a major oil windfall and while trying not to increase existing payments of less than half what was due to the Paris Club. Nigeria began to emphasize a new twist to its argument – not only was debt reduction required to keep economic reform going, but it was also needed in order to meet the MDGs, which would help to bolster the political legitimacy of the reform effort.

The oil windfall also had its downside in regard to the campaign for major Paris Club debt reduction. In mid November 2004 the DMO failed to make a \$30 million payment on the Brady Oil Price Appreciation Warrants (OPAWs), which were linked to the 1992 Brady par bond restructuring. They became payable when the price of Nigeria oil exceeded \$30 a barrel. Nigeria had been servicing them regularly but this was made more costly by the oil windfall. The fact that Nigeria was servicing this part of its external debt along with IFI debt, was a source of real tension for many members of the Paris Club given Nigeria's far from incomplete debt service to it. In short, such payments raised serious comparability issues for many creditor countries.⁹⁵

2005: The “Year of Africa” and Nigeria

As Britain's “Year of Africa” opened in January 2005, Okonjo-Iweala and her team worked to reinvigorate Nigeria's campaign for major Paris Club debt relief. On January 6 Okonjo-Iweala and Muhtar met with Nancy Birdsall and Todd Moss to discuss next steps a year after Okonjo-Iweala's first meeting with Birdsall. Okonjo-Iweala briefed them on how things were going, what was working and what was not. She was very pleased with what CGD had been doing but was worried that the IDA-only reclassification seemed stalled.

NGOs began to play more of a role, for debt relief generally leading up to the G-8 Gleneagles summit in July and specifically for Nigeria as well. EURODAD, one of the major players on debt relief, had held its annual conference in the Netherlands in November 2004 and declared January 18, 2005 an International Action Day on Debt Cancellation. The Economic Growth and Development Center (EGDC), a Nigerian NGO with ties to the Obasanjo government, had attended the conference. Its representative asserted that “we are calling for 100 percent cancellation (for Nigeria).” At the conference, it noted that Nigeria's case required commitment from the government and civil society due to the fact that Nigeria was not even classified as a HIPC country by the Bank and the Fund. “Nigeria is seen as a lower middle income country which derives good revenue from oil. So the world does not see Nigeria as an impoverished country. To achieve debt cancellation therefore, Nigeria and indeed Nigerians have to present a strong case to our creditors.... So we would work with the EURODAD to press the Paris Club to cancel Nigeria's debts. The EGDC wants to use this opportunity to call on members of the National Assembly and other civil society organizations to join the President in his campaign for

⁹⁵ On the oil warrant issue, see “Oil Warrant Payments: A Change in Policy?” Afrinvest/Liquid Africa, January 14, 2005, and “Debt Payment Missed,” *Africa Research Bulletin*, December 16, 2005-January 14, 2005, p. 16371. The DMO eventually admitted that a payment had not been made, but Okonjo-Iweala said it was not a default but a disagreement over the interpretation of a clause in the warrants and that all would be sorted out.

debt relief for Nigeria. It is not a battle that only the executive arm of the government can fight. It requires a collective effort from all of us.” EGDC linked its argument to the huge reduction in Iraq’s “odious debt” and the MDGs. Its statement for the International Day of Action made these points and declared: “The more we pay the more we seem to owe. And our debt has been paid many times over. We must not continue to suffer for what decades of bad governance did to us. We support President Olusegun Obasanjo in his efforts to reform the country and in his campaign for debt relief. Nigeria’s debt indeed is unsustainable and should be dropped ‘Oil’ or no ‘Oil’. We must achieve the Millennium Development Goals.”⁹⁶

Okonjo-Iweala reinforced all of these points at a London briefing in late January 2005. Working in the context of the “Year of Africa,” the U.K. Commission for Africa, and the NGO’s “Make Poverty History” coalition, she said Nigeria is “hobbled by misconceptions, *which are understandable given past decades of misrule and instability.*” She said that people think Nigeria is not a poor country because of oil, but when per capita income is taken into account, Nigeria was “roughly equivalent to Cameroon,” which was a HIPC country eligible for major debt relief. Nigeria’s debt was unsustainable if it was to achieve the MDGs. She did note, however, that “the simple fact of being poor will not be enough to make our case. Nigeria has to convince the world that it is capable of using the resources released by debt cancellation wisely.”⁹⁷ It is interesting to note, however, given the claims of Nigerian officials that the country should be a HIPC, that if Nigeria actually became a HIPC it would have to go through the demanding and complex HIPC process, which would include formal structural adjustment agreements with the IMF and the World Bank. Yet, while continuing to claim that Nigeria should be a HIPC, Nigerian officials talked increasingly about debt reduction using Evian terms. In London in early February Okonjo-Iweala said that Nigeria was *not* seeking HIPC status but would instead work for relief under Evian terms.⁹⁸

Okonjo-Iweala stressed that “Nigeria is not an easy country to manage,” and, as a result, it had started tracking poverty reduction spending. The fear was that without debt relief deeply embedded, vested interests would overwhelm the reforms, and thus Obasanjo was working to pass the Fiscal Responsibility Bill.⁹⁹ Speaking of the Fiscal Responsibility Bill, she said, “Whilst we are doing all these things at the federal level, the constant question has been what is happening at the state level; that there is not enough, there is still a lot of mismanagement of resources. So what we tried to do is a couple of things. One [is] to get a bill, which has now gone to the National Assembly, that would legislate transparent budgeting, that would legislate results, tying the budget to results and accountability and transparency. All that is in the bill at all tiers of

⁹⁶ Chuks Okocha, “African NGOs take debt cancellation fight to Netherlands,” *This Day*, January 28, 2005, and EGDC, “International Day of Action on Debt Cancellation – Debt Campaigners Call on the G7 to Drop the Debt!” January 15, 2005. EGDC developed ties with the Jubilee Debt Campaign U.K. in its effort to build popular support in G7 countries.

⁹⁷ Michael Peel and David White, “Nigeria sets sights on reduction of its Dollars 34bn debt,” *Financial Times*, February 4, 2005.

⁹⁸ Peel and White, “Nigeria sets sights on reduction of its Dollars 34bn debt.”

⁹⁹ “One in five Africans lives in Nigeria – and need aid: Briefing Ngozi Okonjo-Iweala,” *The Guardian* (London), January 31, 2005. In 2007 a *Financial Times* journalist stated: “One senior donor official says Mrs. Okonjo-Iweala used to return from trips abroad to find that in her absence, government largess had been dispensed to businesses and individuals,” William Wallis, “Spotlight: Ngozi Okonjo-Iweala–Nigerian reformer,” *Financial Times*, November 25, 2007.

government. And we used a clever little paragraph in the constitution that gives the federal government the power to manage the economy to the benefit of all the Nigerian people. So that paragraph has been the saving grace. Otherwise, they would challenge the constitutionality of this bill.” Instead the opposition actively stalled while working to water the bill down. Okonjo-Iweala added that “we are taking the legislators on a tour of Argentina, Brazil, and India, where they have similar bills – in fact, our bill is patterned after the Brazilian one – so they can see how these countries are doing this.”¹⁰⁰

In early February 2005, the British reasserted their support for “the deal,” but as one British official put it, “All those other creditor nations are a lot more skeptical.” Another echoed this. “There are other countries and they have to be persuaded. We will certainly take up Nigeria’s cause in the Paris Club, but it will be a question of persuasion and it will be a question of Nigeria addressing itself to the other countries.”¹⁰¹ Clearly, Nigeria and its creditors were swimming in a vicious circle, one group saying it could not do reform if it did not get substantial debt reduction and the other saying that it would not even think about major debt relief until major reform was accomplished and proven to be sustainable.¹⁰² Okonjo-Iweala warned the Paris Club creditors that, given Nigeria’s 130 million people, “If you do not focus on Nigeria, every time you do your poverty numbers, you are going to look bad.”¹⁰³

On Sunday, February 27, 2005 Anne Krueger organized a dinner with Okonjo-Iweala, Nancy Birdsall, and Randall Quarles, then Assistant Secretary of the Treasury for International Affairs, to discuss Nigeria’s economic reforms; Krueger brought along one of her IMF colleagues. Okonjo-Iweala made Nigeria’s case in detail, and Krueger pushed her on a number of key points. Okonjo-Iweala needed the support of both the IMF and the U.S. for a debt reduction deal, in addition to the support she already had from the U.K. She wanted to use the new policy monitoring instrument that was being discussed by the IMF, what became the PSI. She didn’t invent the idea, but she worked hard to link Nigeria to it as its first case. Debt was also discussed quite directly at the dinner. It was not an easy sell because, while major progress had been made with the economic reforms, there were still big problems, especially having to do with trade. Because people had such an allergic reaction to debt relief for Nigeria, because the reputational overhang was so deeply entrenched, Okonjo-Iweala and her colleagues and advocates had to keep making their case by quietly selling their reforms and the progress they were clearly making, not by making moralistic or geopolitical demands. Krueger then arranged for Okonjo-Iweala to see Condoleezza Rice a short time later.¹⁰⁴

¹⁰⁰ “Transcript: Economic Outlook for Nigeria,” Council on Foreign Relations.

¹⁰¹ British High Commissioner Richard Gozney and Chris Mullin, British Minister for Africa, quoted in “Iyefu Adoba, “Why Nigeria can’t get debt relief by Britain,” *This Day*, February 3, 2005.

¹⁰² For a good survey of the reform effort by the end of February, see James Eades, “At the Mercy Of Debt – Nigeria’s Finance Minister Is Campaigning Hard For Debt Relief For The Country And Finding Plenty Of Sympathy But Little Action So Far,” *Financial Times*, March 1, 2005.

¹⁰³ Michael Peel and David White, “Nigeria sets sights on reduction of its Dollars 34bn debt,” *Financial Times*, February 4, 2005.

¹⁰⁴ Interview with Okonjo-Iweala, Washington, July 30, 2007; also interviews D, K, P.

In a statement in late February 2005, Okonjo-Iweala stated clearly that “Nigeria does not seek to be a HIPC country. But we are saying that we too deserve consideration under another approach set up by the G-8 countries called the Evian approach,” which deals with debt relief on a case-by-case basis, and she pointed again to the special deals the Paris Club had made in the past for “Poland, Yugoslavia, Egypt, and lately Iraq.” She mentioned Nigeria’s “unilateral cessation of dialogue” with the Paris Club under the military and the fact that she and her team had “successfully argued with the Paris Club to keep our present payments to them at U.S. 1 billion a year.”¹⁰⁵ Despite some vague sympathy from the U.S., Gordon Brown found very little favorable response to his arguments for major debt reduction for Nigeria at the G-7 meeting of finance ministers and central bankers in London in February, which he chaired, although progress was made on proposals for major new debt relief for HIPC countries. In mid March the French Ambassador to Nigeria declared that Nigeria’s debt was sustainable given the country’s size and resources; he did say, however that France was in talks with the Paris Club countries and the IMF to see what could be done “one way or another” to provide debt reduction for Nigeria.¹⁰⁶

Mansur Muhtar later talked about this period in vivid terms:

Even as recently as February [2005] – and despite support for debt cancellation for Nigeria from the British government, Nigeria’s largest creditor – the Group of Seven industrialised countries...had strong reservations about giving Nigeria any debt relief at all. They were still talking about Nigeria’s history of corruption and questioning whether any debt relief would be spent properly; one official just said that Nigeria would have to join the back of the queue of countries pleading for debt cancellation. Late last year [2004] Paris Club members were pushing for an increase in the amount earmarked for servicing their debts, to share in our “windfall.” Indeed, a representative of one of the major creditor countries declared at a public meeting that it was “immoral” for Nigeria to be asking for debt relief from its creditors, given the high oil prices prevailing at the time as well as the concomitant build up of reserves. A lot of “blood, sweat and tears” went into reshaping these perceptions and securing a turn around.¹⁰⁷

Such statements and sentiments were not playing well in Nigeria. In early March 2005, Nigeria’s House of Representative unanimously passed a non-binding resolution demanding that Nigeria stop paying its foreign debt.¹⁰⁸ Obasanjo asked for more time and used the resolution to point out how difficult reform was; he stated that “There are options we can pursue at the multilateral and bilateral levels, but if all else fails, then we can resort to unilateral action.”¹⁰⁹ The same

¹⁰⁵ Statement by the Finance Minister, “Understanding Nigeria’s Debt Situation,” *This Day*, February 27, 2007. In a cover story on the ten leading African policymakers, *The Banker* noted that Okonjo-Iweala was “held in high regard internationally” and had been “campaigning in Europe – privately with Paris Club creditors (to whom Nigeria owes the bulk of its external debt) and publicly to win popular support. With the exception of South Africa’s Trevor Manuel, no other African finance minister commands such access to the world’s respected media outlets;” James Eades, “Building Africa – The Policymakers of the African Continent Face Some of the Toughest Challenges in the World Today,” *The Banker*, April 1, 2005.

¹⁰⁶ “Nigeria’s Debt Not Forgivable – French Envoy,” *Daily Trust*, March 13, 2005.

¹⁰⁷ Mansur Muhtar, “Debt Relief: Something to Celebrate,” nigeriafirst.org, August 4, 2005 [Written July 30, 2005]; parts of this interesting statement appeared in the *Daily Champion* as “Debt Relief... Nothing to Celebrate?” August 18, 2005 and under the same title in the *Vanguard*, August, 18, 2005.

¹⁰⁸ Tom Mbakwe, “Nigeria can’t pay, won’t pay,” *New African*, April 1, 2005; leaders of the House denied that Obasanjo had anything to do with the resolution, which mentioned Poland, Yugoslavia, Côte d’Ivoire, Pakistan, Egypt, and Iraq.

¹⁰⁹ Daniel Balint-Kurti, “Nigeria may take ‘unilateral’ action on foreign debt, officials confirm,” Associated Press, March 13, 2005; the Senate did not pass the resolution. At the same time, the DMO reported that it had established close relations with

month the IMF visited Nigeria for its annual Article IV consultation. The Fund's initial report asserted that the economic reforms of 2004 "signaled a clear break from the imprudent macroeconomic policies of the past" and indicated that at the end of 2004 Nigeria was \$5.7 billion in payment arrears on its external debt, most of it to the Paris Club. The main finding, however, was that according to its debt sustainability analysis (DSA), "Nigeria's external debt is sustainable at current and prospective high oil prices." In an interesting addition, the Fund noted that "The mission is also cooperating with the World Bank to prepare a DSA that integrates costs of additional measures needed for Nigeria to achieve the MDGs," something Okonjo-Iweala had pushed hard for and the IMF had resisted. The Fund's executive board was scheduled to discuss the report in May or June.¹¹⁰

At the end of March 2005 President Obasanjo visited President Bush in the White House. According to Okonjo-Iweala, "A key objective was to gain President Bush's support for debt relief so that a message could in turn go to the U.S. Treasury to be more supportive of the quest. Whereas we had garnered sympathy from the State Department, NSC and other parts of the U.S. government, we were having a bit of a difficult time still with Treasury just as we were with other Treasury departments of Paris Club members." Both Powell and Rice were present but not Treasury Secretary John Snow. The Nigerians made their case, and, despite initial skepticism, Bush seemed to show some interest, asking the Nigerians to send him a letter making the full case.¹¹¹

More Help from the Epistemic Community: CGD's Old and New Proposals

Okonjo-Iweala knew that there had already been some informal discussion of the IDA reclassification issue inside the Bank; so she and CGD thought it might be time to reignite public discussion of the issue. So the Center wrote a four-page "CGD Brief" based on "Double Standards." It was released publicly on March 1, 2005 and copies were sent to all of the World Bank's Executive Directors and to U.S. and U.K. Treasury staff, while Birdsall quietly nudged some Executive Directors. Since, unlike "Double Standards," the brief was written after the Paris Club had slashed 80 percent of Iraq's debt, more emphasis was placed on geo-political

Argentina's Ministry of Finance in order to exchange experiences in external debt management and that the Argentines would help with Nigerian capacity building efforts; see Andrea Bohnstedt, "Nigeria Seeks Advice from Argentina on External Debt Management," *World Markets Analysis*, March 8, 2005.

¹¹⁰ IMF, Nigeria 2005 Article IV Consultation: Concluding Statement," IMF, March 25, 2005. In a surprise move, an *Economist* editorial supported some debt relief: "Ridiculous though it sounds, Nigeria merits some debt relief. If one considers how Nigeria handled its oil revenue over the past 30 years, its quest for debt relief seems laughable... But look at the last year and a half, and a different picture emerges." Nigeria deserved debt relief because of its reform efforts and the "reformers need a boost" and because "much of its debt is 'odious'; that is, it was accrued under military dictators." While "there are reasonable objections to forgiving Nigeria's debts... debt relief need not be sudden or unconditional." "Nigeria's debt: No longer unforgivable," *Economist*, March 19, 2005. This editorial was a sign that the "reputational overhang" was both powerful, but not unmovable. George Soros played a role in building support for Nigeria in the media and business community; he helped, for example, to arrange, an interview meeting for Okonjo-Iweala with the *New York Times* editorial board where she made the case for Nigeria's reform effort; this "very grueling interview" led to an editorial that was carefully supportive of Nigeria's reform effort; see "Hope in the Land of Dashed Hopes," *New York Times*, March 7, 2005; Soros also provided financial support to hire consultants "to provide additional technical support to complement our efforts;" confidential correspondence J.

¹¹¹ Okonjo-Iweala, "Nigeria's Fight for Debt Relief: Tracing the Path," p.12; Okonjo-Iweala tells a nice anecdote about how she jumped in to make the case to Bush. The fate of Charles Taylor remained an important issue for the Americans.

reasons for debt reduction for Nigeria: “Strategic grounds for debt relief include reduction of the threat that fragile states struggling with weak democratic institutions can pose to global security. Indeed this was the justification for Iraqi debt relief. Western creditors have a broad strategic interest in encouraging consolidation of emerging democracy in pivotal countries. Nigeria is increasingly vital to energy security, and the country encapsulates nearly all of the major transnational threats: international crime and drug trafficking, Islamic radicalism, and disease.”¹¹²

At this point CGD switched to working on its second major contribution – the discounted buyback proposal that Todd Moss came up with. If Nigeria was not going to be eligible for Naples terms because the IDA-only reclassification would not happen, how else might Nigeria get major debt reduction? In March 2005, Moss talked with an old friend and former colleague who had just returned from Nigeria; he said that lots of people in Nigeria were talking about debt relief *and* about how much money was flowing in from the oil windfall, how high CBN reserves had risen, but nobody was putting the two things together. After the call, Moss realized “this is crazy, why not put the two things together;” so he put them together and came up with the buyback at a discount idea. He floated it by Birdsall, who like Moss thought the IDA reclassification was dormant; she said to write it up in a brief. They knew it had to be short in order to get people to take notice and really start thinking about such a possibility. CGD issued Moss’ two-page buyback brief on April 1, 2005. Given the portion of the oil windfall that the Nigerians has saved, Moss argued that there was a “window of opportunity in 2005 to find a compromise” that could meet the needs of both sides – a discounted debt buyback in the range of 20-33 cents of the face value of the Paris Club debt or “roughly on par with the discounts inherent in Naples and the Iraqi Paris Club debt agreement” but up front. In a nice touch that added an implicit warning, Moss noted that the “proposal is also within the range of the recent Argentine commercial debt offer,” referring to the “voluntary” offer made to its bondholders after its December 2001 \$100 billion default. Moss noted that the creditors would receive payments worth more than the market value of the debt, possibly greater than their own internal valuation of it, and certainly more than they were likely to get otherwise.¹¹³ Moss said that such a deal would be “effectively a Naples-like debt reduction – or better;” the latter would be in the Iraqi range of 20 cents – effectively a high end Evian deal. At this point CGD still feared the IDA reclassification was dead and believed Nigeria’s best hope now was an Evian treatment along these lines, as politically difficult as that might have been. In a carefully worded follow up opinion piece on April 28, Birdsall and Moss referred to a “new kind of debt deal between Nigeria” – “the big elephant in the room” – and “a handful of its creditors who also happen to be G-8 members that have pledged to make African debt a top priority this year.” This could be read as implying a deal outside of the Paris Club or, if inside, “an opportunity to exploit the new Paris

¹¹² Todd Moss, Scott Standley, and Nancy Birdsall, “Double Standards on IDA and Debt: The Case for Reclassifying Nigeria,” CGD Brief, Center for Global Development, March 2005, pp.3-4: <http://www.cgdev.org/content/publications/detail/2795/>.

¹¹³ Todd Moss, “Resolving Nigeria’s Debt Through a Discounted Buyback,” CGD Note, Center for Global Development, April 1, 2005: <http://www.cgdev.org/content/publications/detail/3223/>.

Club option of case-by-case ‘Evian terms’ introduced last year to reduce Iraqi debt” in which “a reasonable opening offer from the creditors would be 33 cents on the dollar” – in short an Evian or Evian-like deal on Naples terms. CGD never said that a buyback necessarily had to be done via the Paris Club. If there was resistance to the IDA change, it was theoretically possible that Nigeria could approach its largest creditors bilaterally and offer to buy back their debt at a negotiated discount. The Paris Club first authorized buybacks, or prepayments as it prefers to call them, in June 2004, and prior to Nigeria both Russia and Peru concluded buyback deals at par value, Russia in mid May 2005 and Peru in mid June just before the deal in principle was announced for Nigeria.¹¹⁴ While a “buyback at market value” was in the new 2004 rules, the Paris Club, had never done a discounted buyback before, and the Paris Club Secretariat was resistant to the idea.¹¹⁵ A couple of weeks after CGD put out the discounted buyback idea in early April 2005, its staff began to hear that it was indeed being discussed in various places. They even heard that the French were upset that a buyback deal might be done outside the Paris Club and thus had decided to support the IDA-only change in order to keep the deal inside the Paris Club and congruent with its rules for low-income countries in order to protect the integrity of the Paris Club as a French-hosted international institution.¹¹⁶ It was a “we will not see the Paris Club abused” line.

Clearly IDA-only was back on the table because it would make Naples terms possible for Nigeria, and a possible synergy was developing between the Center’s two proposals that might help to move things along. Moss remembers, “This was great; we asked for two things thinking one or the other, but we actually got both, and they were reinforcing in a sense.”¹¹⁷ Some in Treasury supported the ideas, such as Taylor and Deputy Assistant Secretary for debt policy, Bobby Pitman; others such as Quarles were opposed. CGD was glad if it could provide ammunition for those at Treasury who supported the now twin. The buyback option had political risks for Treasury because it did not want to have to go to Congress for an appropriation, which might rile the political waters over corruption in Nigeria. The buyback reduction percentage was a tricky issue: it had to be high enough to satisfy the Nigerians without causing legal, accounting or political problems for the creditors; CGD did not want to take it to the Hill either for many of

¹¹⁴ On buybacks see the Paris Club website: http://www.clubdeparis.org/search_form?SearchableText=prepayment and <http://www.clubdeparis.org/sections/principes-et-regles/regles-et-conventions/100-remboursement-par/remboursement-par/switchLanguage/en>. Russia had a second and larger buyback in 2006, an exit one that ended its odd double status as both a member of the Paris Club and its largest debtor. As with Nigeria, it was largely oil revenue that made this possible. Russia’s 2006 deal was a full “hybrid” prepayment and buyback at market value; see <http://www.clubdeparis.org/sections/pays/russie-federation-de/viewLanguage/en>.

¹¹⁵ Interview with Okonjo-Iweala, July 30, 2007.

¹¹⁶ Okonjo-Iweala said that while President Chirac was always supportive rhetorically, other parts of the French government were less so, and it was difficult to tell where the line was between the view of the French government and that of the Paris Club Secretariat; interview with Okonjo-Iweala, July 30, 2007.

¹¹⁷ Interview, June 13, 2006. Initially the British, as well as the Fund and the Bank, were “hesitant about supporting this approach. The initial argument they had been using to buttress the country’s case for debt relief was tied to the scarcity of resources needed” to deal with Nigeria’s social and political needs and challenges; and in “this context support a position that entailed a sizeable upfront payment from Nigeria appeared contradictory.” There was also the fear that creditors who demanding higher debt service payment from Nigeria, would use the buyback idea to support their position. At one point, the Nigerians “were strongly advised not to appear to be the ones championing this idea, until we were able to gauge the reaction of our creditors;” confidential correspondence J.

the same reasons. The buyback option also had real political risks for the Nigerian government as it could be spun as caving in to the greedy “colonialist” creditors who had already been pay twice over. Obasanjo and Okonjo-Iweala had to make a tough political call, one that ultimately proved to be correct.

On April 19, 2005 Birdsall and Moss met with Okonjo-Iweala at the Nigerian Executive Director’s office at the World Bank for an update. Okonjo-Iweala was worried about the Bank’s Country Policy and Institutional Assessment (CPIA) rating for Nigeria; she felt that negative perceptions about corruption and management could prevent the IDA reclassification and any major Paris Club debt reduction deal.

Generating Support Abroad – Another Front of the Debt Campaign

Ann Pettifor, the British activist and campaigner who did the most to lead and develop the original international Jubilee 2000 debt relief movement. Jubilee 2000 created an advocacy model for building worldwide NGO coalitions and campaigns. Pettifor first met Obasanjo in May 1999 in Abuja when she had come to tell him that Jubilee 2000 wanted to call for debt cancellation for Nigeria but needed assurances that the saved funds would be used properly. As she put it, “Thus began a long collaboration with the one African president that was prepared to nail his flag to the mast of debt cancellation. Not just for Nigeria, but for the whole of Africa.” After



the successes of Jubilee 2000 with HIPC I and II and putting debt relief firmly near the top of the world agenda, she moved on to the New Economics Foundation, and in 2004 founded Advocacy International Ltd. (AI) to work with poor country governments and organizations to “promote positive development, investment, and environmental sustainability.” A for-profit organization, AI connected clients, opinion-makers, decision-makers, and advocacy groups, developed strategies and conducted research and analysis to support its advocacy work. It worked with governments “to present their interests more successfully to key decision makers and opinion formers in OECD countries” and seek “justice in international relations between low income debtors and their international creditors.” One of AI’s first clients was Ethiopia, which was negotiating the last phase of the HIPC process and meeting resistance from key G-8 creditors about getting “topping up” debt relief from the Paris Club.¹¹⁸

In late 2004 Okonjo-Iweala and Muhtar hired the services of Pettifor’s firm to create and build an international campaign that would support their quest for major debt relief for Nigeria, in part to “make a sustained case for debt relief in OECD countries,” including Britain, France, Italy, Germany, Japan and elsewhere. Advocacy International launched the New Start Nigeria

¹¹⁸ Pettifor, “New Debt-Free Start.”

campaign and created a website to go with it: www.newstartnigeria.org. Okonjo-Iweala was later to say that AI and the New Start Nigeria campaign “in no small way helped in securing the debt package which we received from the Paris Club... No words can really express how grateful we are for your extraordinary achievement.” A senior British official involved in the debt relief discussions about Nigeria asserted that AI created “a leadership position in the task of calling international attention to the burdensomeness of the debts with which Nigeria had to cope...the necessary information about Nigeria’s improved financial management efforts was



collected, analysed and disseminated to carefully targeted audiences... [AI’s] impressive expertise and hard work deserve our unreserved acknowledgement and gratitude.” New Start Nigeria’s slogans were “Helping Nigeria Lift Itself Out of Debt and Poverty” and “Give credit where credit’s due;” it also made effective use of a Nigerian proverb: “It is an unthinking man who achieves prosperity, and then finds with time, this his body can no

longer pass through the door,” which fit well with Nigeria’s homegrown economic reform efforts. AI maintained ties with Jubilee Debt Campaign, Jubilee Research, OXFAM, EURODAD, AFRODAD, Third World Network Africa, Reformer les IFIs in France, WEED (World Economy, Environment and Development) in Germany, Bono’s DATA, Christian Aid, Action Aid, Jubilee USA, Odious Debt, Action Africa, IFI Watchnet, 50 Years is Enough, Nigeria’s African Network for Environment and Economic Justice (ANEJ), ACTIONAID Nigeria, OXFAM Nigeria, and NIDONE (Nigerians in Diaspora Organisation Europe).¹¹⁹

In order to invigorate the debt relief campaign and influence skeptical creditors, Obasanjo sacked two of his ministers in April 2005 and then forced the resignation of the president of the Senate over corruption charges. He said, “We cannot continue to solicit for debt relief without being prudent and relentless in our fight against corruption at home.” Cynics abounded and pointed out that no one close to Obasanjo had fallen in the campaign against corruption.¹²⁰ In another savvy aspect of the debt campaign, a delegation of National Assembly members made a four-country visit, including stops in Washington and London, to learn and talk about debt. AI helped to organize and coordinate this tour. Farouk Lawan, the chair of the House finance committee, who had led the charge on the earlier non-binding resolution, said bluntly, “We cannot continue. We must repudiate this debt. We are getting close to saying that we won’t pay.” Senate whip

¹¹⁹ See Pettifor, “New Debt-Free Start;” she “was pleased to be asked to be a consultant,” but never mentions Advocacy International or the fact that she was getting paid for her assistance; also see: www.advocacyinternational.co.uk/ and www.newstartnigeria.org. Key AI reports for New Start Nigeria include: Ann Pettifor, “Why campaign for debt cancellation for Nigeria?” March 2005; Helen Kersley, Ann Pettifor, and Janet Bush, “What does the Paris Club deal mean for Nigeria?” July 2005; Helen Kersley, “Finalisation of Paris Club Debt Cancellation with Nigeria,” October 21, 2005; and “Nigeria’s Progress under the Paris Club Deal for Debt Relief,” January 2006. Also see Okonjo-Iweala, “Nigeria’s Fight for Debt Relief,” pp. 10-11; Okonjo-Iweala notes that “Ann also helped link Nigerian NGOs interested in the debt relief campaign to their counterparts abroad,” and she refers to Ann as “the perfect partner.” Pettifor kept CGD apprised informally of her Nigeria activities and praised it for the work it was doing. The pictures the two previous page are from www.newstartnigeria.org.

¹²⁰ “Action Corruption” and “Transparency or Political Gamble,” *Africa Research Bulletin*, March 16-April 15, 2005, p. 16473.

Udoma Udo Udoma took a more moderate position by proposing a significant debt reduction, although he did say that “Time is running out. The level of frustration is very high.” According to the group, Nigeria’s situation was worse than that of Argentina at the time of its record-breaking \$100 billion default in December 2001.

After the House passed its repudiation resolution, the Senate was under strong pressure to do the same; as a result, the Senate held a roundtable conference on March 21, 2005 with the assistance of the DMO, out of which came the idea to send a National Assembly delegation abroad to make the case for debt cancellation of Nigeria. The delegation consisted of Senators Udoma and Patrick Osakwe and Farouk Lawan and Sadiq Sanusi from the House and was accompanied by the Director, Deputy Director, and Chief Legal Officer of the DMO, which helped to organize the trip along with AI and others. The delegation made two trips. The first was April 24-May 7, 2005 to the U.S., U.K., Germany and Italy; the second trip from May 16-22 was to France and Japan. In the U.S., the delegation met with 11 members of the U.S. House of Representatives, including Maxine Waters and three Senators – Barack Obama, Chuck Hagel, and Christopher Smith. The delegation participated in a well attended roundtable by the Nigeria Working Group at CSIS, and a private meeting at CGD to discuss the option of a buyback at a discount. The delegation noted that CGD “counseled against unilateral action by Nigeria on repudiating its debt and advised Nigeria to negotiate favourable debt relief terms.” It also held a session with leading U.S. NGOs working on debt relief. On April 27 the National Assembly delegation came to CGD as part of its whirlwind tour of Washington. The Center explained the buyback proposal and discussed why some of the Paris Club creditors were so opposed to any debt relief for Nigeria and that the buyback proposal might be a way to cut through some of the opposition. A couple members of the delegation were quite knowledgeable and savvy about the issues, particularly Senator Udoma, and they seemed to see CGD’s buyback proposal as a potentially important contribution.

Then it was on to London for one very packed day; the delegation met with key HM Treasury officials dealing with debt and the Paris Club, who made their support of Nigeria debt reduction clear but also reminded the Nigerians that an agreement had to be reached by a consensus of all of the Paris Club creditors. The delegation also met with journalists, leading British NGOs, and members of the Nigeria diaspora in the U.K. In Berlin the delegation met with officials from the Ministries of Finance and Economics, with the *Financial Times Deutschland*, German NGOs and, again, members of the Nigerian diaspora. Italy was next with meetings with the Senate and the Finance and Foreign Affairs Ministries, and the Nigeria diaspora. Part of the delegation went to Padua for a large NGO gathering for the launch of the UN MDG and Italian Make Poverty History campaigns. The second trip took the group to Paris for discussions with Xavier Musca, Chairman of the Paris Club, Jean-Pierre Jouyet, Emmanuel Moulin, Claire Cheremetinski, and other senior members of the Paris Club Secretariat. Jouyet made it clear that “Nigeria should not discourage them from continuing to work on a negotiated debt relief package by unilateral repudiation,” according to Senator Udoma. The last stop was Tokyo for meetings with officials

of the Finance Ministry who worked on Paris Club matters, as well as members of the Diet, NGOs, journalists, and the Nigerian diaspora.¹²¹

In Washington, Senator Udoma told a journalist, “It’s an impossible situation. The situation is unsustainable. Something must be done, so the Nigerian House of Representatives considered this matter... The resolution has yet to come to a vote in the Senate. We are looking to discussing, negotiating, and persuading our creditors before we move to vote the resolution. It is critical that we get debt relief now, because democracy must show appreciable dividends... The single greatest challenge for Nigeria right now is debt. We need debt relief in order to ensure that the economic agenda works.” The delegation also stressed that Nigeria was a poor country despite its oil, most of its debt was odious, was strategically important, and had been a good global and regional citizen with its peacekeeping and diplomatic endeavors. It gently reminded its host that 2005 was a crucial year with the approach of major elections in early 2007. AI’s New Start Nigeria put a hard twist to the National Assembly delegation’s message – “the delegation is warning that without urgent action to alleviate the burden of debt currently weighing down development efforts in Nigeria, outright default may be the only option.” The members of the delegation clearly backed the work of AI’s campaign. Udoma asserted: “Information is the key to power. The New Start for Nigeria campaign must be commended for the wonderful work it is doing in bringing key information as to the extent of poverty in Nigeria – and the depressing effect of debt service on Nigeria. I believe there is no force as powerful as an idea whose time has come. It is time for the total cancellation of Nigeria’s debt.” According to Lawan, “The New Start for Nigeria campaign is doing a great job and I urge all activists and campaigners both in the creditor countries and Nigeria to support New Start Nigeria. The results will certainly save lives, reduce poverty and help consolidate democracy in Nigeria.”¹²²

Towards a Deal in Mid 2005

By late May 2005 CGD’s two ideas had become bundled together quite tightly in the negotiations among the G-8 creditors, and also with the IMF and the World Bank; the two issues were mutually dependent, in fact. The Germans, for example, would not support IDA-only until they realized they would get real money up front because of the buyback. Naples terms via an IDA-only reclassification was not going to fly by itself for them and others, and the buyback via the Paris Club would work best for Nigeria with Naples terms, requiring an IDA reclassification. In short, the creditors had to agree about the debt before they would allow IDA-only. The

¹²¹ Senator Udoma, “Report on the Campaign for Debt Relief to Nigeria’s Principal Creditor Countries Undertaken by a National Assembly Team in April and May 2005,” presented to the Senate, June 5, 2005; a copy can be found on the DMO website: <http://www.dmo.gov.ng/debtrelief/senrept.php?PHPSESSID=e066da00d11714ad8f0595895df58798>.

¹²² Senator Udoma, “Report on the Campaign for Debt Relief;” “Nigerian Legislators Tour Creditor Capitals Warn Default Coming Without Urgent Action,” New Start Nigeria website, May 17, 2005; David O’Reagan, “Debt Relief Critical to Development and Democracy, Senators Say,” Interview, AllAfrica Global Media, May 6, 2005; “Nigerian lawmakers revive campaign for debt relief,” Reuters, April 26, 2005; Eddy Odivwri, “How We Won Debt Relief – Udoma,” *This Day*, January 13, 2006. Also, conversations with Ann Pettifor, Cambridge, England, September 21-22, 2007; she confirmed that the National Assembly tour was *partially* meant to send a repudiation message to the creditors and *partially* to bring the National Assembly on board.

French had switched to supporting IDA-only because they wanted to make sure the deal was done within Paris Club rules. Thus, the synergies between the two issues made the deal possible; they solved the major problems of the G-8 creditors.

Britain was still seeking to broker a deal for Nigeria, and Treasury officials said that there were no solid figures on the table but that a starting point for the discussions was the Center for Global Development buyback proposal. The British press quoted Todd Moss: “In 2005 Nigeria has an unusual amount of cash on hand and an opportunity finally to resolve its problem. The creditors also have solid political, strategic and humanitarian reasons to cut a deal. Missing the opportunity will not only lose creditors their best chance to collect this debt but could also threaten the economic and democratic reforms in one of Africa’s largest and most pivotal countries.”¹²³ In April 2005 Okonjo-Iweala described the skeptical creditors as being “politically naïve” and lacking imagination. She warned that a solution needed to be found “because, if they don’t, we don’t know where this is going. It might result in their not getting anything at all.” She added, “We don’t want to wait until oil prices crash.”¹²⁴ This creative new aspect to the Nigerian debt campaign strategy ran very clear risks; it was a classic glass is half empty or half full situation. In addition, the shadow of the future hung over the negotiations – the 2007 Nigerian elections and rumors Obasanjo would seek an unconstitutional third term. Skeptical creditors viewed the reforms as necessary but not sufficient and argued that it was hard for Nigeria to claim imminent default, a Paris Club requirement and one not supported by the recent IMF Article IV evaluation; in addition, Nigeria lacked a formal agreement with the IMF. Mansur Muhtar insisted that the latter might prove to be “an insurmountable barrier.”¹²⁵ In addition, unlike Angola, Nigeria still did not have IDA-only status. Besides the U.K. and its Commission for Africa,¹²⁶ which called for a wider debt compact for non-HIPC countries such as Nigeria, the U.S. was generally amenable to a deal for Nigeria, but the greatest reservations came

¹²³ Larry Elliot, “Nigeria at risk of £17bn default: Time is running out for talks, warns delegation,” *The Guardian* (London), April 26, 2005. Also see: “Le Nigeria menace de ne pas payer sa dette, si elle n’est pas allégée,” *Le Monde*, April 28, 2005; it noted that « Gordon Brown a apporté son soutien à une initiative prévoyant que Lagos utilise les revenus tiré du prix élevés du pétrole pour le rembourser une partie de ses dettes... Seulement viola. Il y a à peine quelques mois, le Club de Paris acceptait d’annuler les dettes d’un autre pays, également riche en pétrole, l’Irak. Un précédent que ne manquent pas de faire valoir les Nigériens. »

¹²⁴ As the *Financial Times* noted, the Okonjo-Iweala’s team, with its leaky technocratic boats on the roiling patrimonial sea, had “little political support beyond the president’s personal support,” and not always even that; it cites one international official as saying, “The politics of debt relief here is really about the survival of the people supporting the reform” and whether these changes would just be flashes in the pan;” see Dino Mahtani and David White, “Unsettled and unpredictable: a sputtering democracy that never manages to fire on all cylinders,” *Financial Times*, April 26, 2005. The same day the *Financial Times* published an editorial that called for debt reduction for Nigeria and floated the idea of a special infrastructure fund linked to staggered and partial debt relief annually over time based on set benchmarks; some argue that this would be a way around the Paris Club all together, a suggestion that could be taken as an implicit threat to the French and the Paris Club as an institution; see “Nigeria’s debt: Africa’s most populous country deserves better treatment,” *Financial Times*, April 26, 2005. “Britain/Africa: The big push comes to shove,” 46/10, May 13, 2005; *Africa Confidential* refers to both the U.K. “special facility for Nigeria” scheme and Todd Moss’s buyback proposal from CGD.

¹²⁵ David White, “A high risk political strategy, debt relief,” *Financial Times*, April 26, 2005. It is interesting to note that at the time this is being written, the very same issue about the IMF hangs over Argentina. It is not well known but in the first Paris Club rescheduling in 1956, which was for Argentina, the IMF was not yet involved in the Paris Club process.

¹²⁶ The Commission’s report was issued on March 11. Although he was supportive of the report, Obasanjo called on Blair and Brown to act on it: “If all we have is this report and in two years it is just gathering dust on the shelves of libraries in the world then it will not be worth the paper on which it is printed and it will completely destroy the credibility” of Western countries; “Nigeria’s Obasanjo praises Blair’s Africa plan, urges action now,” AFP, March 15, 2005.

from Germany, the Netherlands, and Japan, while others such as France, Italy, and Russia were not yet ready to support a major debt reduction deal. Although Canada was not a creditor for Nigeria, the Nigerians sought its assistance in persuading other G-8 countries to support a debt deal, and Canada worked actively on Nigeria's behalf in G-8 meetings and by attending Paris Club sessions as an observer.

The IMF's Rato visited Nigeria for the third time in mid May 2005 and expressed support for the existing track record of reform and the fact that Nigeria was willing to listen to IMF advice when the National Assembly tried to increase spending; he asserted that there were now sufficient grounds for serious Paris Club negotiations and offered to write a letter to that effect.¹²⁷ Obasanjo began a four-day visit to France on May 23, in which he met President Chirac, but the French remained an obstacle to a Paris Club deal.¹²⁸

Three key elements were falling into place by now, helped along by repudiation talks by Nigerian legislators. The first element was the buyback idea floated by Todd Moss at CGD, which was now actively being discussed as the most probable option for a reduction of Nigeria's debt, particularly by G-7 members of the Paris Club. The second element was the idea of using a Policy Support Instrument, or what some at the time were calling a Policy Support Agreement, to finesse the requirement that Nigeria had to have a formal IMF program. The PSI was expected to be approved by the IMF in July 2005 and had been discussed in one form or another since 2003.¹²⁹ The third element that was finally beginning to take shape was the possibility of the reclassification of Nigeria as an "IDA-only" country, which would make Naples terms possible. The elements began to set the parameters of the debate over how big a buyback might be. The Nigerians were talking up the high end. As one Nigerian official put it, "From the Paris Club, the understanding is that we are likely – and this is being negotiated – to get debt relief of 70 percent;" an official of a major creditor said, "Most [G-8] creditors are on board with the idea of a buyback, but we certainly don't see an agreement at a 70 percent discount. The French originally talked about 30 percent, but 50 percent was now coming out a lot and we want to push for more."¹³⁰ Mansur Muhtar was saying a Naples terms 67 percent reduction was "the bare

¹²⁷ Andrea Bohnstedt, "IMF Managing Director Commends Nigeria's Spending Restraint, Promises Support to Paris Club Negotiations," World Markets Analysis, May 18, 2005.

¹²⁸ Ola Awoniyi, "Obasanjo urges France to give Nigeria investment and debt relief," AFP, May 23, 2005; the article claimed that "France has been an obstacle within the Paris Club."

¹²⁹ At the April 16 meeting of G-7 finance ministers and central bank governors in Washington, it was announced that "We support the creation of a policy monitoring arrangement in the IMF to allow low income countries to engage the Fund when they do not need Fund finance, alongside the PRGF which is the IMF's principal instrument for providing resources to low-income countries;" <http://www.g7.utoronto.ca/finance/fm050416.htm>. Talking about the PSI, Rato said: "The board is discussing the possibility of having a new instrument, which would be a monitoring agreement, but the fact is that if it is decided, and I think it will be, it is very similar to what we are already doing in Nigeria. It would be formally defined, but it will not require any changes in our relationship with Nigeria." Okonjo-Iweala said, "We are the pilot programme. The IMF *makes sure it is as stringent as* an upper credit tranche program and then monitors it like a regular programme, but the difference is that you develop it and you own it." She also said the advent of the PSI would "absolutely" be a major breakthrough in Nigeria's search for major debt reduction; Tom Ashby, "Nigeria set to Christen new IMF agreement – finmin," Reuters, May 17, 2005 [emphasis added]. For a longer discussion of the technical and political ambiguities of the PSI, see below pp. 70-73.

¹³⁰ Okonjo-Iweala talked about a real low point in the negotiations: "Of course, that [the 30 percent position] meant we were not on the same wave length and myself and Dr. Muhtar...had to sit with them [the French] for several hours at the Paris Club Secretariat but all our appeals fell on deaf ears, we were not getting anywhere at all. It was a rather frustrating experience. They

minimum;” the Nigerians were also interested in the speed and timing of debt relief. Most of the members of the G-8, but especially the U.K., seemed to be “pushing for a deal between now and the G8 meeting in July” according to a Nigerian official who expected “a statement to this effect from them [before the Gleneagles summit] and something concrete by December [2005].” Some of the major G-8 countries wanted to get Nigeria settled before the big unveiling of what was to become the MDRI at Gleneagles, and a buyback had benefits for both sides – the creditors got money up front instead of stretched out or none at all, and Nigeria could use saved oil windfall revenue to finance the buyback with existing available resources.¹³¹ In early June the World Bank quietly reclassified Nigeria as IDA-only, but made no formal announcement of it. Okonjo-Iweala had formally requested the change.¹³²

At the G-8 finance ministers meeting in London June 10-11, the U.K. and the U.S. agreed on the basic outline of a major new debt relief proposal for HIPC countries, but nothing concrete for Nigeria. The meeting communiqué said, “We welcomed Nigeria’s progress in economic reform as assessed in the IMF’s intensified surveillance framework, noted its move to IDA-only status, and encouraged them to continue reform. We are prepared to provide a fair and sustainable solution to Nigeria’s debt problems in 2005, *within the Paris Club*.”¹³³ Nigerian and

kept talking about the fact that oil prices were going up but we argued that nobody could rely on oil prices, that it could also go down at any time.” She referred to the National Assembly delegation’s repudiation threat: “we knew of course that they [the Paris Club countries] would not listen to that but the efforts helped because they saw the seriousness of the issue in Nigeria, that we meant business on the issue. There were also petitions by some students groups and nobody can underplay the importance of all of these efforts;” “Debt Cancellation: the Facts Behind the Deal,” *This Day*, July 3, 2005

¹³¹ Tom Ashby, “Nigeria in talks for \$31 bln debt buy back – sources,” Reuters, June 3, 2005.

¹³² Interview with Okonjo-Iweala, July 30, 2007. It is still not clear exactly when the reclassification took place. After considerable digging I found a discussion of the change in “World Bank Group and DFID Country Partnership Strategy for the Republic of Nigeria (2005-2009),” World Bank June 2, 2005, p 4: http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679_&menuPK=64187510&searchMenuPK=64187283&siteName=WDS&entityID=000012009_20050802083624 : “Nigeria has been reclassified from a “blend” to an ‘IDA-only’ country. Nigeria meets all three criteria for IDA-only status: low GNI per capita, lack of creditworthiness and a track record of good policy performance. It is currently the poorest country in the world that is not classified as IDA-only. Its per capita income is only US\$350, considerably below the IDA-only cut-off level of US\$895. Nigeria is not creditworthy since it does not have the ability to service new external debt at market rates over the long term. As a result, it cannot access private capital markets or IBRD and had not borrowed from IBRD for over a decade. Nigeria has the potential to re-enter the group of middle-income countries (MICs) and regain access to international financial markets... However, for the medium-term, IDA-only status provides the appropriate framework to support Nigeria’s progress towards achieving the MDGs. The Nigerian government has requested this change for three reasons. First, it would provide a signal to donors [Paris Club] and alert them of the need for increased financial support. Second, it sends a message within Nigeria that it is a very poor country – despite being oil wealthy. This will help them in communicating the need for reform and that Nigeria should avoid non-concessionary lending or repeating the boom-bust cycles of the past. Third, it has the advantage of better terms of IDA credit. Nigeria’s total public debt, estimated at about 72% of GDP at the end of 2004, will impede its progress in attaining the MDGs... A solution is needed for that owed to external creditors, *mainly the Paris Club*. Traditional Debt Sustainability Analysis (DAS) suggests that, at current oil prices, neither external nor fiscal sustainability is an issue for Nigeria. However... Results of a DSA incorporating the additional government spending needed to reach key MDG goal show that even with outstanding future economic performance and sustained high oil prices, it will be virtually impossible for Nigeria to meet the MDGs and simultaneously lower its indebtedness to sustainable levels (defined as 60% of GDP)” [emphasis added]; Annex 4 has a summary of the DSA referred to here. When this report was discussed by the Executive Board on June 28, 2005, the reclassification was noted: “The country’s newly acquired IDA-only status was also discussed; “Nigeria: Country Partnership Strategy, Chairman’s Concluding Remarks, Meeting of the Executive Directors,” June 29, 2005.

¹³³ “G8 Finance Ministers’ Conclusions on Development, London, 10-11 June 2005,” Hermes Database, June 11, 2005 [emphasis added]; and G-8 financial officials confirmed that the French position was that any deal had to be in the Paris Club and within its existing rules; interview B.

international NGOs condemned this exclusion of Nigeria from debt relief to be offered to the HIPC.

The fact that the G-8 did not announce an expected debt deal for Nigeria sent Nigeria media, politicians, and ordinary citizens into a tizzy, making life harder for Obasanjo and his team. One Nigerian newspaper asked Okonjo-Iweala and Mansur Muhtar: “Could you tell us what exactly is our chance of receiving any debt relief in real terms when Nigerians thought...that Nigeria was not there [in the G-8 announcement of new debt relief for HIPCs], that Nigerian’s efforts for debt relief had been a waste of time.”¹³⁴ One commentator did point out that, in fact, the G-8 did promise a deal. Okonjo-Iweala responded to what was perceived as the vagueness of the G-8 declaration by saying that Nigeria was not looking for 100 percent debt cancellation, and, given that Nigeria was not a HIPC country, she still held out hope for a deal under the Evian Approach.¹³⁵ For his part, Mansur Muhtar stated, “Our reference for the level of debt relief has *always* been Naples terms on stock and flow of debt, *at the bare minimum*,” this would be “equivalent to a 67 percent discount on the face value of the debt as agreed for other [non-HIPC] poor countries.”¹³⁶

Ironically, part of the spin of the Nigerian team was that Nigeria was not a HIPC, the new G-8 deal was for HIPC countries, and therefore it did not matter. This was despite many previous statements that Nigeria should be a HIPC. Actually the Nigeria discussion of HIPC status had long been misleading. Indeed, if Nigeria had been a HIPC and gone through the full HIPC process with its formal IMF programs and high levels of conditionality, it would have already obtained significant Paris Club debt reduction, and the new MDRI would have wiped out its small amount of remaining multilateral debt. MDRI was designed only for HIPCs that had reached the “completion point” or end of the process. Nonetheless, Okonjo-Iweala said, “The effort has not been wasted... We were highly indebted but we do not belong to the categorization of HIPC countries that owe their debts to multilateral institutions...because they have trouble paying those, they are the ones being treated now for 100 per cent debt relief. As you know, Nigeria owes very little to the multilaterals... We do not have the same problem as those countries. Because of that, we decided” to approach “them under Evian terms and we have been negotiating. I equally have been working with the Finance Ministers of the G 7 and the other countries on the numerous technical issues that have to be sorted out when you are going to get debt relief... We have been working on the analysis of those issues in the last year with the DMO, trying to set out those parameters and then equally, we have been talking to the Finance Ministers and presenting analysis on debt sustainability, analysis on Nigeria’s ability to attain the MDGs and all those too numerous to name.” She then talked about what was next: “Right now the issue has gone to the bigger Paris Club for debate, therefore we have to wait for them to

¹³⁴ “Bush, Blair Exclude Nigeria from Debt Relief Deal,” *This Day*, June 10, 2005. Also see, Reed Kramer, “G8 Debt Agreement to Benefit 23 African Countries, Separate Deal for Nigeria Mooted,” AllAfrica.com, June 12, 2005, which cites Todd Moss and the CGD buyback proposal; and Paul Odili, “Does Nigeria deserve debt cancellation?” *Vanguard*, June 16, 2005.

¹³⁵ “There’s still hope for Nigeria, say Okonjo-Iweala,” *Vanguard*, June 19, 2005.

¹³⁶ “Foreign debt: Is relief on the way for Nigeria?” *This Day*, June 18, 2005 [emphasis added].

discuss before we can get details of what type of relief we are going to get. What we are expecting from this relief is an exit strategy. We want to work with them so that we exit the Paris Club completely.”¹³⁷

After attending the G-8 finance ministers meeting, the new World Bank President, Paul Wolfowitz, met with Okonjo-Iweala’s economic team in Nigeria and hinted that a buyback reduction offer was indeed discussed, with the amount of discount unclear, but possibly in the range of a 70 percent reduction: “It is a complex negotiation that is involved, not just G8 ministers or representatives in London, there are the members of the Paris Club,” which was scheduled to meet the week of June 13. Wolfowitz added: “Obviously, the [G-8] ministers have a lot to say and I don’t know what percentage of the Paris Club they represent but their words are strong, which is why I am pretty optimistic about the result. At the end of the day, it would be an agreement between your government and the representatives of the club. I know how impatient people are and I am impatient too.”¹³⁸

As it turned out, the G-8 finance ministers had indeed worked out a fairly concrete deal for Nigeria among themselves, but they refrained from announcing it because it had not been presented to the rest of the Paris Club.¹³⁹ It was a tough sell; as Okonjo-Iweala recounts, Gordon Brown “negotiated far into the night on this occasion calling back from time to time to check with me and I checked in turn with President Obasanjo the acceptability of the G-8 creditors’ position.” The G-8 plan was that Nigeria would pay off all of its roughly \$6 billion in arrears at full par value using its windfall oil revenue; some of the creditors, including the French, insisted vigorously on this. Then Nigeria would get a roughly three-quarters reduction on the remaining amount via a buyback, resulting in Nigeria’s exit from the Paris Club, for a total overall reduction of \$18 billion, which amounted to 60 percent of Nigeria’s total Paris Club debt of \$30.1 billion. It was not easy to get all of the G-8 to agree to this deal, but basic agreement was reached. Members that had been leaning toward forcing Nigeria to adopt a formal IMF economic reform package began to wobble as the threat of a total default concentrated their minds, despite battles over the amount of the reduction. At least under this G-8 version of a Paris Club deal, the creditors would get some money up front, what Okonjo-Iweala called a “sweetener,” and Nigeria would only need continued intensified surveillance by the IMF or

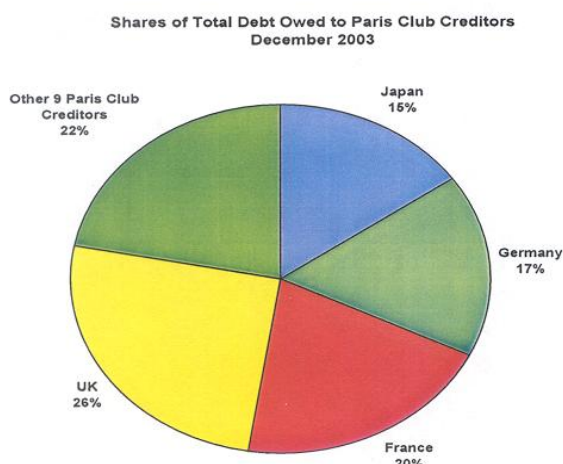
¹³⁷ “There’s still hope for Nigeria, say Okonjo-Iweala,” *Vanguard*, June 19, 2005,

¹³⁸ “Debt buy-back for Nigeria on the table – Wolfowitz,” *This Day*, June 12, 2005. As we shall see, Wolfowitz’s indirect point that the Paris Club is made up of more countries than just the G-8 and that it is not just a G-8 decision turned out in the end to be very important for our story. According to a group of Nigerian business people, Wolfowitz, at a dinner meeting in Abuja, said that a deal may have been reached, “something not really Naples, but more along ‘Evian’ terms or a case-by-case basis;” “Debt Relief for Nigeria...Nigerian Business Forum advocates,” Nigerian Business Forum, June 2005, <http://www.nbfonline.org/debtrelief.html>.

¹³⁹ According to the *Financial Times*, “No details of the agreement were made public in the G8 finance ministers’ communiqué to avoid offending smaller European creditors” in “Debt relief for Nigeria fades,” June 29, 2005; but, as we shall see, the G-8 failed in its effort not to offend the rest of the Paris Club; the non G-8 members proved to be quite angry. Nancy Birdsall and Todd Moss managed to reach Caio Koch-Weser on his cell phone on June 9, the day before the G-7 finance ministers meeting to ask about the status of the IDA-only change, and he said it was all done, the deal was made. The Germans became more open to the joint package as soon as they realized that there would be real money for them in the deal; interview with Okonjo-Iweala, July 30, 2007, and interviews D, K, P.

possibly the new type of arrangement still under discussion – a Policy Support Instrument, when and if it were adopted by the IMF.¹⁴⁰

A meeting of the Paris Club creditors, without Nigeria, was held in Paris within days of the G-8 meeting¹⁴¹ and the non-G-8 members of the Club staged a revolt. They were furious that they were presented with a deal about which they had really not been consulted and the details of which they did not know. They insisted on due process, on following the rules of the Paris Club, which were built on the norm of consultation, discussion, and ultimately, consensus. This included being able to discuss the proposed deal with their own governments; a *fait accompli* was not going to fly. Considerable disagreement existed over the amount of debt reduction that would be offered; some non-G-8 creditors preferred 50 percent while others wanted only 30 percent. They insisted that they have time to consult with their governments and that an IMF team be sent to Nigeria to gather more information on the progress of the economic reforms, with specific things to look at, and report back to the full Paris Club at a meeting at the end of June. In the meantime, no public communiqué would be issued.¹⁴²



On June 29, 2005, the Paris Club did reconvene in Paris to discuss Nigeria. The day before, Jack Snow, the British foreign secretary was still calling his counterparts trying to convince them to accept the G-8 proposal for Nigeria, and it was frustrating work, as Austria, Denmark, the Netherlands, and Switzerland, among others, were still raising strong objections.¹⁴³ It was not at all clear that such a deal would be accepted, even in principle, the next day. But after the

¹⁴⁰ “Debt relief for Nigeria fades,” *Financial Times*, June 29, 2005; Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” p. 14, 11.

¹⁴¹ The actual date of the meeting is unclear: 13-14, 15-16 or 16-17?

¹⁴² Tunde Rahman and Samuel Famakinwa, “Paris Club defers decision on Nigeria,” *This Day*, June 19, 2005; this opposition was also part of what one source called the “enough already” syndrome in reaction to the U.K.’s wide-ranging proposals about debt and development finance for Africa as part to its “Year of Africa.” The Figure “Shares of Total Debt Owed to Paris Club Creditors” is from CGD, “Double Standards,” p. 28.

¹⁴³ Okonjo-Iweala said that convincing “the non-G8 members to accept the deal that had been worked out... was not easy. There was resentment that we had gone first to a subset of creditors whilst ignoring others. Feelings had to be assuaged and we made visits at both ministerial and even presidential level in a couple of cases to all non-G8 countries to convince them of the merits of the case,” Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” p.14. Another source noted that “Dealing with the Netherlands and other non-G8 countries also proved quite a challenge, especially during the interval between the G-8 meeting where the decision on debt relief was actually taken and the subsequent Paris Club meetings. It required a lot of shuttle diplomacy to pacify them;” confidential correspondence J. Ann Pettifor noted that “non-G8 creditors began to object. What right had the G8 to settle these matters outside the consensual framework of the Paris Club? The Nigerian ship began to list dangerously in the high seas of creditor disputes;” Pettifor, “New debt-free start.” G-8 financial officials said that, as with any Paris Club deal, logrolling played a role both here and in October; interview B.

meeting the next day, the Paris Club issued a press release in which the creditors expressed their agreement “in principle” to “enter into negotiations with Nigerian authorities in the months to come on a comprehensive debt treatment.” They “took note” of the Nigerian economic reform efforts and the willingness of the Nigerians “to take advantage of exceptional revenues in order to finance an exit treatment from the Paris Club.” The Paris Club also acknowledged Nigeria’s recent shift to IDA-only status, which would allow Naples terms treatment; this was the first public reference of the change in classification. The Club welcomed Nigeria’s decision “to renew closer relations with the International Financial Institutions” by its willingness “to pay all its arrears and conclude a policy support instrument (PSI) as soon as the instrument is approved by the board of the IMF.” A debt deal with Nigeria “would include debt reduction *up to* Naples terms...and a buyback” of the remaining eligible debt *after* Nigeria paid off all of its arrears and “would be phased in relation with appropriate IMF review under the PSI.” For this “exceptional” treatment, the Club was “ready to invite Nigeria to negotiate in Paris as soon as it has concluded a policy support instrument with the IMF.” This was an agreement in principle, what it was later to call a “debt treatment framework” for a comprehensive exit deal; in the end, the reduction on the remaining *non-arrears* debt stock actually turned out to be 75-76 percent, a “haircut” all parties could live with.¹⁴⁴

Okonjo-Iweala and many of her team kept a vigil at the Ministry of Finance the evening of the meeting, staying in touch with Paris about the details of the deal and the content of the communiqué. The deal would provide Nigeria with a total reduction of about 60 percent on its \$30.1 billion Paris Club debt. This was a deal on roughly “Naples terms,” not necessarily an Evian Approach one, despite the roughly 76 percent eventual non-arrears reduction. Nigeria’s switch to IDA-only status made the Naples terms possible; Okonjo-Iweala, for whom the deal was an “historic achievement,” stressed the importance of the IDA-only change and called Naples terms “a more generous relief package reserved only for low income countries that show good performance on reforms.” She noted that this framework was negotiated in part with the visiting IMF team headed by Menachem Katz and expected the final formal negotiations to take place in September.¹⁴⁵

¹⁴⁴ Paris Club, “Paris Club Creditors Agree in Principle on a Comprehensive Debt Treatment for Nigeria,” June 29, 2005, <http://www.clubdeparis.org/sections/services/communiqués/nigeria4924/switchLanguage/en> [emphases added]. The term “framework” was used in Paris Club, “Paris Club Agrees on a Comprehensive Treatment of Nigeria’s Debt, Press Release, Paris, October 20, 2005: <http://www.clubdeparis.org/sections/services/communiqués/nigeria9937/viewLanguage/en/downloadFile/PDF/prnigeria201005.pdf>. The fact that the deal in the end amounted to a 75-76 percent reduction of the *non-arrears* portion of the total debt stock was confirmed by Eric Lalo during the negotiations between the creditors and Okonjo-Iweala and her team at the October 18-20, 2005 Paris Club meeting; Okonjo-Iweala indicated that this was a great outcome given the Iraq had received 80 percent. Lalo pointed out that this was because the U.S. was the leading patron creditor for that deal. He was one of two advisors from Lazard Frères, the French investment bank, who attended these arduous negotiations; from video of the Paris Club proceedings taken by Advocacy International, Wednesday, October 19, 2005.

¹⁴⁵ Omoh Gabriel and Emma Ujah, “Nigeria gets \$20bn debt pardon,” *Vanguard*, July 1, 2005; Kunle Aderinokun, “Paris Club grants Nigeria \$18bn debt relief,” *This Day*, July 1, 2005. Okonjo-Iweala also noted that Nigeria’s foreign reserves were at \$23 billion by the time of the Paris Club meeting. In the final October 2005 press release, the Club specifically characterized the reduction as a form of Naples terms. The IMF played a central role in this whole process; as one well-placed source put it, “the Nigeria Country Team at the IMF, who really went out of their way to partner with the reform team...sometimes amidst skepticism from their colleagues, and risking their career. They took a chance on the reform team’s ability to deliver, sometimes

One very thoughtful and balanced commentary cited an interview by Okonjo-Iweala as follows: “Finance Minister Dr. Ngozi Okonjo-Iweala pointed out that after convincing the Paris Club to put Nigeria on the Evian track for debt relief, the club offered the country a 30% reduction and then the negotiations began.” The commentator interpreted “the position of the creditors as: now that we agree with your arguments for debt relief [and you are IDA-only], pay us the arrears owed to us and we will give you a reduction up to Naples terms.”¹⁴⁶ Thus, it appears that, since Nigeria was not a HIPC and not going to become one, despite occasional Nigeria rhetorical jabs to the contrary, the debt campaign strategy was to go for Evian terms, especially after Iraq, hoping to get an overall reduction of 50 percent or above while continuing to work for the IDA-only change that would make it formally eligible for Naples terms, which is seemingly what it got, but it was an outcome that could be interpreted as being consistent with the Evian Approach.¹⁴⁷

Speaking of the June Paris Club proposed framework, Senator Udoma said, “As an initial negotiating position, it is welcome, but Nigeria will naturally press for a higher discount. It is a major development because a year ago they (the Paris Club creditors) were not willing to listen to any plea for debt relief. To move from zero to 60% within a year is a major development. I am excited by that.” Udoma was not the only senior Nigerian to hint at a desire for still larger debt relief from the Paris Club. Speaking of the Paris Club after returning to Nigeria from attending the July 6-8 Gleneagles G-8 Summit, Obasanjo declared: “We thank them for what they have done. We are very grateful but we are still hoping and looking forward to more debt relief from the Paris Club... The world cannot ignore Nigeria and Nigeria cannot ignore the world.”¹⁴⁸ The important British NGO ActionAid said, “This is good news... It sets a precedent.

to the point of having their professional judgment questioned by colleagues. Some were subtly accused of going ‘native’;” confidential correspondence J.

¹⁴⁶ Ude, “Let’s Celebrate Debt Relief,” *This Day*, August 5, 2005.

¹⁴⁷ The World Bank confirms this, see its *Global Development Finance 2006*, Washington DC, 2006, p. 101. The IMF noted: “This treatment includes clearance of arrears in two phases, together with a debt reduction *under Naples terms on eligible debt*, and a buyback of the remaining debt at a market-related discount. *Consistent with the Evian Approach*, the debt treatment was phased and aimed at providing a definitive solution to Nigeria’s debt problems;” IMF Annual Report 2006, IMF, April 30, 2006, p. 63 [emphases added]. The Paris Club website is very unclear about the Evian Approach. The only case the Paris Club has definitively identified as an Evian deal was for the Kyrgyz Republic on March 11, 2005, about which it said, “Paris Club creditors granted a comprehensive debt treatment under the Evian Approach,” but when you look at the list of Kyrgyz treatments, the 2005 one is listed as “Ad Hoc” and the 2002 one as “Houston.” But a June 15, 2005 presentation by the Secretariat for the private sector, clearly indicated the 2004 Iraq deal was Evian: <http://www.clubdeparis.org/sections/services/communiqués/rencontre-du-club-de/switchLanguage/en>. An UNCTAD source confirmed that a Paris Club Secretariat official classified Nigeria’s agreement as an Evian one. It is commonly assumed that the Evian terms were written with Iraq in mind October 2003. For Georgia in July 2004, which was before the November Iraq deal, a promised was made: “At the request of the representatives of Georgia, Paris Club Creditors *agreed in principle to meet in order to examine the situation of Georgia’s debt under the Evian Approach* at the end of the current Agreement” [emphasis added]. It is interesting to note that at the Paris Club meeting with international private sector representatives in June 2004, one of the topics discussed was the possible use of the Evian Approach to handle Argentina’s politically delicate Paris Club situation; see the very interesting Power Point presentation at: <http://www.clubdeparis.org/sections/services/communiqués/rencontre-avec-des/downloadFile/PDF/presentationcomplete012.pdf?nocache=1175506474.25>. For more evidence of the confusion and ambiguity surrounding the Evian Approach, see Rieffel, “Nigeria’s Paris Club Problem,” p.7.

¹⁴⁸ Uche Obike and Paul Ohia, “IMF: It is a breakthrough,” *This Day*, July 1, 2005; “Nigeria hopes for more debt relief from Paris Club: Obasanjo,” AFP, July 9, 2005; the main ways this could happen would be to increase the reduction percentage for the buyback and/or do a write off on the arrears rather than paying them off. Others had grander ideas; Jeffrey Sachs, “Nigeria’s debt forgiveness arrowhead,” said in Nigeria after the G-8 Summit that “the debt forgiveness is less good that it could be. The

The world has recognized that Nigeria should not be saddled with debt contracted by its previous military dictators, much of it spent on arms.”¹⁴⁹ Mansur Muhtar said let me tell you “how

creditors are nasty and stingy to be extracting \$12 billion cash immediately for a country with a \$3 to \$4 billion annual budget. The \$18 billion cancellation is [a] great achievement but it is not enough. Why should they demand so [much] from a country when so many children are dying of hunger and diseases, millions are not in school. It is appalling for the creditors to be demanding \$12 billion cash... Creditor countries should become more like donor countries.” He said the \$12 billion should be transformed into aid for Nigeria, an idea later picked up by the debt campaign NGOs; on Sachs, see “Sachs faults creditors’ demand for \$12bn pay-off,” *Vanguard*, July 14, 2005. Sachs was asked to tone down his criticism, which he did until the final deal was reached in October 2005 when he attacked it again.

¹⁴⁹ Uche Obike and Paul Ohia, “IMF: It is a breakthrough,” *This Day*, July 1, 2005; it also discussed IMF praise for the deal. In addition, it quoted the British NGO Debt Watch saying, “Fortunately the Paris Club has demonstrated time and again since its creation fifty years ago an ability to adapt its rules to a changing world. Moreover it now has two new tools to work with: debt reduction in stages for middle-income countries, and buybacks of outstanding debt.” The private sector seemed relieved that apparently they were not going to be under any “bail in” or “private sector involvement” pressure – this is *not* the PSI discussed above and below; see, for example, “Private creditors will be relieved that they are unlikely to be ‘bailed in’ to any new agreement, as the Paris Club appears to have finally accepted that the latest agreement with bilateral creditors is merely catching up with the London Club restructuring undertaken in the early 1990s;” Carl Ross, “Nigeria: Update on Paris Club Debt Agreement,” Emerging Markets Sovereign Debt Research, Bear Stearns, July 6, 2005; Ross also notes that the Nigerians might be tempted at this point to seek an international credit rating, but that the agencies were likely to wait until after the final deal was cut, which, as we shall see, is what happened. In 2007 Okonjo-Iweala spoke of the London Club relief that Nigeria obtained in 1992; referring to the Paris Club deals of 1986, 1989, and 1991, she said, “None of the reschedulings offered the needed relief as it was like putting a band aid on a deep cut requiring stitches. Ironically Nigeria succeeded in getting substantial 60% debt cancellation from the London Club of commercial creditors and serviced its commercial debt faithfully thereafter. It could not get the needed deeper cancellation from the Paris Club and soon began to default with arrears piling up;” Okonjo-Iweala talk at the Jubilee Debt Campaign’s “Debt and Power Conference 2007,” “Debt and Power: Challenging the Debt Power Dynamics in a Changing World,” April 28, 2007; see www.jubileedebtcampaign.org.uk/download.php?id=488 and <http://www.jubileedebtcampaign.org.uk/?lid=3041>. One could deduce from her statement that the Paris Club should have given Nigeria comparable debt relief in 1992 to the Abacha military dictatorship; it is not clear if this is what she meant or whether she only meant to imply that the Paris Club owed Nigeria comparable relief in 2005 because the huge portion of the Paris Club debt by then was arrears and other penalties on the debt Abacha did not fully service precisely because the Paris Club creditors moved to isolate him economically and politically; 60 percent overall Paris Club debt reduction is, of course, exactly what it got in 2005 after living up to the deal Britain and the U.S. made with Obasanjo upon the return of democracy to Nigeria.

This is a contentious and politically fraught issue. Lex Rieffel, in a quite convoluted argument, takes the position that the Paris Club should have offered such a debt reduction to the Babangida military regime in 1992 or to the Abacha dictatorship in 1993. I will use Rieffel’s August 2005 Brookings policy brief, “Nigeria’s Paris Club Problem,” to examine his argument; all italics are mine. His longer version makes the same argument in a slightly expanded way [See footnote 2 for the full citations for both of these pieces]. Speaking of the hugely ballooned Paris Club debt by 2004 that resulted from Babangida and then Abacha’s decision not to service it fully, Rieffel says that “if the Paris Club had agreed to a 60 percent reduction deal in 1992, as the commercial bank [London Club] creditors did, this situation would not have developed.” He then claims: “Since Nigeria was still experiencing debt-service difficulties in early 1992, *a new debt relief arrangement with the Paris Club should have been concluded then.*” Yet in the very next sentence, he says, “But the Paris Club deal that should have been completed in 1992 never happened because of Nigeria’s economic policies and Paris Club rules.” By this he means the poor economic policies of the Babangida then Abacha military governments and the Paris Club rule that a debtor country must have a formal IMF program in place and on track, which was not the case. So what is his point? Besides, the Paris Club had already rescheduled Nigeria’s debt on January 18, 1991 on Houston terms (its third) with an IMF program that ran from January 9, 1991 to April 8, 1992, just before the April elections that Babangida nullified. Nevertheless, Rieffel goes on to claim: “By contrast, the London Club was able to conclude a debt reduction deal that year [1992] because it had committed in principle to a debt reduction deal a year earlier when Nigeria had an approved IMF-approved program in place. The commercial banks could have balked – as the Paris Club did – *but lacking a political agenda, they were anxious to close the deal and move on.*” Yet he immediately admits that “the political context during this period [“1993-98”] could hardly have been worse; long-delayed elections to restore civilian government were finally carried out, only to see the results annulled. In response the United States and other major creditor countries imposed economic sanctions thereby killing any remaining chances for a Paris Club deal of any kind. *While the decision not to enter into debt restructuring negotiations with the Nigerian government was easy to justify,* it exacerbated Nigeria’s debt service difficulties” because Abacha refused to fully service the debt while maintaining debt service for private sector and multilateral debt, as well as for most of the debt of non-Paris Club bilateral creditors. Thus, speaking of the Paris Club and Nigeria, he asserts that “political factors, *essentially beyond the control of both parties,* stood in the way of concluding a debt reduction deal in 1992.” Again, so why should the Paris Club have been concluded a “non-political” debt reduction deal with Nigeria in 1992 or 1993? He says, “*In contrast to commercial debt restructuring operations,* Paris Club operations are highly politicized.” He then very nicely lays out the multiple and varied “political imperatives” driving the June 2005 deal, listing ones that were used by both sides. Then he moves on to discuss “A Non-Political Restructuring:” “No accepted standard for a non-political restructuring of

remarkable this deal is.” It was the largest African deal ever, the largest ever debt write-off, larger than both Poland and Egypt in 1991, the first ever buyback at a discount, “both Russia and Peru were unable to negotiate a buyback of their outstanding debts at a discount” and “no country has been able to secure at once both a massive debt cancellation and the opportunity to buy back the balance.” Even Iraq, “despite its geopolitical [role], its uniquely high and unsustainable debts, has nevertheless to comply with a debt reduction phased over three years,” instead of Nigeria’s roughly six months.¹⁵⁰

Gordon Brown told Parliament the day after the June 29, 2005 meeting that “The Paris Club have agreed in principle a further write-off, a write off of \$18 billion of Nigerian debt, which, with a buyback of debt by the Nigerian authorities” that would mean a full exit agreement with the Club via negotiation within the next six months; he called this a “significant advance.” Hilary Benn said, “The deal will help to change the lives of millions of people in Nigeria.”¹⁵¹ It was clearly a good moment for the British and the Nigerians. Okonjo-Iweala declared, “To state the obvious, this is wonderful news for the country, saying the deal “gives us a chance to start on a clean slate without the heavy baggage of debt undermining development” and the deal was “the product of a long, hard battle” on both the domestic and international fronts. She declared that “We are thrilled by this news. It will mean more money for roads, rural electricity, health, education and HIV/AIDS.”¹⁵² President Obasanjo gave a major speech the day of the Paris Club

sovereign debt exists, but it is worthwhile to approximate the parameters that would meet commercial [i.e. non-political] standards.” He proceeds, writing in August 2005, to sketch out such an approximation, which was strikingly like what the Paris Club actually offered Nigeria in late June 2005, the one the G-8 rammed down the throats of the critical and angry non-G8 Paris Club creditors, who then put Okonjo-Iweala and Mansur Muhtar through hell in October. His approximation of a “non-political restructuring” was to include a debt stock write down of “60 percent, matching the 60 percent reduction Nigeria obtained from its commercial bank creditors in 1992.” He ends by saying that the 2005 Paris Club deal “is the quintessential political deal and the debate over which side won is likely to go on forever. What is obvious at this stage is that the deal is a stretch for both sides.” He is right on both of *these* accounts. So is he saying that neither the Paris Club nor Nigeria should have made or acted on political arguments; something the private sector allegedly does not do. It is part of a larger argument he makes about markets and market actors, which are allegedly not tainted by politics and thus are more rational and efficient than states, an argument that rings even hollower in early 2009 than it did 2005. He also takes this position in his book *Restructuring Sovereign Debt: The Case for Ad Hoc Machinery*, Brookings, 2003, which, this argument aside, is a very useful and badly needed examination of Paris and London Club debt restructuring mechanisms. Rieffel clearly has an unduly apolitical and rational view of markets and market actors, while calling states exactly what they are – quintessentially political actors. Clearly in many ways market actors are as well. His distinction is too neat and thus lacks credibility; it leaves him tied up in knots when he tries to apply it to Nigeria’s debt restructuring history and problems. His “non-performing” sovereign creditors did perform quite well and flexibly in the end when the political context was dramatically different, both in Nigeria and internationally, *and* the Obasanjo government had finally lived up to its side of “the deal.” In “The Paris Club Owes Nigeria a Fair deal,” written two days before the June 29, 2005 proposed deal was announced by the Paris Club, Rieffel says, “If a non-political, businesslike approach had been taken to Nigeria’s debt-servicing problems ten years ago, an extraordinary deal would not be required now” [full citation in note 2].

¹⁵⁰ Mansur Muhtar, “Debt Relief: Something to Celebrate.” The U.K. Treasury confirmed that the deal was the largest ever debt write-off by the Paris Club; see Chris Giles “Nigeria secures deal to write off \$18bn of debts,” *Financial Times*, July 1, 2005.

¹⁵¹ Katherine Haddon, “Brown outlines Nigeria debt relief package details,” Press Association, June 30, 2005; “Brown says Paris Club reaches agreement in principle on Nigeria,” Associated Press, June 30, 2005; and “Paris Club agrees principle of Nigeria debt talks,” AFP, June 30, 2005.

¹⁵² Adigun Aiyegbokiki, “Nigeria’s government says debt deal with rich nations vindicates its reform agenda,” Associated Press (Abuja), June 30, 2005; Larry Elliot and Patrick Wintour, “G8 summit: Biggest African debt rescue saves Nigeria 17.3bn: British lobbying helps secure deal among creditor nations that will allow 120,000 new teachers and put an extra 3.5m children in school,” *Financial Times*, July 1, 2005. Okonjo-Iweala declared that the PSI was “modelled on Nigeria,” which was “unprecedented and a major achievement for the country;” “Nigeria sets up body to oversee saved funds after 18bn-dollar debt relief,” *Guardian*, July 1, 2005.

meeting; he called it a “dividend of democracy,” a “total exit, total freedom from Paris Club debt,” a “Naples Terms” agreement” that would “yield debt relief of about 60%.” It is worth quoting him at some length:

This, debt relief offered to us, I am pleased and proud to say is the direct product of our relentless and persistent endeavor over the last *six* years... It is often a consistent, long, arduous and painful task to bring about reversal or positive change. What we have achieved now is worth celebrating.

Fellow Nigerians, how did we get to the point where our debt burden became a challenge to peace, stability, growth and development? Without belabouring the point we can identify political rascality, bad governance, abuse of office and power, criminal corruption, mismanagement and waste, misplaced priorities, fiscal indiscipline, weak control, monitoring and evaluation mechanisms, and a community that was openly tolerant of corruption and other underhand and extra legal methods of primitive accumulation. These all took place in this country, before our eyes, and at times in active complicity by many of us.

How did we work to get out of this debt quagmire? We did it by resolving and working hard to break with the past, by identifying new voices and new leaders... We revamped our institutions and put in place an economic reform agenda... We mounted a vigorous global campaign to make a good cause for debt relief.

We were not defensive about the past but we were optimistic and proud of our future... We spent time traveling to numerous world capitals, meetings and conferences making the case for debt relief for Nigeria *and* for Africa. We also put in place an economic reform programme and development strategy championed by a strong Economic Management Team (EMT) that was *home grown but globally recognized and endorsed*, and argued that if we did not get relief, it would be very difficult to sustain, much less deepen the reforms and there was no way we could hope to meet any of the Millennium Development Goals. The Economic Management Team is led by a woman of indomitable character and courage, Mrs. Ngozi Okonjo-Iweala. Finally, we demonstrated, through research, logic and empirical evidence that the debt overhang was almost another form of bondage with our feet and hands bound behind us while we are told to run... My fellow Nigerians, it was a tough process but today when we look back, we have no regrets... I can only say for those that doubted that we would ever get debt relief or those that felt that we were merely junketing around the world doing nothing, history and events have vindicated us.

Obasanjo ended by thanking the members of the G-8, the Paris Club Secretariat, Tony Blair, Gordon Brown, Hilary Benn, and “all Nigerians who have taken the pain for us to have the gain.”¹⁵³ The Paris Club deal was touted as the single biggest instance of debt relief in African history and roughly equivalent to the new MDRI deal for the HIPC countries that was to come out of the Gleneagles Summit very soon.¹⁵⁴

But what made the difference? What overcame the resistance to the G-8 plan, at least temporarily? Besides continued high-level British lobbying, Obasanjo paid a visit to the Netherlands the three days before the Paris Club meeting on June 29; he apparently lobbied hard

¹⁵³ Olusegun Obasanjo, “Debt Relief for Nigeria: A Dividend of Democracy,” *This Day*, June 30, 2005. Another Nigerian official also said, “We appreciate the efforts of all internal and external actors who joined hands with us to make this a reality. We particularly want to appreciate the efforts of the National Assembly and various national and international NGOs, student groups, multilateral institutions, and of course the media” in “Paris Club Grants Nigeria Debt Relief,” *Nigeria First*, July 1, 2005.

¹⁵⁴ The MDRI was another round of the “softening” of the debt regime; G-8 financial officials had indeed moved the fence posts yet again, but they “dug the posts in deep this time” and added “electric wire to the fence;” interview B.

and with some success.¹⁵⁵ Beyond the issue of the sustainability of the economic reforms, corruption was the primary sticking point. As Mansur Muhtar pointed out, Nigeria had a huge “reputational overhang” to overcome, and corruption was the main issue: “Most of what we heard was that our creditor countries will not be willing to concede because the image of Nigeria is historically that of a corrupt nation that has not been making good use of its resources;” he also noted that skeptical creditor country officials were worried how they could justify debt relief to Nigeria to *their* taxpayers, who would in the end have to pay the cost, especially since there was the fear that the debt relief provided would not be used to serve the people. “It took a lot of effort to convince them that this is a new Nigeria,” he said. The creation and work of the Economic and Financial Crimes Commission (EFCC) and efforts to recover past looted funds helped, as did the sacking of ministers and the forced resignation of a powerful member of the Senate, but also the transparency moves to publish where, when, and how revenue was allocated to the states and localities. The creation of tracking mechanisms was particularly important. One was the Virtual Poverty Fund in the form of an OPEN initiative (Oversight of Public Expenditure on Needs); it was to be overseen by a Millennium Development Goals Committee, headed by Obasanjo and run by a new Senior Special Assistant to the President, Amina Ibrahim; it would monitor spending from debt relief relating to the MDGs and, in an interesting twist indicative of changing times, it was to include representatives from ActionAid and Oxfam. It was inaugurated *the day before* the Paris Club meeting. These efforts would be supported by DFID and the World Bank.¹⁵⁶ The Bank had worked very hard to try to defuse the corruption issue.

Muhtar revealed other interesting aspects of the June 29, 2005 deal proposed by the Paris Club. When questioned about the “in principle” clause, he said it was due to regular Club procedure since “we have not formally met with them to sign this agreement,” this being similar to the Iraq Paris Club deal where a basic agreement was announced before Iraq met formally with the Paris Club to do final negotiations and sign an agreement. He said they would meet with the Paris Club sometime in September, after its August break to work out the many technical details. In, short, “it is a matter of time.” He also indicated that “it was an achievement” to have obtained a

¹⁵⁵ According to one press report: “But one fact remains, that Obasanjo’s last minute trip to Holland...did a lot to change the course of events...” He “was able to strike a deal which ensured they withdrew their earlier objections by backing the negotiations;” Olusegun Adeniyi, “Obasanjo’s moment in the sun,” *This Day*, July 1, 2005; in his extensive debt campaigning after he become president, Obasanjo visited all but two of the 19 permanent members of the Paris Club – Austria and Spain. Also see, “Obasanjo Briefs Press in Holland,” *Nigeria First*, June 30, 2005: “On the ongoing effort at finding a solution to its debt problem, he said Nigeria prefers dialogue to repudiation. The President also assured that Nigeria would open its books to inspectors of the African Peer Review Mechanism (APRM) and NEPAD before the end of 2005.” Okonjo-Iweala later recounted how the Netherlands and Austria tried to block the deal: “But we had to reach out to them that it would be unfair to punish Nigeria for what might have been procedural errors that had nothing to do with us,” an eminently fair point; see “Debt Cancellation: the Facts Behind the Deal,” *This Day*, July 3, 2005.

¹⁵⁶ “How Nigeria Secured Debt Relief, By DMO Boss,” *This Day*, July 13, 2005; Larry Elliot and Patrick Wintour, “G8 summit: Biggest African debt rescue saves Nigeria 17.3bn: British lobbying helps secure deal among creditor nations that will allow 120,000 new teachers and put an extra 3.5m children in school,” *Financial Times*, July 1, 2005; “How We’ll Utilise the Gains, Okonjo-Iweala,” *This Day*, July 1, 2005; and Rotimi Sankore, “What are NGOs doing in Africa?” *New African*, November 2005, p. 39.

buyback at a discount, as Russia had done at par value and Peru was doing likewise.¹⁵⁷ The Nigeria deal was the first discounted buyback for the Paris Club.

As the next several months would demonstrate, the game, the campaign, was, in fact, far from over; the deal was not quite as firm as Mansur Muhtar asserted. Key things remained to be accomplished, promises to be kept, and skeptics still to be won over to ensure a final deal, which would be monitored and staged in any case. In early July 2005, for example, Okonjo-Iweala was still promising that the government would send the Fiscal Responsibility Bill to the National Assembly “as soon as possible.”¹⁵⁸ It was not just a matter of “technical details,” although details there certainly were. To advise them and assist them with these details, the Nigerians hired the services of Lazard Frères, the French investment bank, which had good ties to the French government and the Paris Club Secretariat.¹⁵⁹

An IMF team arrived in Nigeria on August 10, 2005 to draw up a PSI proposal for the debt deal, part of the Paris Club’s insistence on intensified monitoring since Nigeria was not being required to have a normal IMF program, and to discuss how debt savings would be used and monitored since Nigeria also did not have a formal Poverty Reduction Strategy Paper (PRSP). By this time reserves had reached \$29 billion. This helped to fuel ongoing battles with the National Assembly over spending as the preparation of the 2006 budget intensified. Considerable resentment existed about the fact that the government had restricted spending in 2005 at the

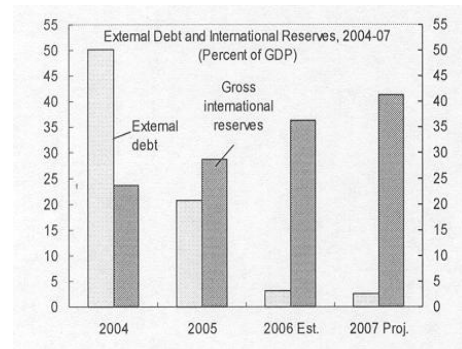
¹⁵⁷ “How Nigeria Secured Debt Relief, By DMO Boss, *This Day*, July 13, 2005.

¹⁵⁸ David White and Dino Mahtani, “Nigeria vows to track use of debt relief funds,” *Financial Times*, July 9-10, 2005. Other things threatened to get in the way. U.S. Senators Patrick Leahy and Barack Obama made it clear to Obasanjo that he had to give up Charles Taylor or there might not be any U.S. support for the proposed debt relief deal; Senator Leahy asserted, “As a strong supporter of debt relief, I believe there is a strong case to be made that Nigeria’s debt should be forgiven – but not until President Obasanjo again demonstrates leadership and hands over Charles Taylor for trial. At that point, I will strongly support debt relief for Nigeria and actively lobby the administration and Congress to make it a reality;” Chika Qnyeani, “Obama to Nigeria: Give up Charles Taylor to get Debt-Relief,” *African Sun Times*, July 7, 2005 [from a Senate transcript].

¹⁵⁹ Hiring Lazard as a consultant generated some criticism, in part because it was paid \$100,000 a month for six months; Muhtar explained that it was standard for many countries dealing with the Paris Club to use such expertise and contacts, the selection was done competitively, Lazard was one of the best, and the fee was negotiated down from the more normal \$200,000-\$250,000 a month because of existing Nigerian expertise and work already completed; see “Debt: Consultants and Negotiators for Debt Relief,” *Daily Champion*, January 19, 2006. A press release from the Finance Ministry noted that the fees paid Lazard as “Financial Advisors... were both concessionary and competitive... The advisors accepted this [lower] fee because the Finance Ministry and the DMO had the necessary technical capacity... Compare the fee Nigeria paid Lazard Frères with what two other countries paid the firm: Iraq - \$600,000 per month and [country missing] \$250,000 per month. It is also worth noting that Lazard Frères is in the top ten of global Financial Advisors on negotiations with the Paris Club and the London Club. The firm has handled about 40 such deals for more than 30 countries in Europe, Asia, Africa and Latin America from the 1990s to date. It carried out two previous assignments for Nigeria in the early 1990s. It therefore had an up to date data base on Nigeria and that conferred an advantage on it. That is why we used it;” Paul Nwabuikwu, “State of Excess Crude Account, Payment on Paris Club Deal, State of External Reserves and Related Issues,” Press Release, Ministry of Finance, June 20, 2006. In addition to helping with the details of the debt data, two senior Lazard advisors attended the final Paris Club meeting held October 18-20, 2005 in Paris. Okonjo-Iweala makes no mention at all of Lazard in her, “Nigeria’s Fight for Debt Relief: Tracing the Path,” and when I asked about it, she voiced considerable frustration that some people believed Lazard had negotiated the whole deal because Nigeria was not capable of doing so. This was obviously was not the case; Lazard provided technical advice and good connections to the Paris Club Secretariat, although, as we will see, it also helped with negotiation strategy during the final Paris Club meeting in October 2005; interview with Okonjo-Iweala, July 30, 2007, and interview B. Another source noted that “the team from Lazard provided tremendous assistance in the data validation process and from time to time, we asked for their technical input as a basis of strengthening our bargaining position. While their role was largely technical..., they also facilitated two way communication links with individual creditor country representatives and the Paris Club secretariat;” confidential correspondence J.

urging of the IMF, which Okonjo-Iweala defended as necessary to prevent macro-economic distortions that would, of course, have also weakened Nigeria's bargaining position with the Paris Club.¹⁶⁰

Remaining reputational overhang problems, especially concerning corruption, remained a major concern right down to the last moment; it was something Okonjo-Iweala worried about constantly. One particular flap illustrates this well, especially since it took place the week the IMF approved the PSI for Nigeria with the formal October 2005 Paris Club meeting only a day away. Michael Peel, a fellow in Chatham House's Africa program got an opinion piece published in the *Financial Times* on October 17 entitled "Britain and Nigeria's half-hearted war on corruption." Peel said the Nigerian government's rhetoric on corruption fighting had to be compared with a key fact: "It is the estimated \$3.5 m or more worth of crude oil that is stolen *each day* from the Niger delta by conspiracies of government officials, militias, the military and expatriates." He then claimed that "on an annual basis, the value of that theft would exceed the debt repayment saving." He summed up with: "Britain and Nigeria have offered each other many flattering words over the past twelve months on debt and other issues. But in both cases their actions on corruption and transparency look spasmodic, selective and oversold internationally to create an impression of fundamental reform." Okonjo-Iweala could not let this go unchallenged, even though she was going to start negotiating with the Paris Club that afternoon; Peel's public comments certainly hung over the negotiations, providing skeptical creditors with ammunition or at least reinforcing their opposition. Okonjo-Iweala's letter to the editor was not published, however, until the day *after* the final Paris Club deal was concluded. She pointed to her government's actions and concluded that "The result is a declining trend in corruption in government procurement, tax collection and management of the Federal Budget, among other areas." She said these changes were confirmed by the World Bank Institute and the fact that Transparency International "cites significant progress in Nigeria, and nudges the country by four places." She agreed that oil theft was "totally unacceptable," but pointed to measures being taken to combat it. She also noted that the preliminary results of the audit, under NEITI auspices, of the Nigerian National Petroleum Corporation (NNPC) were "expected end-December." She concluded with: "Huge challenges remain. But there can be no doubt that the fight against corruption is yielding fruit and the trend is in the right direction. All we need is courage, stamina and positive reinforcement so that we can continue to prove the cynics wrong."¹⁶¹ In fact, *both* Peel and Okonjo-Iweala were correct –



¹⁶⁰ The Figure "External Debt and International Reserves, 2004-07" is from IMF, "Nigeria: Third Review under the Policy Support Instrument," June 13, 2007, p. 5; part of IMF Country Report No. 07/263, July 2007.

¹⁶¹ Michael Peel, "Britain and Nigeria's half-hearted war on corruption," *Financial Times*, October 17, 2005 [emphasis added]; and Okonjo Iweala, "Huge challenges remain, but Nigeria's fight against the deep-rooted corruption problem is yielding fruit," *Financial Times*, October 21, 2005. Corruption in Nigeria had certainly been on the creditors minds. After the late June Paris Club meeting that announced the framework of a potential deal, there were press reports that one of the conditions of any deal was that Obasanjo go after specific people: "Member nations of the Paris Club have given President Obasanjo a list of prominent Nigerians who allegedly siphoned public funds overseas. They want the president to go after them for prosecution. This was one

it is one of the normal dilemmas of reform programs and campaigns for debt relief. The tricky part, however, was the timing and visibility of Peel's charges and the linkage to other problems such as the fact that the Fiscal Responsibility Bill was still bogged down in the National Assembly.

The Real Deal

On Monday, October 17, 2005, the day of Peel's *Financial Times* opinion piece, the IMF executive board approved a two-year PSI for Nigeria based on an 18-month track record of economic reform, while endorsing NEEDS. First Deputy Managing Director Anne Krueger noted that the PSI was "formulated with the quantitative and structural assessment criteria that reflect policies meeting the IMF's standard upper-credit tranche conditionality – the same policy standard that would warrant IMF financial support beyond the credit tranche." Yet she spoke of Nigeria's "homegrown program," whose success "hinges on timely and rigorous implementation of the envisaged policies."¹⁶² The first review under the PSI was scheduled for March 2006.

The PSI as a Key to the Paris Club Deal: An Example of Studied Ambiguity

The PSI emerged out of a larger and longer assessment of the IMF's "toolkit" for low-income countries (LICs), which goes back as least as far as a July 2003 staff paper on "The Role of the Fund in Low-Income Member Countries Over the Medium Term - Issues Paper for Discussion" that was discussed by the Board on March 31, 2004. It led to a mid July staff paper on "Signaling by the Fund – a Historical Review." A week later, the Board conducted a regular biennial review of the Fund's surveillance activities. On September 22, 2004 it had an initial discussion of what was then called a "Policy Monitoring Arrangement." In April 2005 the IMF issued a mandate to continue work on this idea. About the time of the mid June 2005 inclusive Paris Club meeting on Nigeria, at which the possibility of a PSI for Nigeria was discussed, the IMF staff released a paper on "Policy Support and Signaling for Low-Income Countries" that was discussed by the Board on August 3, 2005. This discussion led to another staff paper on "Implementation of the Policy Support Instrument" on September 2, and the IMF finally approved the new support and signaling instrument for LICs on October 5, 2005 about two weeks before the Paris Club met with the Nigerians in Paris to negotiate a final Paris Club deal.

The August 3, 2005 IMF Board discussion of the proposed PSI informs its original intent. The PSI was meant for LICs who were "well advanced in their structural reforms," who were

of the conditions given Nigeria for the recent \$18 billion debt relief. President Obasanjo confirmed this yesterday... Those who are granting us debt relief are no fools. They are convinced that what we are doing is right and they are also feeling that we need to be encouraged so that we do more for what we are doing;" Charles Ozoemena, "Paris Club give looters' names to Obasanjo," *Vanguard*, July 15, 2005; also see, Lere Ojedokun, "\$18bn relief: arrest money launderers – Paris Club," *Daily Champion*, July 15, 2005; these reports were picked up by some debt NGO websites such as "Paris Club hands over list of looters to Nigeria," odiousdebt.org, July 27, 2005.

¹⁶² IMF, "IMF Executive Board Approves a Two-Year Policy Support Instrument for Nigeria," Press Release No. 05/229, October 17, 2005: <http://www.imf.org/external/np/sec/pr/2005/pr05229.htm>. Todd Moss noted that "The whole point of the PSI is so they can go to the Paris Club to negotiate the debt;" Laura MacInnis, "IMF endorses Nigeria policies in nod to Paris Club," Reuters, October 18, 2005.

“mature stabilizers.” In short, it was meant for countries that had “graduated” from the Poverty Reduction and Growth Facility (PRGF), the normal formal IMF agreement with LICs, “who may not need, or want, Fund financial support, but still want the IMF to support, monitor, and endorse their policies” and “deliver clear signals to donors, creditors, markets, and the general public.” It would be made available only to PRGF-eligible countries who had a poverty reduction strategy and a policy reform framework “that met the standard of upper credit tranche conditionality.” PSI reviews “should provide the multidimensional assessment of macroeconomic performance that is standard in Fund arrangements – *with clear information on conditions met and not met* – in addition to *off/on signals*.” The publication of PSI reports would “be voluntary but presumed.” Some Directors were not convinced that a new instrument was needed, given the track record of existing “intensified surveillance” and PRGF-linked “staff assessment letters.”¹⁶³ It was not clear to some that Nigeria matched these presumed goals of the PSI approach, including whether it was PRGF-eligible and had a PRSP. It appeared that political needs were bending the new surveillance tool before it was even used for the first time. A number of middle income countries voiced opposition to the PSI, and Okonjo-Iweala lobbied them directly, as well as the G-24, and got the later to issue a statement in support of the new instrument.¹⁶⁴

The PSI for Nigeria was the first use of the new instrument, and comments by Menachem Katz about the PSI are revealing: “The “PSI is a new instrument designed for countries that have had programmes with the IMF for extended periods of time *or* countries such as Nigeria that have their own home grown programme but do need to signal to the international community that their policies are appropriate and in the particular case of Nigeria need to send a strong signal to the Paris Club creditors that it has a strong programme and the way to do it is to have a formal endorsement from the Executive Board of the IMF. Basically it is Nigeria’s program. It is the NEEDS that is adopted to ours in a way that the Board of the IMF can approve it, and Nigeria has asked the IMF to monitor the implementation of the programme. In a way it is like you had before when the government asked the IMF to monitor the implementation of the programme and what is called intensified surveillance. We will come every three months to look at

¹⁶³ IMF, “IMF Executive Board Discusses Policy Support and Signaling in Low-Income Countries,” Public Information Notice 05/144, October 14, 2005 [emphasis added]. Also see, IMF, “The Policy Support Instrument,” A Factsheet, August 2006, for the continued use of the phrases “mature stabilizers” and countries that “desire to ‘graduate’ from the PRGF,” which, of course Nigeria could not do because it did not have one. In fact, it had never had a PRGF agreement. The Fund’s October 14, 2005 statement on the Board’s October 5 approval of the PSI asserted that “The PSI will be a complement to, and not a substitute for, the Poverty Reduction and Growth Facility” and noted that the PSI was meant to help countries “design effective economic programs and provide signals to donors, the multilateral development banks, and markets,” but by then there was no mention of “mature stabilizers” or of countries “graduating” from the PRGF; IMF, “IMF Executive Board Approves the Establishment of Policy Support Instruments for Aiding Low-Income Countries,” PIN 05/145, October 14, 2005. By April 2007 three other countries had adopted PSIs – Uganda, Tanzania, and Cape Verde; see “IMF’s Policy Support Instrument promotes close policy dialogue,” *IMF Survey*, 36/6, April 11, 2007, pp. 92-93; it noted that “Nigeria’s PSI, for example, is based on the National Economic Empowerment and Development Strategy, the country’s homegrown poverty reduction strategy.” The PSI was developed with the emerging MDRI in mind; interview B.

During the final Paris Club negotiations in October, the head of the German delegation noted that the “IMF is a special thing in Nigeria; it is not very popular;...so the Nigerians tried to get on terms with the IMF without any drawings from the IMF; *they wanted to be to a certain extent independent but nevertheless in the discipline of the IMF*... So things came together;...with the Policy Support Instrument...we found an innovative but appropriate basis for cooperation;” from video of the Paris Club proceedings taken by Advocacy International, Wednesday, October 19, 2005, emphasis added.

¹⁶⁴ Interview with Okonjo-Iweala, July 30, 2007; she said that lots of people tried to kill the PSI.

developments and discuss policies but the Paris Club wanted something more formal, a formal endorsement, *hence the development of this instrument*. It is not that this time we come from Washington and tell the Nigerian government what to do. You have an extremely capable government that knows what needs to be done and they are in the driver's seat and that makes a big difference. So it is your programme but we are helping to monitor *and we are consulting*.”¹⁶⁵ These comments are a classic case of studied ambiguity because the PSI in its first use had to serve conflicting purposes: a political one to make it appear to the Nigerian public that the Fund was not *dictating* policy while signaling the Paris Club that the policies met *normal* IMF standards; the PSI was monitoring, but it was also “consulting,” a very useful and elastic term, but stronger than “suggesting,” for example, because the PSI had to be an *endorsement* that would satisfy the Paris Club; it was *not* just a signaling device because it had to signal a *particular* message – an endorsement of normality. Katz's comments are misleading in another way, as the parts in italics indicate. As shown above, the IMF had been discussing such a new instrument long before it was perceived that it could be used to get the Nigerian Paris Club negotiations out of a very tight political bind. But the smoke and mirrors built into the PSI, and its first implementation with Nigeria, served the political interests of Nigeria, the IMF, and the Paris Club creditors; in that sense it was a very useful governance innovation.

Comments by Mansur Muhtar add another dimension: “This is the first time [the] Paris Club is agreeing to a deal without a formal IMF programme. Even at the beginning of the year [2005], this was absolutely a sticking point. Our creditors were still arguing that Nigerian debt relief was simply a non-starter, because the Paris Club never writes off unless a country is subject to an International Monetary Fund economic programme. As a matter of fact, they can't even invite you to the negotiation table without a formal IMF programme.” He noted that, given Nigeria's history with the IMF that this was simply out of the question politically for the debt relief campaign; “there was never any question of us having an IMF programme.” “But,” he continued, “we found a way around the impasse of giving creditors the ‘comfort level’ they wanted by asking the IMF, sometime last year, to scrutinize our home-grown economic programme. Despite its initial reservations, the IMF supported us and agreed to monitor our economic programme regularly under an enhanced surveillance arrangement. The Policy Support Instrument, which will provide the basis for this deal, is simply a formalisation of what we have been doing for over at year – asking the IMF to *cast an eye over our economic policies*, over which we have 100 per cent control, as a way of reassuring our creditors. The monitoring process under the PSI is just that: it is *not a new* set of economic conditionalities. It is to the credit of Nigeria that this instrument is being adopted by the International Monetary Fund and

¹⁶⁵ Emma Ujah, “Beyond \$18bn Paris Club Deb Relief (3),” *Vanguard*, November 2, 2005 [emphasis added]. Tom Dawson, the respected and missed former director of external relations at the IMF, said in reply to a question about Nigeria in a July 2005 briefing, well before either the PSI itself or a PSI for Nigeria had been approved, “There's not an expectation that there will be (a formal Fund program), so this would be the instrument or mechanism by which the Fund would provide input to the – or an assessment – that could be used by the Paris Club for their own judgment;” IMF, “Transcript of a Press Briefing with Thomas Dawson, Director of External Relations Department,” July 7, 2005.

the Paris Club creditors as a basis for monitoring and surveillance of other countries.”¹⁶⁶ As can be seen from the discussion of the PSI above, this viewpoint greatly underestimates the complexities and ambiguities of the surveillance and PSI processes.¹⁶⁷

The Actual Paris Club Meeting and Final Deal

At 2:40 in the afternoon of Tuesday, October 18, 2005 the Paris Club President, Xavier Musca, speaking in French, officially opened Nigeria’s formal, and what turned out to be needlessly grueling, marathon negotiation meeting with the Paris Club creditors and its Secretariat at the Finance Ministry in the Bercy section of Paris. The signing of the Agreed Minute did not begin until 3:10 in the morning on Thursday, October 20 – about 36 hours later. Before entering the negotiation room, Menachem Katz, head of the IMF delegation, cell phone in hand, informed



four Nigerian journalists that the IMF had approved the PSI, and said, “This is good for Nigeria.”

Okonjo-Iweala, who had been up all night working on Nigeria’s presentation and

could barely speak, began the opening session by greeting the delegates in French before shifting to English. “What I will like to do is to brief you on the progress made on our economic reform programmes, then the problems and go on to make our request.” The Nigerian journalists were asked to leave the room; they went to the waiting room where they met a delegation from the



¹⁶⁶ Mansur Muhtar, “Debt Relief: Something to Celebrate” [emphases added].

¹⁶⁷ These complexities and ambiguities are further highlighted by the fact that many debt and development NGOs strongly objected to the PSI. The views of 50 Year Are Enough were not outside mainstream NGO position and contrast markedly with the statements of Muhtar above: “Whichever way it is framed, it is likely to serve the same purpose: a formal method for continuing to impose IMF conditions on countries even if they are no longer officially indebted to the IMF or taking loans from it... It seems no coincidence that the PSI has now been invented. Just when liberation seems possible, the IMF will find a new way to control and determine countries’ economic policy choices... This sort of ‘ownership does not sound very promising to observers familiar with the IMF’s and World Bank’s manipulations of the term, *but apparently it was considered sufficient to sell the deal to the Nigerian public...* The origins of the PSI, the timing of its launch, and its debut client, Nigeria, all suggest that the IMF’s rhetoric is calculated to conceal the true intent of the program;” Soren Ambrose, “IMF Adds a New Tool to its Bag of Tricks: PSI Looks Set to Extend IMF Domination,” Economic Justice News, 8/3, 50 Years is Enough website, September 2005 [emphases added]. One Nigerian commentator and a European debt campaigner remarked that “It is certainly welcomed that Nigeria is able...to receive a treatment without a *formal IMF-written and imposed programme*, even though there are serious worries that this autonomy will be less than expected;” Reverend David Ugolor and Francesco Oddone, “Debt Relief: Anything to Celebrate?,” *This Day*, October 18, 2005 [emphasis]; Reverend Ugolor was head of the African Network for Environmental and Economic Justice (ANEJ) and Oddone was a debt expert for EURODAD. A final example of ambiguity comes from the U.S., when 18 House members, at the instigation of Jubilee USA, wrote to Treasury Secretary Snow asking that the U.S. not take its \$396 million in debt payments from Nigeria; they also expressed worry that the deal might strengthen the IMF’s “control over Nigeria’s future economic policy choices through the implementation of the new IMF Policy support instrument, *whose real ownership remains to be verified;*” “Legislators to Bush Administration: Let Nigeria Spend Money on Health, Not Debt,” Jubilee USA press release, January 5, 2006 [emphasis added].

Dominican Republic,¹⁶⁸ which was the next country in line and there that afternoon to review debt figures with the Secretariat. With the aid of Power Point slides, Okonjo-Iweala presented a comprehensive overview of the Nigerian economic reform effort since mid 2003 and the current nature of its debt situation, including the profile of Nigeria's domestic debt and Nigeria's enormous pension bill. She also spoke of how Nigeria would use the debt reduction it would receive to develop the Nigerian economic economy, attack the poverty of its people, especially by working to achieve the MDGs. She and her team "told them of the vast improvements due to consistency in the implementation of the policies in our reform programme and our commitment to sticking to it. We also showed that leakages in the public sector have reduced tremendously." At the end of her remarks, she formally requested a debt settlement based on the framework laid out back on June 29 along Naples terms plus a discounted buyback. Creditors then raised questions about exactly how the debt savings would be applied to poverty reduction and the MDGs, "to specific projects...in education, health, intensification of immunisation and provision of water resources among others." Some of the creditor delegates pressed her with "reputational overhang" questions about how they planned to ensure that these funds would not be lost to corruption. At the end of the Nigerian presentation and response to creditor questions about 4:30, Musca asked the Nigerian delegation to leave the meeting and go to the room provided for them so the creditor delegates could begin their deliberations, breaking into separate technical sessions for more detailed discussion. Okonjo-Iweala reported to the waiting journalists, keeping her expectations in check but hopeful about a deal. The journalists were able to interview Menachem Katz, who said that the Fund had adopted NEEDS, which it took as Nigeria's PRSP, because it was considered strong enough to meet the reform and development needs of Nigeria's people and the requirements of the Fund's first PSI.¹⁶⁹



At 5:20 p.m. Okonjo-Iweala and her staff retreated downstairs to prepare for the actual negotiations. At 8:30 the Paris Club Secretary General, Emmanuel Moulin, informed the Nigerian journalists that the prospects looked good, but said the negotiations would be long; he suggested they return at 10:00 the next morning. Members of the Nigerian delegation talked the journalists into leaving a little after 9:00 so they at least could get some sleep. The actual negotiation session went from 9:30 that evening until 6:30 the next morning. At 7:30 Wednesday morning, Okonjo-Iweala's special assistant told one of the journalists, "We just left

¹⁶⁸ The Dominican Republic's fourth Paris Club deal was completed right after the Nigerian one, on October 21.

¹⁶⁹ Eziuche Ubani and Samuel Famkinwa, "Govt, Paris Club Close to Final Deal on Debt Relief," *This Day*, October 18, 2005; and "Country Clears Last Debt Relief Hurdle," *Vanguard*, October 19, 2005. The description of the three day meeting also comes from an overly melodramatic, but nonetheless powerful, "diary of events" account of the meeting written by Eziuche Ubani: "The Long Vigil for Debt Relief," *This Day*, October 22, 2005. Ubani was clearly not familiar with the procedures of the Paris Club or the normal tone of the meeting, but she captures the latter well. She wrote, "It is said that the debtor has no dignity. It didn't make sense until I observed the politics of debt at the club's secretariat" and "among us there was a consensus: any sacrifice to ensure that Nigeria does not remain in this indignity was worth it." Ann Pettifor had an Advocacy International film crew at the meeting, a highly unusual event; it was allowed to film non-closed doors aspects of the meeting.

and nobody slept a wink. Those guys kept bringing new demands and trying to squeeze every dime.” He said that Okonjo-Iweala “negotiated with them all night” and quoted her as saying, “Those guys thought I will get angry. But I was too tired to get angry.” According to one source, the smaller creditors, still angry with the G-8 for hatching a deal in early June without consulting them, kept raising issue after issue, trying to “get their pound of flesh,” but Okonjo-Iweala held her cool, fended them off, held her ground, and never slept.¹⁷⁰ Negotiations began again a little after 10:00. Wednesday morning. Nigerian ambassador to France, P.B. Preware, joined Okonjo-Iweala, Muhtar and their assistants, and a National Assembly delegation arrived at 11:30. The creditors broke for lunch at noon, and the Nigerian delegation did the same about 1:00. Members of the Secretariat informed the journalists that an agreement was on the table and would be debated after lunch. At about 5:00 an IMF official asked one of Okonjo-Iweala’s



aides, “Is the white smoke out?” and the aide responded. “No, the conclave is going well but the white smoke is not out. However the pope is getting dressed.” One of the journalists noted that “the wait for the deal has been as long as the papal conclave.” The Secretariat staff indicated at 11:00 p.m. that a press release was being drafted. Yet at 1:30 Thursday morning Senator Udoma said, “We will be through in an hour or two.” The long process of signing the Agreed Minute, with its official French

and English copies, by the head of each creditor delegation began just after 3:00 a.m. and was completed by 4:00. In a closing statement Ambroise Fayolle, a high Paris Club official, told Okonjo-Iweala, “We are extremely convinced that without your involvement and commitment this would not have been possible,” and she reassured him of Nigeria’s determination to continue on the path of reform. There were handshakes and backslaps all around. But just before she left the Finance Ministry Okonjo-Iweala said, “I do not wish that any Nigerian or set of Nigerians will ever come here to face this again.”¹⁷¹

¹⁷⁰ Ann Pettifor noted that “non-G-8 creditors thought the deal too generous, and believed that Nigeria was fully capable of servicing her debts in full... a number of creditors were digging in their heels... while some creditors, angry at the overall deal, tried to extract even more payments from Nigeria;” Pettifor, “New debt-free start.” These things would have had the effect of pushing the overall debt reduction below 60 percent, and Okonjo-Iweala told them that they were killing her, that she could not go home with less than 60 percent given the mood in the National Assembly, and she strongly urged them to reconsider; conversations with Ann Pettifor, Cambridge, England, September 20-21, 2007 and interview D.

¹⁷¹ Eziuche Ubani: “The Long Vigil for Debt Relief, *This Day*,” October 22, 2005. Toward the end of the negotiation session early Thursday morning, Moulin got very upset when Senator Udoma pointed out a spelling error in the English version of the Agreed Minute; saying something to the effect of ‘this is too much,’ he left the Finance Ministry, leaving the creditors, the Nigerians, and the staff of the Secretariat behind only to return later; conversations with Ann Pettifor, Cambridge, England, September 20-21. The following June, after the deal was finally complete, Okonjo-Iweala commented: “The debt deal is our biggest achievement. Nobody believed we could do it. I can scarcely believe it myself. I worked so hard, all night, all day, I’d never worked so hard in my life... But we needed a champion and Gordon Brown became that. He was wonderful. So was DFID. They supported us with analysis and getting Treasury to focus on the issue. The World Bank did a lot of analysis which helped us. And the IMF kept an open mind on the way we were doing things. We’re very grateful. It’s like a dream really. I’m still waiting for it to sink in;” Valley, “Transcript of interview with Mrs Ngozi Okonjo-Iweala.” Except for the picture of the French Finance ministry, the pictures on these three pages were provided courtesy of Ann Pettifor, for which I am very grateful.

Despite this grueling ordeal, so hard on the dignity of Nigeria, the Paris Club press release of October 20, 2005 said only that the creditor countries met on 18, 19, and 20 October, calling the agreement an “exceptional” and “comprehensive treatment” of the debt relief “framework” announced at the end of June, in other words, an “exit” from the Paris Club. It “includes a debt reduction under Naples terms on eligible debt and a buyback at a market-related discount on the remaining eligible debts after reduction.” The press release stated that the deal would be implemented in two phases: an immediate payment of all arrears on all categories of debt, and, after the PSI review in 2006, a buyback of the remaining eligible debt for a estimated debt cancellation of \$18 billion “representing an overall cancellation of about 60%” of its \$30.1 billion Paris Club. The Paris Club creditors would “be paid an amount of US \$12.4 billion, representing regularization of arrears of US\$ 6.3 billion, plus a balance of US\$ 6.1 billion to complete the exit strategy.”¹⁷²

¹⁷² Paris Club, “Paris Club Agrees on a Comprehensive Treatment of Nigeria’s Debt, Press Release, Paris, October 20, 2005: <http://www.clubdeparis.org/sections/services/communiqués/nigeria9937/viewLanguage/en/downloadFile/PDF/prnigeria201005.pdf>. The agreement is actually classified as “Ad Hoc;” see <http://www.clubdeparis.org/sections/traitements/nigeria-20051020/viewLanguage/en>. In order for this to look like a Naples terms agreement, the first phase was considered a “33% cancellation,” and the second phase a “cancellation of 34% on eligible debts,” making a Naples 67 percent reduction. In the first phase there were actually to be *two* payments: an initial arrears payment of \$6.3 billion and a second “leveling up” payment shortly thereafter of \$1.3 billion; the latter was not mentioned in the press release. As one source wryly told me, the agreement had a particularly “complex architecture” in order to keep it within Paris Club rules. Lex Rieffel put it nicely: “The division of the debt into arrears, Naples reduction and buyback tranches is a bit of sophistry, however. The deal pure and simple is a buyback of \$30 billion of debt for \$12 billion, which represents a discount of 60 percent;” “Resolving Nigeria’s Paris club Debt Problem,” p.21. One source noted that they basically did the deal “backwards, determining how much Nigeria would pay, then working backwards to make it fit Paris Club rules; interview D. G-8 financial officials indicated that Nigeria could have had an Evian deal as a “blend” country without the IDA-only reclassification *if* its debt were shown to be unsustainable; interview B. It would be easier to make such a case if Nigeria became an IDA-only low income country and the MDGs were factored in. Evian was originally meant for middle income countries. For more on the debt payments, see notes 183 and 189 below.

The basic U.S. position was what “the deal” had always been – debt reduction if the Nigerians did economic reform. Within the Bush administration, State and Treasury were very supportive, while others within the administration were less so. State made the geo-political case having to do with oil, terrorism, democracy, and Nigeria’s regional role, especially peacekeeping. Treasury’s job was to validate the economic case and figure out the technical details. The US \$1 billion made the U.S. a smaller G-8 creditor, but it posed lots of technical difficulties for Treasury. Treasury staff spent many long days and nights sorting them out. Under Secretary John Taylor was very supportive of the deal, as was Bobby Pitman who figured out how to make both MDRI and the Nigeria deal work. Taylor kept his staff moving on both issues; interview B and source E. Given this, it is interesting that Taylor also makes no mention of the Nigeria deal in his book, *Global Financial Warriors*. Okonjo-Iweala was asked by people in the Bush administration not to use Iraq as a reason why Nigeria deserved a major Paris Club debt reduction deal; also the Paris Club rules were not always clear or firm and could be bent, stretched, and reinterpreted for political reasons. Iraq did not have an economic reform track record nor other things demanded of Nigeria; yet it got an 80 percent reduction; interview with Okonjo-Iweala, July 30, 2007; plus interviews D, K, P, B.

Besides Okonjo-Iweala and her immediate staff, the following also participated in at least part of the Paris Club meeting: Mansur Muhtar and his team, Senator Udoma, Representatives Farouk Lawan and Sadiq Sanusi, and Nigeria’s ambassador to France, P.B. Preware. Menachem Katz headed the IMF delegation. The 15 participating creditors were: Austria, Belgium, Brazil, Denmark, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Russia, Spain, Switzerland, the U.K. and the U.S. Observers at the meeting were Australia, Canada, and Norway, plus the following organizations: the IMF, World Bank, African Development Bank, the EU, OECD, and UNCTAD. Okonjo-Iweala stayed in close touch with President Obasanjo to provide updates on the negotiations; his wife died two days later at the same time as a major air crash in Nigeria killed 117 people. Okonjo-Iweala pointed out that the deal was actually in three phases or tranches – arrears of about \$6.4 billion, a second payment of \$1.3 and final payment of \$4.4; these payments needed National Assembly authorization, part of the reason some of its members attended the meeting as informal observers; see “Government, Paris Club Sign Debt Deal,” *This Day*, October 21, 2005; “Govt to Pay \$6.4bn in Debt Relief Deal with Paris Club,” *Vanguard*, October 21, 2005; and “Government Moves to Beat Debt Relief Deadline,” *This Day*, October 31, 2005. The Agreed Minute also specified that Nigeria would make its payments

At the press conference early on the morning of October 20, 2005, Fayolle, standing in for Xavier Musca, praised the “doggedness” of the Nigerian team saying that there were political undercurrents that prolonged the negotiations; beyond the debate about the amount of debt reduction, these were primarily anxieties among some of the creditors about whether the Nigerians would live up to the agreement, especially the early payments, and about the sustainability of the economic reforms. The Nigerians did their best to allay such fears; the presence of the members of the National Assembly helped considerably; it helped to achieve a breakthrough Wednesday night. During the negotiations on Wednesday Okonjo-Iweala explained to members of the National Assembly delegation that a key to the deal for the Nigerians was that “we were able to persuade the IMF that the first review [of the PSI] should not be after one year but after six months, and they should back date the program to first of June, which is totally extraordinary. There must be credit given to us for that, so because of that we really have to thank Anne Krueger.”¹⁷³ Fayolle said, “This is a new start for Nigeria and the creditors. This is an exit strategy and we are proud to be part of the fight against poverty in your country.” For her part, Okonjo-Iweala called the deal “momentous,” coming “after a marathon negotiation” that had started on Tuesday afternoon. She said, “We recognize that this is a singularly important gesture on all of your parts. We understand the significance of this. The people of Nigeria understand it. We want to say that we will not fail to implement what is after all our own reform programme. We have exited the Paris Club, but we have to manage what we have judiciously... We intend to utilize all opportunities that have opened to us.” She also proclaimed that “The issue of debt has bedeviled us for too long. Now Nigerians can say ‘we know what we did with the oil money we earned.’ We are trying to develop a non-oil economy, to take the focus away from oil.” Mansur Muhtar called agreement “historic, getting “rid of the debt burden... will help us to provide a firmer foundation for achieving economic growth in the country.”¹⁷⁴

into a Special Deposit Account at the Bank for International Settlements from which the creditors would be paid their respective amounts.

¹⁷³ From video taken of the Paris Club proceedings taken by Advocacy International, Wednesday, October 19, 2005.

¹⁷⁴ “Government, Paris Club Sign Debt Deal,” *This Day*, October 21, 2005, and “Debt deal will help Nigeria diversify out of oil,” *Financial Times*, October 23, 2005. At 6:00 on the morning of Thursday, October 20, after the final signing session, other formalities, and the creditors and the Paris Club secretariat had been thanked, Okonjo-Iweala said, “Now I want to thank Lazard.” She told Eric Lalo, the Lazard advisor who was still present, “I don’t know how to thank you; really, I appreciate so much what you have done; it is unbelievable that you stayed the two nights and didn’t go to bed; thank you.” He told her that “you can be proud of what you have done.” She replied that “I don’t know whether to scream or shout or how to conduct myself in an orderly manner.” A few moments later she told the Advocacy International film crew, “I feel overwhelmed; it’s hard to believe that we have actually done it. I feel so happy; it’s been well worth it; we have gotten the good result, and we are very grateful for that;” from video of the Paris Club proceedings taken by Advocacy International, Thursday, October 20, 2005.

The previous day, Advocacy International interviewed Mansur Muhtar and others about how the negotiations were proceeding, especially why they were taking so long. Muhtar said that the creditors “have made lots of concessions and wanted to make sure they tried to hold onto what they had; it was an unexpectedly tough one for us and for the creditors themselves... The Minister of Finance tried to secure maximum concessions from the creditors and in turn the creditors, having... considered that they had given up too much already and had made so many compromises, tried to retain as much as they could... and that is why it took so long really to reach a consensus in terms of the details.” He also said that “it was an iterative process involving careful scrutiny of the details; it has been a difficult, tedious, and sometimes frustrating process.” Another DMO official said that it shows that “Africa is changing, Africa can take control of its destiny;” from video of the Paris Club proceedings taken by Advocacy International, Wednesday, October 19, 2005.

Reaction to the Final Deal

Okonjo-Iweala's assessment of the October 2005 Nigeria debt deal the in June 2006 at the Paris Club's celebration of its 50th anniversary is worth quoting at some length:

Nigeria is probably a "poster child" for all the good things that have been said about the Paris Club: the case-by-case approach, flexibility, even innovation. In obtaining debt relief for us, the Paris Club exhibited all of these characteristics. We were viewed as a unique case, which enabled us to do more things or to get more consideration than we otherwise might have... But Nigeria was able to put forward an argument in its dealings with the IMF, because when you start, the rules are not always clear, but, as you go along, you get to know that certain things are mutable with the Club...the Paris Club accepted that a non-financial program like the PSI can take the place of the regular IMF program. I want to commend them and the IMF for this. Like Russia, we forced the Paris Club to do certain things it would not normally consider doing. We want to thank them and the G8 for that. [W]e were happy with the deal we got. We think it is a fair deal. What I am trying to say is that there can be creativity and innovation at the Paris Club and that can help.

But, I want to come back to the issue of debt sustainability...because I feel that debt sustainability analysis tends to be geared to making a country appear sustainable, when it actually is not. Many other considerations are not taken into account, such as domestic debt...other types of public debt, contingent liabilities, and so on and so forth. In the MDGs, Kofi Annan has stated that a country is considered sustainable if it can also finance the MDGs. That is the new definition of debt sustainability. But it is not the consideration on the table when the Paris Club talks about debt sustainability. So the real question is: how is the Paris Club going to take this new approach into account. In the case of Nigeria, we pushed very hard. At one point we were told not to mention the word "MDGs," that it was not a concern of the Paris Club. We also insisted that volatility of our earnings be taken into account. And eventually it was.

In [an earlier address, it was said] that fifty years was the beginning for the Club, not the end. But aren't fifty years enough? Can the Paris Club survive with its current approach, in which the rules from the creditors' side are not always known? Things will have to change. How will the Paris Club adapt to the so-called emerging donors, and to alternative sources of financing that may compete with its work? These are the key issues confronting the Paris Club going forward. From the point of view of the creditor countries – at least from where we sit – there will have to be further ongoing change. I dare say that the Paris Club will still be here fifty years from now. But it may be a very difficult fifty years if the Club does not change and continue to adapt its approach. It has to change its definition of debt sustainability and what it means, to continue to be flexible in its relationship with the Fund. The Club will also have to adapt to the existence of these new emerging donors. Is the right response to invite the donors into the Club so that everybody is following the same rules? Russia had already joined. What will China and other emerging donors

Germany was the third largest creditor with 14 percent of the debt. As one well-placed source noted, "The most challenging relationships were with the Germans, who had come into the debt relief discussion bearing grudges – partly because they had felt that, over the years prior to the commencement of serious negotiations on debt relief, they had not received a fair share of the meager amount Nigeria paid its Paris Club creditors." In addition, "the Germans were not very confident about Nigeria's ability to pull through its reform program;" confidential correspondence J; Okonjo-Iweala's relationship with Caio Koch-Weser helped to mitigate these tensions, but the Germans remained difficult right through the final Paris Club meeting. The head of the German delegation said, "We are creditors not debtors" and pointed out that "in Germany we have to explain debt forgiveness to an oil country;" He also noted that "We didn't sleep a lot, but we are used to this. I mean we have to reach a result, and this needs also work in the evening and during [the] night and sometimes in the early morning; this is not a unique case here. Dealing with the debt issue is quite complicated. It was not only with some figures; it is the drafting of the agreement; it is a process of consensus with the creditors, which is time consuming; we are nineteen governments assembled here, and we working on a basis of consensus; so even a small country like Belgium or Austria can block a decision." He went on to say that the Nigerian Minister of Finance "is a tough negotiator; she takes time for this;" from video of the Paris Club proceedings taken by Advocacy International, Wednesday, October 19, 2005.

do? Will they remain outside? If they do, and if they operate with their own rules, how will the Paris Club adapt to the new situation?¹⁷⁵

Clearly the complicated Paris Club deal for Nigeria in October 2005 raised key issues about how the Paris Club operates, both positive and negative, and highlighted challenges that the Paris Club faced in the future.

Senator Udoma called the October 2005 deal a breakthrough and reminded people that “When we started this campaign, people said 10 per cent debt relief was impossible. That we achieved over 60 per cent is a major achievement.” Frank Lawan, who was the driving force behind the House repudiation resolution in early March, stated, “We must continue on the path of reform. We must continue on the path of transparency, accountability, and prudent management of our resources.” This sentiment was echoed by Menachem Katz of the IMF, “It is important that the reform programme is not reversed after the elections in 2007. It is important that the government entrenches the reforms by passing laws establishing good practices in public affairs, reform the budgetary process and the press has an important role to play as watch dogs.”¹⁷⁶ It was telling that the crucial Fiscal Responsibility Bill was still bogged down in the National Assembly.

Debt campaign NGOs generally reacted negatively to the deal. Jubilee USA Network asserted, “We don’t think it makes sense to make an impoverished country like Nigeria pay 12 billion when that money should be spent on AIDS, health, and education,” while the head of a Nigerian NGO said, “The Paris Club cannot expect Nigeria, freed from over 30 years of military rule, to muster 12 billion to pay off interest and penalties incurred by the military. Since the debt, by President Obasanjo’s own admission, is of dubious origin, the issues of the responsibilities of the creditors must be put on the table at the Paris Club.” On the other hand, Todd Moss, of CGD,

¹⁷⁵ Okonjo-Iweala’s statement is in Paris Club, “Fifty Years of Orderly Sovereign Debt Restructuring: Proceedings of the International Policy Forum,” June 14, 2006, Paris, pp. 55-57 [emphasis added]; see: http://www.clubdeparis.org/cdp/sections/50-ans/anglais_071206web-pdf/downloadFile/file/anglais_071206web-pdf?nocache=1170431715.92. In a short speech to a Jubilee Debt Campaign audience in 2007, she put her feelings more sharply: “My background from the World Bank helped but I was to discover the real power of getting relief. The cards are very much on the side of the creditors and they have formed a cartel that has its own quaint and set rules of operation;” she talked about “sweating to convince the Paris Club to listen and give us a break;” she politely did not mention fierce NGO opposition to the deal but did mention that “through this exercise Ann Pettifor formerly of Jubilee assisted us with civil society awareness and support;” Okonjo-Iweala, “Debt and Power: Challenging the Debt Power Dynamics in a Changing World.”

¹⁷⁶ “Government, Paris Club Sign Debt Deal,” *This Day*, October 21, 2005, and “Debt deal will help Nigeria diversify out of oil,” *Financial Times*, October 23, 2005. While the Netherlands eventually agreed to the deal, conservative members of the ruling coalition resisted ratification; a member of the Free Market Liberal Party said, “Nigeria could re-pay its debt to the Netherlands with one week’s worth of income from oil production.” Such opposition was eventually overcome, but it helps to explain the Dutch government’s hesitation about the G-8 debt deal for Nigeria; see “Dutch Lawmakers Oppose Nigeria’s Debt Relief,” *Daily Trust*, October 25, 2005. For an analysis of the Nigeria deal by a Dutch NGO that includes an attempt to understand why the Dutch government was so opposed to it, see Wiert Wiertsema, “Case Study of Nigeria,” Both ENDS, n.d. at: <http://www.bothends.org/policy/ecas-casestudynigeria.pdf>. In the private markets, the thinly traded Nigerian sovereign bonds held steady after the announcement of the Paris Club deal, and one emerging markets analyst remarked: “It is uncertain at this stage how the ratings agencies will treat the fact that Nigeria has been in arrears for a long time, but we think the country will probably receive a single B rating following the completion of the debt relief agreement;” Daniel Bases, “Nigeria’s Eurobond steady on Paris Club Deal,” Reuters, October 20, 2005. In Nigeria, the *Guardian* conducted an online poll of its readers in which about 75 percent of 782 respondents said they approved of using oil windfall revenue to pay arrears to the Paris Club; Olly Owen, “Poll Shows Approval of Nigeria’s Paris Club Settlement Payment,” *Global Insight Daily Analysis*, November 4, 2005. While not a sampling of popular opinion, the poll was some indication of support for the Paris Club deal among the political elite and professional groups, support that went beyond the small technopol team led by Okonjo-Iweala and Muhtar.

said, “The Nigerian debt deal is a win-win solution. It is a huge boost for Nigeria, where the current leadership is working to break the stranglehold of cronyism and corruption. It is also good for the U.S. and other rich countries, since greater stability in Nigeria reduces the risk of a major disruption of global oil supplies.”¹⁷⁷ He pointed out that the military neglect of the late 1980s and the 1990s “accounts for about 80 percent of what the country now owes to the Paris Club,” and, as a representative of the U.K. Jubilee Debt Campaign pointed out, it was Iraq with more oil and fewer people that received the 80 percent cancellation.¹⁷⁸ Okonjo-Iweala herself observed later, “There’s been a debate here with some people saying we shouldn’t have paid off the \$12.4bn. It’s a genuine debate – it’s a judgment call – but in the end 60 percent of the people of the country support it.”¹⁷⁹

In December 2005 and January 2006 British NGOs pounced on the fact that the U.K. would be paid £1.7 billion within six months, and they campaigned for Britain to refuse the money or as Jeffrey Sachs had suggested earlier, return it immediately as aid to Nigeria. The director of Jubilee Debt Campaign asserted: “It is obscene...it means the U.K. will take from Nigeria almost exactly twice as much as it is giving in aid to the whole of Africa.” For his part, Gordon Brown said, “The key issue is that Nigeria has substantial oil revenue this year. Nigeria wished to write off its debt...it did a deal with the Paris Club that it would have some of them written off if it agreed to pay some” and that it was a deal the Nigerians were happy with.¹⁸⁰ But Jubilee Debt Campaign pointed out that what was being repaid were essentially the penalties run up by former dictators, not the original loans themselves. Jubilee Nigeria said, “We call on the U.K. and other rich governments not to take the money. If they do, we will hold them responsible for condemning many of our poor people to continued suffering and death.” The heads of nine leading British NGOs wrote to Prime Minister Tony Blair, in “this year the U.K. government has been praised for putting Africa at the centre of the global agenda,” demanding that the government refuse Nigeria’s payments, leading to Nigerian fears that the British Parliament

¹⁷⁷ “Paris Club Offers Debt Relief – for a Price,” Inter Press Service, October 20, 2005. Jubilee USA asserted that “Nigeria’s debt write-off at the Paris Club demonstrates the partial success of the Nigerian parliament’s threat to cancel its own debt through repudiation, which helped to force the hand of the creditors,” while a senior advisor at Christian Aid U.K. noted that “the deal has set the scene for a more assertive negotiating stance by other indebted developing countries;” “Pressure groups punch holes on Paris Club debt relief for Nigeria,” Angola Press, October 23, 2005: it is not clear where the story originated; the bulk of it seems to have started out as an October 20 press release by Jubilee USA that got picked up by the Odious Debt website.

¹⁷⁸ Lydia Polgreen, “Nigeria in Deal to Pay Off Most of Its Foreign Debt,” *New York Times*, October 21, 2005. At the signing of eight bilaterals in Abuja in December, the French Ambassador to Nigeria, Yves Gandel, said the deal “was an extremely important feat because of the difficulty in getting consensus opinion from members of the club;” Kunle Aderinokun, “Govt signs agreement with creditors on debt relief,” *This Day*, December 18, 2005.

¹⁷⁹ Valley, “Transcript of interview with Mrs Ngozi Okonjo-Iweala.”

¹⁸⁰ In a formal response, HM Treasury noted, among other things, the following: “If the U.K. were now to return the money being repaid by Nigeria it would require DFID to finance it from its development budget. This would mean reallocating DFID’s budget at the expense of other poor countries. Nigeria is not a HIPC, and given its relative financial position and oil resources, for the U.K. to go further and provide one hundred per cent cancellation for Nigeria would not be an appropriate allocation of our resources;” HM Treasury, “Response to NGO Campaign to return money back to Nigeria following the 20 October Paris Club debt deal,” January 2006; also see “Debt servicing: No mercy from the rich,” *New African*, January 2006, pp. 53-54. Despite her Jubilee 2000 past and because of her involvement with the Nigerian campaign for debt relief, Ann Pettifor understood the deal, even if her old NGO allies did not. Saying the British government “found itself the surprising target of NGO criticism:” “Many were unaware of the huge obstacles Nigeria had overcome to get this far. Few understood that creditors had been deeply reluctant to rally behind the British government. Only the agreement to pay back arrears and to use windfall oil revenues to buy-back the balance had persuaded the most recalcitrant creditors to come to the table;” Pettifor, “New debt-free start.”

would not ratify the deal. As with many NGO charges, this assumed that such suffering would *automatically* end if the Paris Club creditors would just refuse the money, that the money would be spent as they claim and have the outcome they expected.¹⁸¹ A number of commentators called the NGOs on their charge of unfairness, calling their criticisms “politically naïve and ultimately misguided.”¹⁸²

The first payment of Nigeria’s \$6.3 billion in Paris Club arrears was to take place by the end of October 2005, but apparently had not been paid by the middle of November. Before October 31, Obasanjo sent a supplemental request bill to the National Assembly, but it went on break before taking up the bill. He resubmitted it to the House on November 8 and to the Senate the next day, requesting approval for the entire \$12.4 Nigeria was projected to pay the Paris Club over the next six months and met with the Assembly leadership. The Central Bank of Nigeria had, however, already swapped \$6.3 billion into an escrow account at the Bank for International Settlements (BIS) by October 31, as “we agreed during the negotiations for the October 20 agreement.” This was done in preparation for making the payments to each of the creditors, but this raised the hackles of members of the Nigerian Senate who called Okonjo-Iweala before them. In part, this was a dispute with constitutional implications about which account was to be use to make the projected payments of the \$12.4 billion. She declared: “We have not done the payment, but made preparations. We have not been able to make payments; we are awaiting the approval of the National Assembly... We have put the money into an escrow account. *It doesn’t belong to the creditors, it is for us.* We simply need a vehicle to pay back in the currency they were borrowed.” She asked for the Senate’s patience, reminding them that her team had been

¹⁸¹ Ashley Seager, “Britain criticized for accepting Nigerian debt repayments: pounds 1.7bn is more than African aid budget: Critics want Brown to lead the way in refusing money,” *Financial Times*, December 5, 2005; and Larry Elliott, “Charities dismayed at U.K.’s stance on Nigerian Debt,” *Financial Times*, December 8, 2005. Sachs joined in this time as well; he declared that “the donors got greedy. They said, ‘Take the oil revenue that you have responsibly been saving up, and instead of investing it, give it to us.’ To the donors I say, ‘Return that money. Where is it needed? Not in our coffers;’” cited in Jubilee Debt Campaign coalition briefing, “Justice for Nigeria: Why the U.K. should return Nigeria’s £1.7 billion to fight poverty,” January 2006. Similar campaigns were launched in the U.S. (involving 18 members of Congress), France and the Netherlands, all to no avail. Speaking of the absence of full cancellation Okonjo-Iweala commented that it was “for practical purposes an approach that the Paris Club was unwilling to entertain and in the end the majority of Nigerians accepted that what was obtained was a good package for the country under prevailing circumstances;” Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” p.15. For an excellent brief review essay that deals with the assumption by NGOs and others that additional revenue for poverty reduction will be well spent, see, David Clemens, “Smart Samaritans,” *Foreign Affairs*, 86/5, September-October 2007, pp. 132-40; and Callaghy, “Is Debt Relief Smart Aid?”

With Nigeria’s huge windfall oil profits, the payment of arrears and the buyback helped to avoid charges of moral hazard; it was also one of the main things that made the consensus-based Paris Club deal possible at all. In addition, it helped to solidify the possibility of Nigeria obtaining an international credit rating and returning to the private markets. Nevertheless, the creditors got a good deal in the sense that they received hard cash up front quite quickly, which would not have been the case in a rescheduling, even one with a considerable write-off or anything at all if the debt had been repudiated.

¹⁸² Todd Moss, “Campaigners misguided in attacking Nigeria debt relief deal, CGD post, February 15, 2006: http://blogs.cgdev.org/globaldevelopment/2006/02/campaigners_misguided_in_attac_1.php. Moss stated, “Most importantly, however, it is the Nigerians who have chosen to use part of their oil windfall to erase the debt for future generations. The deal was designed and negotiated over many months by Nigerian officials with strong input from parliament. It seems patronizing at best for foreign charities to now paint the deal that the Nigerians themselves have brokered as patently unjust;” and their opposition “would seem to go against the principles of country ownership and accountability that the charities themselves claim to espouse.” He added elsewhere, “After six years of no progress, the Nigerians and the creditors should be applauded for finding a creative way out of a downward spiral. Sniping by unaccountable activists may make good sound bites, but it doesn’t really help Africa;” Todd Moss, “The Nigerian Debt Deal and Its Critics,” CGD post, December 8, 2005: http://blogs.cgdev.org/globaldevelopment/2005/12/the_nigerian_debt_deal_and_its.php.

transparent about the Paris Club deal and that members of the National Assembly, including two Senators, had attended the Paris Club negotiations as observers and witnessed the signing of the agreement. After the funds were authorized by the National Assembly, Okonjo-Iweala said the creditors could only draw their respective amounts *after* their bilateral agreement had been negotiated and signed. The U.S. had its ready by November 9. She also mentioned that Standard & Poor's would be coming to Nigeria in December to discuss a credit rating for Nigeria, which she said would pave the way for more investment flows, as would the reinstatement of export credit guarantees by the Paris Club countries.¹⁸³ The House and the Senate approved the bill on November 22, and Senator Lawan, one of the leaders of the repudiation resolution, argued for the payment as a permanent exit from the vicious cycle of debt and poverty. The National Assembly, however, was still discussing the Fiscal Responsibility Bill.

On December 17, 2005 at the International Conference Center in Abuja, Nigeria signed bilateral agreements with eight of its Paris Club creditors – Belgium, Finland, France, Germany, Italy, Switzerland, the U.K. and the U.S.¹⁸⁴ In addition to Okonjo-Iweala and Muhtar, Senators Udoma and Lawan were among those who witnessed the signings. Okonjo-Iweala said that “the signing of the bilateral agreements today will seal the monumental deal; done with the endorsement of the National Assembly, this exceptional treatment of Nigeria’s lingering debt problem offers a sustainable and definitive solution to Nigeria’s debt problem. It also constitutes a great milestone of the government of President Obasanjo and also a major dividend of democracy.” The French ambassador noted that “The Paris Club helped Nigeria because Nigeria helped herself,” while the British High Commissioner asserted that “we have seen democratic Nigeria in action because as demonstrated by the legislature, the executive, the judiciary with the support of the media, which indicates a new Nigeria.”¹⁸⁵

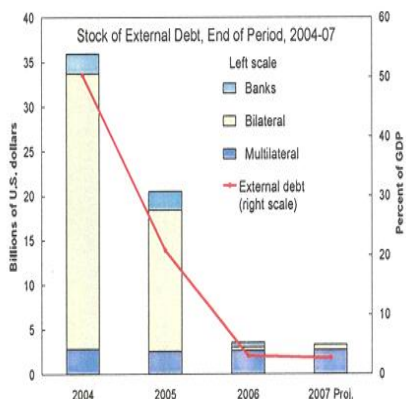
¹⁸³ Okonjo-Iweala indicated that, in fact, there would be *three* payments: the immediate \$6.3 in arrears, \$1.3 in a second, “leveling up” payment, in December, and a third and final one after the IMF approved the first review of the PSI, scheduled to take place in March; it turned out to be \$4.5 billion. This amounts to \$12.1, not the much discussed \$12.4 billion mentioned in the October press release; there was a savings of \$276 million; see “Government Moves to Beat Debt Relief Deadline,” *This Day*, October 31, 2005; Walker Simon, “Interview – Nigeria pays \$6.4 bln in Paris Club arrears,” Reuters, November 9, 2005; Emmanuel Aziken, “Nigeria yet to pay Paris Club – Okonjo-Iweala,” *Vanguard*, November 17, 2005; Kola Ologbodiyan, “FG Secures Green Light to Pay Paris Club,” *All Africa Media/FT*, November 23, 2005; and Emmanuel Aziken, “Senate Okays \$12.4 for Paris Club,” *All Africa Media/FT*, November 23, 2005.

¹⁸⁴ Of the remaining seven, Brazil (in Brasilia) and the Netherlands signed in late December 2005; Japan signed on February 2, 2006 and Spain on February 20, 2006 in Madrid with Senator Udoma in attendance, leaving only Austria, Denmark, and Russia. Okonjo-Iweala pleaded for a rapid restoration of export credit cover by these countries. Austria, Denmark, and Russia finally signed on March 31, 2006 in Zurich while officials were attending the Institute of International Finance spring meeting. Given that the Nigerians took so long with the bilaterals for the 2000 Paris Club deal, the Nigerians agreed to do them quickly this time; the faster they were done the faster the creditors got paid.; interview B. Lex Rieffel, in “Resolving Nigeria’s Paris Club Debt Problem,” had suggested that “in an interesting departure from normal practice, because there will be no remaining debt on which to charge interest, it appears that Nigeria will be able to skip the sometimes troublesome step of negotiating bilateral implementing agreements,” p. 21, note 14; bilateral agreements are the only legally binding part of the entire Paris Club process and were thus needed here as well, exit or no exit. He had also argued that an exit deal was not in Nigeria’s interests because it would help establish a good debt service track record on remaining debt; G-8 financial sources indicated this was not needed because Nigeria already had a good track record servicing its private debt.

¹⁸⁵ Kunle Aderinokun, “Govt signs agreement with creditors on debt relief,” *This Day*, December 18, 2005.

2006: Completion of the Deal

The New Year started off well. At the Davos meeting of the World Economic Forum in late January 2006, Okonjo-Iweala announced that Nigeria expected to complete the Paris Club deal by April at the latest; she had clearly come a long way since her meeting with CGD's Nancy Birdsall at Davos in January 2004. The Nigerian economy was estimated to have grown 6.5 percent in 2005, faster than 2003 and more than double the 2.9 percent average growth of the past decade. Forecasts of growth for 2007 would be more than 7 percent, including that Central Bank reserves would be \$42 billion by the end of 2006. Of particular significance was the estimate that the non-oil economy had grown by 8.2 percent in 2005. About the same time Fitch Ratings gave Nigeria its first long-term credit rating in late January 2006; it rated Nigeria as BB-, only three notches below investment grade and on par with Turkey, Brazil, Venezuela, the Philippines, Ukraine, and Serbia. Standard & Poor's followed suit on February 6, 2006 with the same rating. Okonjo-Iweala commented that "It shows that the Fitch rating was not a fluke.



S&P, like Fitch, is a respected name and it worked independently to produce its report so we are very pleased... It shows we are doing the right things and that there is cause for optimism but we cannot afford to rest on our oars just yet." She felt that the ratings were part of the process of institutionalizing the reforms. Some in the government felt the ratings were too low. Goldman Sachs also had good things to say about Nigeria, but not everybody agreed. Speaking of the Fitch rating, Tim Ash of Bear Stearns, said: "I feel a bit uncomfortable with the rating, given the huge over-dependency of the economy on

oil, the history of strained relations between the federal and state level governments and political, social and inter-ethnic conflicts." Fitch had warned about violence and social unrest in the Niger Delta. One hedge fund analyst pointed to Nigeria's "erratic track record."¹⁸⁶ Nonetheless, it was a big step, and a huge dividend of the economic reforms and the exit deal with the Paris Club.

The consultations for the first review of the PSI took place when an IMF team visited Nigeria February 15-28, 2006. By late February, however, dark clouds were beginning to build on the political horizon, especially the persistent conjecture that Obasanjo might seek a third term by changing the constitution, something he refused to deny or confirm. The Fiscal Responsibility Bill and other key legislation were still stuck in the National Assembly. The first PSI review was to be completed in March, but the National Assembly needed to have the 2006 budget approved by then, which it did early in the month but raised overall spending and increased the oil price target from \$33 to \$35. The IMF staff completed the PSI review on March 31, 2006,

¹⁸⁶ Joanna Chung, "Surprise at first credit rating for Nigeria," *Financial Times*, January 30, 2006; and "Goldman Sachs, S&P, Fitch Rating Boosts Nigeria's Economic Prospect," *Nigeria First*, February 10, 2006. The Figure "Stock of External Debt, End of Period, 2004-07" is from IMF, "Nigeria: Fourth Review under the Policy Support Instrument," September 28, 2007, p. 18; part of IMF Country Report No. 07/353, October 2007.

recommending that the Executive Board approve it, which it did on April 17. Anne Krueger commended the Nigerians for “strong macroeconomic performance and the implementation of an ambitious reform agenda” but, given expected budget expenditure, stressed that reforms “will require careful public management” at both the federal and state levels; she also praised a major bank consolidation, but warned that major legislation to institutionalize the reforms still needed to be passed, especially the Fiscal Responsibility Bill and other measures.¹⁸⁷ The completion of the first PSI review triggered Nigeria’s final payment under the October 2005 Paris Club exit deal, which was made on Friday, April 21, 2006. By this time Nigeria’s foreign exchange reserves had reached \$36.1 billion, more than its total external public debt prior to the Paris Club agreement.¹⁸⁸

Speaking of the final payment, Muhtar said, “The Central Bank of Nigeria has already given instructions to the relevant banks to effect the payment.” It had “converted the currencies in advance, so it’s procedural now. All the necessary instructions have been sent.” The wire transfers had been made, and “all the creditors need is to confirm receipt, and automatically that will trigger the terms of the deal,” making Nigeria the first African country to clear its debt to the Paris Club. The amount of the payment was \$4.518 billion.¹⁸⁹ He said that 12 of the 15 creditors would receive their share of the outstanding debt directly into their individual accounts, but Austria, Denmark, and Russia had their share paid into a BIS escrow account because their recently signed bilaterals had not yet been ratified by their legislatures. “By Monday [April 24], we hope to receive confirmation of the payments from the creditors and we also expect them to inform the Paris Club accordingly.” President Obasanjo said that the “last stage of our indebtedness to the Paris Club has been reached.” He appreciated all of the “Doubting Thomases” who called the debt relief campaign an “exercise in futility” because rather than being deterred “it made us face the challenge more seriously.” Okonjo-Iweala was extremely pleased saying that “Nigeria has done something no other country has done before and it is a

¹⁸⁷ “IMF Executive Board Completes the First Review under the Policy Support Instrument for Nigeria,” Press Release 06/73, IMF, April 17, 2006. For all of the relevant reports, see <http://www.imf.org/external/pubs/ft/scr/2006/cr06180.pdf>. One analyst, however, felt that “the structural benchmarks and assessment criteria under the PSI are quite modest,” EIU, Nigeria Country Report, February 2006, p. 23.

¹⁸⁸ Some praised CGD for its key roles in the IDA-only change and the buyback at a discount idea; see “Nigeria completes PC pre-payment,” International Financing Review, April 29, 2006.

¹⁸⁹ Much of the press reported the transfer to be \$6.1 billion, the figure used in the October Paris Club press release; some reported it as \$6.4 billion. Some of the ones that were more in the ballpark reported the payment as \$4.6 or \$4.8 billion. As Okonjo-Iweala had said earlier, there were actually *three*, not two payments for the \$12.4 billion Nigeria owed the Paris Club. There was a payment process for the arrears that began at the end of October for \$6.3 billion but was not completed for most creditors until bilateral agreements were signed in mid December; a second “leveling up” payment of \$1.3 billion, not mentioned in the press release, was made on December 12 that was basically a small initial portion of the buyback; and the final exit buyback payment of \$4.5 was made on April 21, 2006 after the first PSI review. Thus, the total amount Nigeria paid was \$12.1 billion (\$6.3, \$1.3, and 4.5 billion), not the originally projected \$12.4; there was a savings of \$276.3 million that resulted from foreign exchange fluctuations and interest income. Obasanjo said, “This represents net savings amounting to \$276.3 million instead of the projected \$12.4 billion payment negotiated with the Paris Club creditors. I am happy to say that we have now put the Paris Club debt behind us;” he instructed Okonjo-Iweala to return the savings to the excess crude account; see Ibrahim Garba, “Nigeria Frees Itself from Decades of Debt: Nation pays \$12.4 [!] to Paris Club in buy-back deal,” Ohmynews, June 2, 2006; on the \$12.1 billion total, also see “Group Cautions against Debt Payment,” *This Day*, June 4, 2006. In sum, the overall Paris Club debt reduction for Nigeria was 60 percent while the actual non-arrears buyback debt reduction was 76 percent, amounting to a significant achievement.

credit to Nigeria;” she also said: “Do you know that several other countries are now asking us questions trying to learn from us and we are happy about this.” Some analysts warned against undue expectations. Alex Vines at the British Royal Institute of International Affairs noted: “The debt deal is certainly useful as part of a wider package, but I don’t think it will persuade investors to rush in. Abductions of foreign nationals, violence, riots, issues of corruption, all of this makes businesses timid.”¹⁹⁰

Todd Moss of CGD called the completion of the deal “absolutely historic,” adding that the debt problem was “one of the major barriers to consolidating the aggressive reforms being undertaken by [Obasanjo’s] economic team. This gives them momentum to push further, including the passage of the Fiscal Responsibility bill now before parliament.” He noted that “the systems for spending money are still far from being fixed, which means using money wisely is not that easy.” Yet the same day he noted, “The real benefit will be if the deal helps to lock in reforms,” and a few days earlier he had observed: “Of course, the big question is what happens next? As the Fund notes, the country has made great strides, and the reform effort seems on track. But the reforms remain highly vulnerable... These are the risks of debt relief in a place like Nigeria where success is far from the most likely outcome. But given the importance of the country and the downside of failure, the deal still looks like a bargain for the major powers – and a boost to the reformers trying to lock in their gains.”¹⁹¹

Clearly, CGD played a very important and unusual role in the striking Paris Club deal for Nigeria. Moss said “CGD is proud to have played a supportive role” with the IDA-only work

¹⁹⁰ On the final, exit payment see: Samuel Famakinwa, “With the IMF Deal, Nigeria Set to Exit Paris Club Debt,” *Financial Times*, April 18, 2006; Josephine, Lohor, “Nigeria Exits Paris Club Tomorrow,” *Financial Times*, April 20, 2006; “Nigeria becomes first African country to clear off debt burden,” EuroAfricaCentral, April 20, 2006; “Nigeria delivers final debt payments to Paris Club; first in Africa,” *Financial Times*, April 21, 2006; “Nigeria’s foreign debt repaid,” AFP, April 21, 2006; “Nigeria is Africa’s first nation to clear debt of the West,” *Financial Times*, April 22, 2006; and “Nigeria Settles Paris Club debt,” BBC News, April 21, 2006. The BBC asked readers for their reaction, and one Nigerian wrote: “It is good news, Nigeria is now off the hook of the Paris Club. This is a wonderful achievement of the Obasanjo administration. The fear is that we only hope and pray that subsequent administrations after this do not take this as leeway and open cheque to start borrowing indiscriminately and re-submerge the country into another crippling debt.” In fact, issuing foreign bonds was already being discussed, and investors and bankers were lining up. Hedge funds were already buying government bonds, raising “hot money” worries.

¹⁹¹ Todd Moss, “Nigerian Debt Relief Now a Done Deal: Q&A with Todd Moss,” Center for Global Development, April 24, 2006: <http://www.cgdev.org/content/opinion/detail/7423/>; Moss “Nigerian debt deal: Almost done, if not yet home free,” CGD post, April 18, 2006: http://blogs.cgdev.org/globaldevelopment/2006/04/nigerian_debt_almost_done_if_n.php; and Moss, “Nigeria unloads Paris Club debt: What Next,” CGD post, April 24, 2006: http://blogs.cgdev.org/globaldevelopment/2006/04/nigeria_unloads_paris_club_deb.php. The statements about the deal being historic and a bargain for the creditors are correct. The statement about the future vulnerability of the reforms is also correct, but it directly contradicts the often made claim by the Nigerians and their supporters during the debt relief campaign that a deal would help lock in the reforms, a claim Moss made again here. As noted above, this contradiction appears to come from the incorrect assumption that Obasanjo really wanted to do the economic reforms and sustain them, when in fact what he wanted was debt relief for political reasons, while the reforms and their sustainability were distinctly secondary. Also see, “Debt Relief for Nigeria,” Initiative, CGD, n.d.: <http://www.cgdev.org/section/initiatives/archive/nigeriandebtrelease/>, which notes that economic reform “is by no means assured, but the debt deal is an important step in the right direction;” and “A Victory for Democracy in Nigeria,” CGD post, May 19, 2006, http://blogs.cgdev.org/globaldevelopment/2006/05/a_victory_for_democracy_in_nig.php; it reflects on Obasanjo’s decision to bow to opposition and not try to ram through a constitutional change that would allow him to run for a third term; CGD notes that “A new administration may rollback some of the Obasanjo team’s reforms and next year will be dangerous as possible successors jockey for position and exploit the country’s deep regional, ethnic and religious divisions;” CGD says the debt deal is irreversible. Of the efforts to institutionalize the reforms, CGD saw the Fiscal Responsibility Bill as “perhaps the most important.”

and the discounted buyback proposal. The latter “was used to open the dialogue over the buyback and gave both sides an opportunity to openly consider what might have otherwise have been a sensitive topic for either one to broach.” Speaking of CGD’s larger role, Moss said: “As a credible neutral player, CGD could make both proposals and be taken seriously by all sides. I think the key role for think-tanks like CGD is to undertake independent analysis and generate new ideas helping policymakers to solve problems of common interest.” This part of the epistemic community played an absolutely crucial role in Nigeria’s Paris Club debt reduction agreement.¹⁹²

Back to the First Term, but Without Debt?

Okonjo-Iweala was well aware of the potential danger to reform sustainability: “Rather than start launching many new fronts, we want to lock in what we have already achieved.” Nigerian anti-corruption officials estimated that about \$400 billion had been plundered or mismanaged since independence in 1960 – roughly the amount of foreign aid to Africa in the same period or the size of the annual U.S. defense budget. Everybody knew the oil sector was still a nightmare, as the Hart Group audit had begun to reveal, and then there were the 36 states and their localities. In a National Planning Commission survey, only 13 states scored a minimum of 25 percent on a series of benchmarks on fiscal management, transparency, and service delivery. Obasanjo’s move toward a third term, opposed by 84 percent of respondents in an Afrobarometer survey in late 2004, threatened sustainability. As one external observer noted, he could “succeed only by cutting the striking kind of political deals that tied him down in the largely unproductive four years that followed his first election.” The Fiscal Responsibility Bill and other reform measures were still languishing in the National Assembly.¹⁹³

On June 21, 2006 Obasanjo announced a cabinet reshuffle, part of which moved Okonjo-Iweala from Finance to the Foreign Ministry, with no reason given for the change. Reportedly, she offered to resign instead, but was convinced to make the change because Obasanjo agreed to let her remain head of the Economic Management Team and retain oversight responsibilities for relations with the international financial institutions. Obasanjo tried to reassure these institutions about this dramatic change, which they viewed as linked to revenge by cronies who had more leverage again now that Obasanjo was lobbying for a third term and spending lots of money to do it. Okonjo-Iweala’s deputy Nenadi Usman became Finance Minister. On August 2, 2006 while Okonjo-Iweala was in London negotiating a resolution of remaining London Club

¹⁹² Moss, “Nigerian Debt Relief Now a Done Deal;” it has more on CGD’s part in the deal. On CGD’s role, also see CGD, “Debt Relief for Nigeria;” it cites praise from Okonjo-Iweala and Ann Pettifor for its work. The latter said, “I have it first hand from negotiators in the Paris Club that it was the CGD concept of a buyback that was the tipping point that led creditors to agree to debt relief for Nigeria.” For her part, Okonjo-Iweala wrote, “Your help and support during the course of this journey can not go unnoticed, especially the work of the CGD in facilitating the reclassification of Nigeria as an IDA-only country as well as putting forward an innovative solution to the debt problem... Your catalytic work and analysis made a difference;” letter to Todd Moss, July 4, 2005. A December 15, 2006 fundraising letter sent to CGD supporters makes an additional claim: “CGD research has been influential, especially with the U.S. Treasury, in moving forward the analytically complex and politically intractable discussion on debt relief for the world’s poorest countries. For example, CGD research helped Nigeria... to negotiate Africa’s biggest ever debt deal.”

¹⁹³ Quotes and data from “FT Special Report: Nigeria,” *Financial Times*, May 16, 2006.

issues, word filtered out that she had been removed as head of the Economic Management Team and replaced by Usman. Okonjo-Iweala left London without comment the next day. A government statement announced that she had stepped down because “of a compelling need to take care of pressing family issues.” She arrived in Nigeria to a statement of regret from Obasanjo extolling her virtues and saying that she had decided “to leave at this stage of our reform effort, which was beginning to yield positive results” and that she would be missed. Addressing a shocked country on Nigerian television, she thanked the President for being “gracious enough to allow me to leave” to take care of family matters.¹⁹⁴ In an editorial on August 17, 2006 Nigeria’s *Guardian* said: “The resignation of Dr. Ngozi Okonjo-Iweala as a minister in the federal cabinet came suddenly and surprisingly. Even now, the country is yet to come to terms with her exit, which has fuelled speculation about the fate of the federal government’s economic and financial reform programme, considering the dynamism and creativity Mrs Okonjo-Iweala brought to the Ministry of Finance, which she headed for about three years.” The editorial discussed the way in which she was removed and concluded by saying: “Sadly such tactlessness seems to be standard procedure in official quarters. We commend Mrs Okonjo-Iweala for her success and competence, and the courage with which she resigned her appointment, a gesture that is quite rare in these parts.”¹⁹⁵

On December 20, 2006 the IMF’s Executive Board approved the second review of Nigeria’s PSI. In the press release, John Lipsky, Anne Krueger’s replacement as First Deputy Managing Director, commented on the state of Nigeria’s economic reforms; the last line of his short statement, in the inimitable language of the international financial institutions, simply says: “Timely passage of important legislation by the National Assembly, including the Fiscal Responsibility Bill, would help to sustain recent reforms.”¹⁹⁶ By October 2007, Okonjo-Iweala had come full circle. After a stint at the Brookings Institution, World Bank President Robert Zoellick appointed her to a revamped senior management team as one of the Bank’s Managing Directors, responsible for Africa, South Asia, and Europe and Central Asia. In praising her achievements, Zoellick said, “As an outstanding Minister of Finance and Foreign Minister in Nigeria, Okonjo-Iweala helped lead the country’s reform program on issues of fiscal prudence, transparency of government accounts, good governance, and anti-corruption. She led Nigeria’s quest for debt relief and helped her country obtain an unprecedented US\$18 billion write-off

¹⁹⁴ Dino Mahtani, “Nigeria’s reforms may be hit by minister’s resignation,” *Financial Times*, August 4, 2006; and Anne Penketh, “Heroine of Nigeria’s anti-corruption,” *Financial Times*, August 5, 2006.

¹⁹⁵ The complete text of the editorial was published in “Nigerian paper mulls exit of former Foreign Minister Okonjo-Iweala from cabinet,” *Financial Times*, August 17, 2006. Most speculation revolved around tensions between Okonjo-Iweala and Obasanjo over her visibility and political aspirations, that she had obtained the debt deal and was no longer needed, and his political needs and dependence on key political figures who long wanted Okonjo-Iweala gone. Some speculated that tension with Charles Soludo may have been a contributing factor as well; interestingly he was the only senior member of the economic team left in late 2007. As the *Financial Times* put it, her “departure is seen as the result of a personality clash... Part of the problem seems to have been the very prominence and international adulation she enjoyed as finance minister;” “Nigeria’s loss: A reformer pays the price of international adulation,” August 7, 2006.

¹⁹⁶ “IMF Executive Board Completes the Second Review under the Policy Support Instrument for Nigeria,” IMF Press Release No. 06/293, December 20, 2006. In late March 2007, Okonjo-Iweala noted that the bill had passed the Senate but not the House; she observed that “We tried to use the fiscal responsibility bill to corral states into certain transparent behavior. It’s been watered down;” “State of Nigeria’s Economic Reforms,” Brookings (event transcript), March 23, 2007, p. 36.

from the Paris Club. Okonjo-Iweala was also instrumental in helping Nigeria obtain its first ever Sovereign Credit rating.” But one observer noted that a “Nigerian columnist argued that the biggest favour the World Bank could do for Nigeria now would be to send Mrs Okonjo-Iweala home to continue where she started.”¹⁹⁷

Conclusion

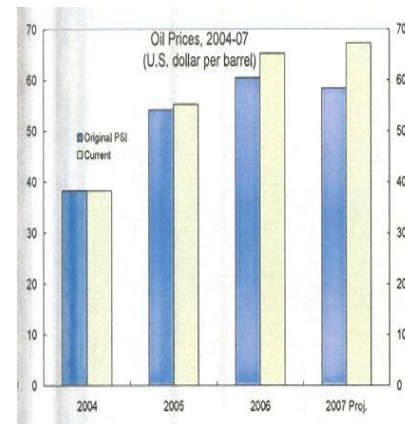
It is both an irony and a central fact of this story that Nigeria obtained major debt relief when oil prices were very high instead of when they were low early in President Obasanjo’s first term. The oil windfall was *the* most important underlying structural factor that made the debt deal even remotely possible. A debt reduction deal of some kind might have been possible with low oil prices, but it would have been far more difficult than the arduous 2005 Paris Club deal. What if Obasanjo had lived up to “the deal” when it was first put to him, when he first agreed to it? Could he have lived up to it then without an oil windfall? The oil windfall was necessary but not sufficient for a deal *of this magnitude*. As Okonjo-Iweala put it, “Nobody believed that at the time of high oil prices Nigeria would ever be given debt relief. But it happened.”¹⁹⁸ And it took most of the elements of the two linked arguments that were sketched out early in this piece. It took a “perfect storm” of creative and dogged agency on the part of a number of varied actors and a newly reconfigured international context that had helped to soften the preexisting debt regime and put new values, and new policy ideas, such as the IDA reclassification and the discounted buyback, on the table and into play and new agendas before the international community. Elements from all three strands of the triple helix, and the increasingly dense connections between them, were involved. President Obasanjo had to decide to finally try to live up to his end of “the deal.” He needed to find, assemble, and protect an extremely talented and committed team of technocrats, people who possessed the needed levels of cosmopolitanism and had the right kinds of connections and competence. This amazing group of people in turn needed genuine cooperation from the IMF and the World Bank, the efforts and leadership of a major power sponsor, and new ideas and analysis from well connected parts of the epistemic community, such as the Center for Global Development, and, finally support and pressure from the new international NGOs and civil society networks working on debt.

Since the rules of the nested games, both domestic and international and the linkages between them, that the Nigerian team of technocrats had to play were often unclear, yet at the same time at least partially malleable, they had to be talented users of creative ambiguity, as did other key players. With all the possible uncertainties and contingencies, oil revenue helped to grease these

¹⁹⁷ “President Zoellick Appoints Dr. Ngozi Okonjo-Iweala as Managing Director, World Bank,” World Bank press release, October 4, 2007; and William Wallis, “Spotlight: Ngozi Okonjo-Iweala– Nigerian reformer,” *Financial Times*, November 25, 2007. Also see Krishna Guha, “Zoellick names top deputy,” *Financial Times*, October 5, 2007.

¹⁹⁸ “State of Nigeria’s Economic Reforms,” Brookings, March 23, 2007, pp. 11. As the October 2005 Paris Club negotiations were winding down, Farouk Lawan noted that “the increase in oil prices had given us an opportunity to now completely exit from the circle of debt. Perhaps without oil resources it would have been difficult to contemplate negotiating with the Paris Club.” He went on to say that “in a way you can say the oil resources contributed in getting Nigeria to where it was in the past because of the kind of bad leadership we had, but also it has given us another opportunity to exit from the circle of debt;” from video of the Paris Club proceedings taken by Advocacy International, Wednesday, October 19, 2005.

wheels and keep them moving. Half of the oil windfall was saved, helping the reforms along while pleasing the international financial institutions and ultimately supplying the wherewithal to pay off the Paris Club arrears so that all of the creditors would go along with the debt reduction deal. The other half of the oil windfall was needed for domestic political legitimacy and protection vis-à-vis Nigeria's political elite with its voracious networks of patronage with enough left over to help ordinary Nigerians more, but differently than in the past.¹⁹⁹ Both sides of the debt restructuring process got a fair deal; both sides had reasonable arguments from their specific vantage points. Central to the economic reform effort was Obasanjo's simultaneous support and ambivalence. Ultimately he wanted a debt deal more than he wanted full bore, sustained economic reform. Hence the issue raised repeatedly by the creditors, the IMF, the World Bank, and the reformers themselves, was the sustainability of these reforms. Okonjo-Iweala, as usual, had it about right: "A lot will depend on how the uncertainty surrounding this coming election is resolved and who comes in; so I am saying, we've laid a platform. I think *some* of it will be sustained and endure, and we can move to the next step *if* we get the right kind of leadership. But certainly the platform is there."²⁰⁰ Mansur Muhtar called the debt deal "a once in a lifetime opportunity:" "We have been in a dreadful debt spiral not of our making. This deal puts an end to that spiral. It draws a line under the past and gives Nigeria a fresh start. It is our second declaration of independence. It is worthy of celebration."²⁰¹ Nigerians would no longer have "colonialist" creditors at which to hurl vituperative rhetoric; they stood on their own with their oil wealth in front of them. They proved themselves to the creditors; now they had to keep proving it to themselves.



One never knows at the time when key historical tipping points happen – whether it be Korea, Brazil, even Indonesia, much less Nigeria, but one can hope that Nigeria's stunning debt deal was just such a tipping point for this country that has for so long been a powerful source of cynicism. Time and institutions will tell, especially when the price of oil declines, as it had by 2008. Sustainability is *the* issue, but this in no way detracts from the stunning nature of the Paris Club debt reduction accomplishment. Cynics are often right, but, as we have seen, not always, and we hope they will be proven wrong about the sustainability of economic reform in Nigeria.

Lastly, Ngozi Okonjo-Iweala's cogent comments about the future of the Paris Club quoted above should be kept clearly in mind by all: "Can the Paris Club survive with its current approach, in which the rules from the creditors' side are not always known? Things will have to change. How will the Paris Club adapt to the so-called emerging donors, and to alternative sources of

¹⁹⁹ The Figure "Oil Prices 2004-07" is from IMF, "Nigeria: Fourth Review under the Policy Support Instrument," September 28, 2007, p. 17; part of IMF Country Report No. 07/353, October 2007.

²⁰⁰ "State of Nigeria's Economic Reforms," Brookings, March 23, 2007, p. 27 [emphases added].

²⁰¹ Mansur Muhtar, "Debt Relief: Something to Celebrate," nigeriafirst.org, August 4, 2005, p. 3

financing that may compete with its work? These are the key issues confronting the Paris Club going forward.”²⁰² Nigeria was a poster-child for the strengths of the Paris Club, but also for its weaknesses.

²⁰² Okonjo-Iweala’s statement is in Paris Club, “Fifty Years of Orderly Sovereign Debt Restructuring,” p.57.