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

[Short 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 paper¹ 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, a 76 percent reduction of the non-arrears portion of the debt stock, and 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) in 1996; (2) Britain’s 2005 “Year of Africa” when it was chair of the G-8, which led to the 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.

Nature of Nigeria’s Paris Club Debt

Nigeria’s Paris Club debt has a long history, reaching back to 1964. By 1984 the total Paris Club debt was about \$8 billion, but at the end of 2004 it totaled \$31 billion. The Babangida regime had very irregular servicing of Paris Club debt, while the Abacha regime paid very little debt service at all, 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,

¹ The opening quotation is from Ngozi Okonjo-Iweala, “Understanding Nigeria’s Debt Situation,” Federal Ministry of Finance, February 27, 2005. This following is a highly condensed version of the full working paper, “Anatomy of a 2005 Debt Deal: Nigeria and the Paris Club,” also to be found on this web page; the long version provides a theoretical argument, much more extensive information, and complete citation of the material presented; comments are most welcome at tcallagh@sas.upenn.edu.

to service private and multilateral debt; it also *expected* Paris Club debt relief under Naples terms up to 67 percent debt reduction. Under Olusegun Obasanjo in 2004, Nigeria claimed that much of its debt “could be considered illegitimate, bordering on ‘odious,’” making debt a highly emotive issue.² Many Nigerians believed they had paid the debt several times over.

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>	27.5	83%
Multilateral Creditors	3.0	9%
Private Creditors	2.4	7%
Other Bilateral Creditors	0.1	0%
Total Debt Stock	32.9	100%

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

“The Deal”

Part of the perfect storm that led to the 2005 Paris Club agreement was a general “softening” of the debt” regime since the late 1980s that led to HIPC in 1996. Another important factor was that by 2005 the creditors were suffering real fatigue about Nigeria; they wanted to get Nigeria settled, to get past it before the Gleneagles G-8 meeting in July 2005. The November 2004 Paris Club deal for Iraq was certainly part of this context. The additive effects of these factors, in addition to geo-strategic and political ones, greatly helped to push an agreement along. Ultimately, however, it was the Nigerians who had to do the work; they had to live up to a deal made in 1999-2000. All the major creditors stuck consistently to “the deal” despite political inclinations in some quarters to support Nigeria’s return to democracy with debt relief up front.

In his first term (1999-2003), Obasanjo made significant debt relief a major issue and spent a good deal of time overseas *demanding* it. By one estimate, Nigeria had squandered over \$280 billion in oil revenue over 25 years, leading to a huge “reputational overhang” to go along with its sizeable debt overhang. The former clearly made the latter much more difficult to deal with. In April 1999, first the British and then the U.S. in June 2000, made a deal with Obasanjo that if Nigeria did serious economic reform they would help first get a regular Paris Club rescheduling, and then, if economic reform came to pass, they would work for substantial debt reduction, a “comprehensive solution.” The question was whether he would act on it. The answer was not long in coming, and it was “no.” But if it had been “yes” the major issue would have been *how* to get major debt reduction; Nigeria did not qualify for Naples terms because it was classified as a

² Debt Management Office (DMO), “Nigeria’s External Debt: Structure, Evolution and Development Challenges,” typescript, n.d. but probably early 2004, pp. 2-3. See the Appendix of this paper for additional debt data.

“blend” – able to borrow from both the IBRD and IDA – and not an “IDA-only” country with the World Bank. One of the most common arguments against debt relief for Nigeria was that it was an oil-rich member of OPEC and should be able to pay its debts. Since Nigeria was not an IDA-only country, any debt reduction deal would have to be a special one along the lines of the very political deals with Poland and Egypt in 1991, both of which Obasanjo mentioned frequently in his demands for major debt reduction. It became a moot question, however, because the Nigerians did not live up to their end of the bargain during Obasanjo’s first term.

On August 4, 2000, the IMF’s Executive Board approved a 12-month Stand-By agreement with Nigeria, which it did not intend to draw on. Oil had now reached \$30 a barrel, making it harder to convince the Paris Club that Nigeria really needed major debt relief. Nigeria finally received the promised Paris Club rescheduling on December 2000, but much of the discussion at the December Paris Club meeting was really about what would happen next. The French were not happy about a possible future debt reduction deal for Nigeria if it managed to live up to the economic reform bargain, believing that it would have to be a special deal because Nigeria was not eligible for Naples terms due to 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. If Nigeria were to receive significant debt reduction *within* the existing Paris Club rules for non-HIPC or other low-income countries, 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.

Obasanjo did very little economic reform in his first term, blaming it on politics. The Paris Club, while acknowledging some political constraints, saw it differently, pointing to a very poor track, plus a failure to save the emerging oil windfall, despite the price being double what it was 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? After the December 2000 Paris Club agreement, Obasanjo kept raising the debt issue, using all of his normal arguments – democratic dividend, peacekeeping, economic reform, crucial oil producer, while still mentioning the special Poland and Egypt deals.

[A Second Term, a Second Try](#)

Obasanjo was sworn in for his second term on May 29, 2003. The wasted first term had, however, planted a couple of seeds that were to play an important role in the revival of the second term. One of them was a major effort to get the debt statistics in order and included the creation of a Debt Management Office (DMO) 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 from the Bank to tackle this task. Okonjo-Iweala was at the center of Nigeria’s debt story – one might say its heart, head, and soul. In mid 2003 Obasanjo asked if she would become finance minister and head of a new economic reform team. At 49, she became Nigeria’s first woman finance minister on July 17, 2003 and had a huge, some said impossible, task in front of her. She attacked it with her normal passion, commitment, hard work, and direct no-nonsense style. But one person is not enough to reform a system; Obasanjo needed

a politically savvy technocratic team to create, launch, and sustain serious economic reform in order to live up to “the deal;” Okonjo-Iweala understood perfectly. She noted that Obasanjo “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.”³

The Debt Strategy

Okonjo-Iweala and her team devised a comprehensive, multi-pronged strategy for passing through the uncertain waters of Paris Club negotiation. Her strategy for persuasion was to get attention focused on the important economic reforms rather than pleading for debt reduction. The strategy consisted of six key elements: (1) implementing an economic reform package with some kind of IMF program; (2) obtaining IDA-only borrowing status at the World Bank; (3) establishing a good record of debt service; (4) demonstrating that Nigeria did not meet IMF and World Bank debt sustainability criteria in the long run, (5) launching an international campaign to build support for Nigerian debt reduction in the hope of creating “a perfect storm, and (6) finding a Paris Club/G-8 patron or sponsor to argue its case.

The first element 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 as 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. According to Okonjo-Iweala, “The IMF and World Bank teams responsible for Nigeria at the time were good listeners, smart, confident and excellent partners and they recommended to their management that they partner with us in the way requested.” Yet with the Fund “it was very difficult at times. [There were] heated arguments, particularly at headquarters.” And many Nigerians wondered “who are these spies in our midst.”⁴

Okonjo-Iweala felt that after 12 months of reform she could to talk to the Paris Club: “They said: ‘It sounds fine. But sign up with the IMF so we know what you’re really doing.’” She told them that “politically it’s a non-starter. We’re getting the result; why do we need the IMF?” They said because, “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.” As we shall see, it was a bit more complicated than that. But “ultimately, the Paris Club insisted that this approach was too informal and could set ‘dangerous’ precedents.” It insisted that it had to be a more formal IMF arrangement. 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).⁵

The second element – obtaining IDA-only status – was needed solely for the purpose of meeting the Paris Club requirement for Naples terms or other deep discount debt relief. With the creative help of CGD, Nigeria achieved the change to IDA-only status in mid 2005, which helped to lay the ground work for another key element, also with the help of CGD – a discounted

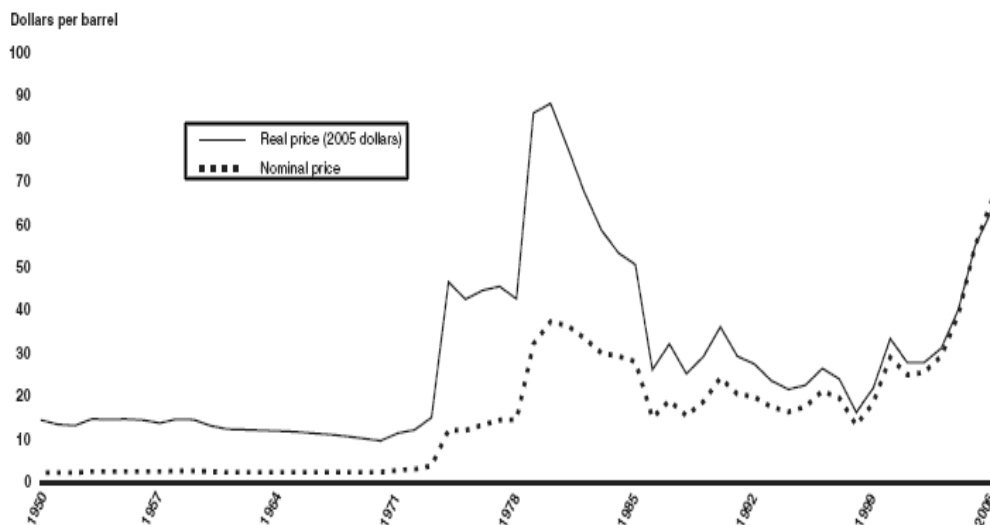
³ Okonjo-Iweala, “State of Nigeria’s Economic Reforms,” Brookings (event transcript), March 23, 2007, pp. 3.

⁴ Okonjo-Iweala, “Nigeria’s Fight for Debt Relief: Tracing the Path,” paper for the 2007 Brookings Blum Roundtable, Aspen, August 1-3, 2007,” p.2, 6; and “State of Nigeria’s Economic Reforms,” pp. 25, 13.

⁵ Paul Vallely, “Transcript of interview with Mrs Ngozi Okonjo-Iweala, Nigerian Finance Minister,” *The Independent*, May 16 2006. On the role of the IMF, interview with Okonjo-Iweala, Brookings, July 30, 2007 and interviews D, P, B.

buy-back. The third element was establishing regular debt service; Okonjo-Iweala and the DMO established a real if strained dialogue with the Paris Club for the first time since the dark years of military rule, and an “informal, unwritten agreement” was reached to pay only about US\$1 billion of the \$2.2 billion that was due annually. The trick was to maintain this informal agreement in order to establish good faith and create a reasonable track record of the payment while making progress on the economic reform front. This understanding 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 informal debt service agreement. It also allowed Nigeria time to find a way to obtain the amount of debt service reduction it wanted.

The fourth element – demonstrating that Nigeria did not meet IMF and World Bank debt sustainability criteria over the long run – was closely tied to the third element. 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. Given this, the Paris Club was in no mood to entertain debt relief for an oil rich country; this brought the informal and unwritten debt service arrangement under increasing strain. IMF debt sustainability analyses (DSAs) showed Nigerian 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. To counter this, the Nigerians argued that a standard DSA did not adequately take into account price volatility, deal with domestic debt or consider a country’s ability to achieve the Millennium Development Goals (MDGs). According to

Okonjo-Iweala: “The push by the international community to get developing countries to work towards meeting these goals on the one hand while at the same time insisting on debt service seemed contradictory and hypocritical.” In other words, creditor aid agencies and their treasuries often did not see eye to eye, and this had to change. The notion of factoring the MDGs into DSAs was “scary to Treasuries,” as she put it, and “we were warned that this approach would not be accepted by the Paris Club as it could be precedent setting.”⁶ 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 did show that Nigeria’s debt would not be sustainable from this point of view. This Bank study found its way to the G-8 and the Paris Club, and the Nigerians used it to demonstrate that Nigeria would need major Paris Club relief, but it was never made public.

⁶ Okonjo-Iweala, “Nigeria’s Fight for Debt Relief,” pp. 8-10. The price of oil figure is from <http://www.mindfully.org/Energy/2007/Crude-Oil-Uncertainty14feb07f04.gif>.

Since debt relief was “at once an economic but also a supremely political issue,” the fifth element of Nigeria’s debt relief strategy involved shaping the larger international environment, hoping to create a perfect storm. This element came relatively late in the game: “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.”⁷ The Nigerians had already received support from CGD. Now they enlisted the services of Ann Pettifor of Jubilee 2000 debt campaign fame to lobby and create a social movement. For the sixth element the Nigerians realized that Britain would fill the sponsor bill perfectly and was more than willing *as long as* Nigeria lived up to the original deal. Okonjo-Iweala wanted at least 15 months of a track record and would only directly ask for debt relief after Nigeria had succeeded with the reforms for at least a year. This strategy worked and was supported by the important personal connections Okonjo-Iweala and others had developed over their years in international financial circles.

Finally, having a good strategy was a one thing, but you had to know how to use it *and* what to ask for -- substantial debt reduction, yes, but how much, by what method or process? As Okonjo-Iweala pointed out Nigeria was not a HIPC and was not going to become one, despite occasional rhetorical jabs; thus they worked for IDA-only so that Nigeria could get at least Naples terms. So much for strategy; how did it play out?

The Deal is Back in 2003-04: Building and Selling a Track Record

In 2003 the “deal” was 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 noted that “this time I have an economic team they respect.”⁸ After considerable domestic consultation, Okonjo-Iweala and her economic 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, which 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 a serious external reputational problem.

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 got about 55 percent of total revenue. In a highly unusual move, she started publishing in newspapers the monthly allocations of oil revenue from the federation account to states and localities, a move that proved to be very popular with some and extremely unpopular with others.

The New Year brought the first real reform budget, making 2004 the “year of credibility,” both with the creditors and with Nigerians themselves. 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. At the Davos meeting in late January 2004, Okonjo-Iweala had a chance conversation with Nancy Birdsall, President of CGD. They talked about Nigeria’s campaign for major Paris Club debt relief and that it was not going well. Okonjo-Iweala said Nigeria’s lack of IDA-only status

⁷ Okonjo-Iweala, “Nigeria’s Fight for Debt Relief,” pp. 10-13.

⁸ “First Term Frustrations Responsible for Reforms – Obasanjo,” *This Day*, July 31, 2003.

was a real problem, and she felt that it was being used as a convenient excuse that unsympathetic creditors and international financial officials could hide behind. Birdsall asked if CGD could be of any assistance, and Okonjo-Iweala gladly accepted the offer. To work with Nigeria on its debt relief effort was a brave task for CGD because much of official and think-tank Washington believed that debt reduction for Nigeria was a non-starter at best, *both* economically and politically, and ludicrously unjustified at worst. In fact, CGD was advised not to go out on a limb that was going to get sawed off.

For three days in April 2004, Okonjo-Iweala and her team had discussions with French government and business leaders and with the Paris Club Secretariat, in part to brief them on the new economic reforms. Nigeria had paid only \$251 million in debt service in 2003. But as we have seen, Okonjo-Iweala obtained an informal agreement with Paris Club that Nigeria would pay \$1 billion dollars for 2004 as against \$2.2 billion dollars due.

Help from the Center for Global Development

In Washington in late April 2004, people from CGD met with Okonjo-Iweala and Mansur Muhtar, the head of the DMO; she explained that they had not been making much progress with the Paris Club. They knew the IMF, World Bank, and donor world well, but needed credible independent backup to assess the major options and obstacles. Nigeria needed to figure out *how* debt relief could be obtained under existing rules, as vague as they sometimes were. With Nigeria's IDA status still a sticking point, CGD offered to take a look at this issue. Nigeria had graduated from IDA in 1965 and partly returned as a "blend" in 1989. To the Nigerians the IDA-only rules appeared unclear and very political. Besides being a World Bank classification, the



IDA-only obstacle was a Paris Club rule about whether a country could get Naples terms, and, although Nigeria had some characteristics of a HIPC country, 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, Nigerian politicians, and occasionally still from high Nigerian officials. When CGD ran its own analyses, it became clear that indeed Nigeria should not be a "blend" country, but should have IDA-only status. The Center's strategy was to avoid politics and stick to a solid technical case. It wanted to get around the common gut reaction of "debt relief for Nigeria, are you insane, forget about it." CGD had to make a case and make it in public. CGD had a draft paper 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. The paper, "Double Standards, Debt Treatment, and World Bank Classification," was completed in early September, and in early October CGD held a seminar to discuss it and the proposed change to IDA-only status. On November 1, just before the U.S. elections and the major Paris Club deal for Iraq, CGD formally issued "Double Standards" on its website.⁹

"Double Standards" made the basic argument for fair treatment. It demolished the judgment that Nigeria had a significantly worse policy record *prior* to its economic reform efforts 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-graduates" – "blend" countries that had

⁹ Todd Moss, Scott Standley, and Nancy Birdsall, "Double Standards, Debt Treatment, and World Bank Classification: The Case of Nigeria," Working Paper 45, CGD, September 1, 2004, <http://www.cgdev.org/content/publications/detail/2741/>.

returned to IDA-only status – and three African IDA-only oil producing countries. It concluded that Nigeria deserved reclassification. 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.” CGD pointed 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 it for political reasons. Hence the fairest way to go was to treat Nigeria like other low-income countries.

One of “Double Standards” key arguments was that with the debt problem solved the economic reforms would be easier to do and sustain. It is possible to argue that this argument is not valid. One could argue that Obasanjo only did the reforms *because* he had a debt problem, which was a political problem for him, and he finally realized he was going to have to live up to the “deal” if he wanted to solve it. The Paris Club debt and reputation overhangs were the primary cause of Nigeria’s economic reform effort, as debt blocked access to more external resources. 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” assumed (1) that Obasanjo’s main concern was reforming Nigeria’s economy in a major and lasting way and (2) that Nigeria’s political barons would be unable to kill economic reform. 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 certainly not.

More Track Record and Paris Club Bumps

In mid 2004 Nigeria requested that the IMF informally monitor the home-grown reform effort on a quarterly basis. 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 hoped the Fiscal Responsibility Bill would quickly become law and be implemented and that Nigeria would use its oil windfall revenue wisely. Oil reached \$40 a barrel in the first half of 2004. Fiscal restraint had only started to be real at the end of 2003 and was only roughly sustained in the first half of 2004. At the 2004 Annual Meetings of the Fund and the Bank in Washington some Paris Club creditors approached Okonjo-Iweala asking for increased debt service because of increased oil revenue. Okonjo-Iweala pushed back, and the Chairman of the Paris Club suggested a special session of the Club, where she could explain what Nigeria was doing. This unusual meeting took place in December 2004.

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 as Central Bank of Nigeria (CBN) reserves and not spent. Some Paris Club countries were now demanding debt service beyond the \$1 billion of the \$2.2 billion due in 2004; with arrears payments it would be about \$5 billion.

By the end of 2004 Okonjo-Iweala and others were getting frustrated that the IDA-only issue was not getting much traction. 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. Thus, Nigeria found itself in the tricky (and some might say, ironic) position of arguing for significant debt relief in the middle of a major oil windfall and while trying not to increase its annual partial payments. A real source of added tension was the fact that Nigeria was servicing its private

external and international financial institution debt. About this time, 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 allegedly bolster the political legitimacy of the reform effort.

[2005: The “Year of Africa” and Nigeria](#)

As Britain’s G-8 “Year of Africa” opened in January 2005, NGOs intensified their demands for debt relief generally and specifically for Nigeria leading up to the G-8 Gleneagles summit in July. Okonjo-Iweala and her team worked to reinvigorate Nigeria’s campaign. She was pleased with what CGD had been doing but was worried that the IDA-only reclassification seemed stalled. In late January 2005, she said Nigeria is “hobbled by misconceptions, which are understandable given past decades of misrule and instability.” If Nigeria were paying its Paris Club debt service in full while trying to achieve the MDGs its debt was unsustainable. She did note, however, that “the simple fact of being poor will not be enough to make our case.” Some Nigerian officials continued to claim that Nigeria should be a HIPC, while others talked about debt reduction using Evian terms. Fearing that the IDA-only change was dead, Okonjo-Iweala announced in early February that Nigeria was *not* seeking HIPC status but would instead work for relief under Evian terms. She also said that Nigeria was now tracking poverty spending, and Obasanjo was intent on passing the Fiscal Responsibility Bill. At the same time, the British reasserted their support for “the deal,” although one British official noted that “all those other creditor nations are a lot more skeptical.”¹⁰

But Okonjo-Iweala also needed the support of both the IMF and the U.S. for a debt reduction deal. She wanted to use the new formal policy monitoring instrument that was being discussed by the IMF. CGD helped to facilitate communication between Nigeria, the U.S. and the IMF, allowing Okonjo-Iweala the chance to make their case. Gordon Brown found very little favorable response to his arguments for major debt reduction for Nigeria at the G-7 meeting he chaired of finance ministers and central bankers in London, although progress was made on proposals for major new multilateral debt relief for HIPC countries. In mid March 2005, the French Ambassador to Nigeria declared that Nigeria’s debt was sustainable given the country’s resources. Creditor disgruntlement was not playing well in Nigeria, and in early March 2005, Nigeria’s House of Representatives unanimously passed a non-binding resolution demanding that Nigeria stop paying its foreign debt; the resolution mentioned Poland, Yugoslavia, Côte d’Ivoire, Pakistan, Egypt, and Iraq. The same month the IMF visited Nigeria for its annual Article IV consultation, and one of its main findings was that Nigeria’s external debt was sustainable at current and prospective high oil prices.

[More Help from CGD: A Second Proposal](#)

Okonjo-Iweala wanted to reignite public discussion of the IDA-only issue. So CGD wrote a four-page “CGD Brief” based on “Double Standards.” It was released in March and copies were sent to all World Bank Executive Directors and to U.S. and U.K. Treasury staff. Some at CGD feared the IDA reclassification was indeed dead and now believed Nigeria’s best hope was an Evian treatment, as politically difficult as that might be. At this point CGD switched to working

¹⁰ Michael Peel and David White, “Nigeria sets sights on reduction of its Dollars 34bn debt,” *Financial Times*, February 4, 2005; 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.

on a second major contribution – a discounted buyback proposal that CGD senior fellow Todd Moss had come up with. If Nigeria was not going to be eligible for Naples terms, how else might Nigeria get major debt reduction? Given the size of the oil windfall that the Nigerians had saved, Moss argued that there was a window of opportunity for a compromise that could meet the needs of both sides – a discounted debt buyback up front 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 at the low end and the Iraqi Paris Club deal at the high end. 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. Moss said that such a deal would be effectively a Naples-like debt reduction or better. This could even be read to mean a deal with major creditors outside the Paris Club, as unlikely as that might seem.¹¹

The Paris Club first authorized buybacks, or prepayments as it prefers to call them, in June 2004, and it was in the process of discussing such deals for Russia and Peru, but the Paris Club had never considered a discounted buyback before and its Secretariat resisted the idea. It was rumored that the French were upset that a buyback deal might even vaguely be considered outside the Paris Club or at least outside its rules for low-income countries and thus had decided to support IDA-only for Nigeria. Clearly IDA-only was back on the table because it would make Naples terms possible. In addition, an unexpected synergy seemed to be developing between CGD’s two proposals that might help to move things along. CGD had been thinking one or the other, but now there was a possibility of getting *both*.

Generating Support Abroad – Another Front of the Debt Campaign

Ann Pettifor, the British activist of Jubilee 2000 fame founded Advocacy International (AI) to work with poor country governments and organizations to promote positive development. Late in 2004 Nigeria brought Pettifor’s firm on board to create and build an international campaign that would support major debt relief for Nigeria. AI maintained close ties to a wide array of debt and development NGOs. AI launched a New Start Nigeria campaign, with its own website. In another savvy endeavor, a delegation of National Assembly members made two multi-country tours, including stops in Washington, London, and Paris to learn and talk about debt while quietly floating the possibility of repudiation. At each stop the legislators met with local official, legislators, NGOs, think tanks and members of the Nigerian diaspora. AI helped to coordinate this tour. The second trip included a meeting with Xavier Musca, Chairman of the Paris Club, and other senior members of



¹¹ On the buyback proposal; see Todd Moss, “Resolving Nigeria’s Debt Through a Discounted Buyback,” CGD Note, CDG, April 1, 2005: <http://www.cgdev.org/content/publications/detail/3223/>. 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 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 were demanding higher debt service payments 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 Paris Club Secretariat. One of the latter discouraged them from talking about repudiation, indicating that such talk might lead it to stop considering debt reduction options for Nigeria.¹²

Towards a Deal in Mid 2005

By late May 2005 CGD's two ideas had indeed become bundled together in negotiations among the G-8 creditors, and also with the IMF and 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 were not going to fly alone for them and others. In short, the creditors had to agree about the debt before they would allow IDA-only. The saved oil windfall made all of this possible, but there were still creditor concerns a plenty. 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. Nigeria also still lacked a formal agreement with the IMF. DMO's Muhtar insisted that this might prove to be an insurmountable barrier unless the IMF moved on the PSI. The U.S. was generally amenable, but the greatest reservations came from Germany, the Netherlands, and Japan, while others such as France, Italy, and Russia were not ready to support a major debt reduction deal. Yet the synergies between the two CGD proposals began to set the parameters of the debate over how big a discounted buyback might be. The Nigerians were talking up the high end – 70 percent or more. Many of the G-8 creditors were on board with the idea of a buyback, but certainly did not see a 70 percent discount. The French originally talked about 30 percent, but 50 percent now seemed more likely.



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., were pushing for a deal before the G8 meeting in July. Some of the major G-8 countries wanted to get Nigeria settled before the big unveiling at Gleneagles of what was to become the MDRI, and for this 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. In early June the World Bank quietly reclassified Nigeria as IDA-only, but made no formal announcement. At the G-8 finance ministers meeting in London June 10-11, G-8 creditors announced they had agreed on the basic outline of a major new debt relief proposal for HIPC countries, but nothing concrete for Nigeria. The fact that the G-8 did not announce an expected debt deal for Nigeria sent its media and politicians into a tizzy.

As it turned out, however, the G-8 finance ministers *had* worked out a fairly concrete deal for Nigeria, but they refrained from announcing it because it had not been presented to the rest of the

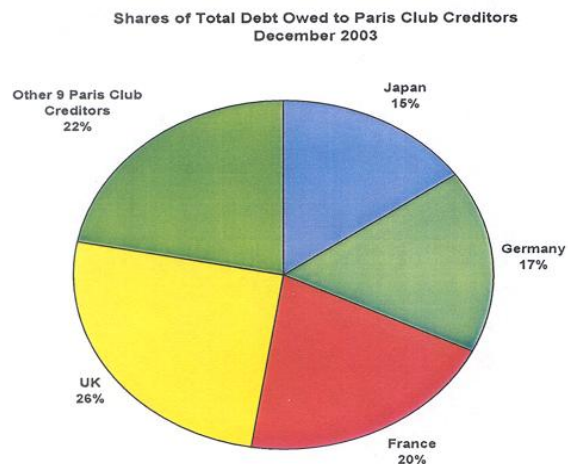
¹² George Soros also played a role in building support for Nigeria in the media and business community; he helped, for example, to arrange, an interview meeting for Okonjo-Iweala with the *New York Times* editorial board where she made the case for the economic reforms; this “very grueling interview” led to an editorial that was carefully supportive of the 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” Nigeria’s efforts; confidential correspondence J. The pictures on this and the previous page are from www.newstartnigeria.org.

Paris Club. Getting this deal was a tough sell; Gordon Brown had to negotiate far into the night while keeping in touch with Okonjo-Iweala, and she in turn with Obasanjo. 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, vigorously insisted on this. Then Nigeria would get a roughly three-quarters reduction on the remaining amount via a discounted buyback, resulting in Nigeria's exit from the Paris Club with a total overall reduction of \$18 billion, which amounted to 60 percent of Nigeria's total Paris Club debt of \$30.1 billion. After tough negotiation basic agreement was reached. Creditors 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. The creditors would get some money up front, but Nigeria would need continued intensified surveillance by the IMF using a PSI, if and when it was adopted by the Fund.

A meeting of the Paris Club creditors, without Nigeria, was held in Paris the following week, and the non-G-8 members of the Club staged a major 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 norms of consultation, discussion, and ultimately consensus, including being able to discuss the proposed deal with their own governments. A fait accompli was simply 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 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.¹³

The Paris Club did reconvene to discuss Nigeria on June 29, 2005 in Paris. On the 28th Jack Snow, the British foreign secretary, was still calling his counterparts trying to convince them to accept the G-8 proposal. It was frustrating work as Austria, Denmark, the Netherlands, and Switzerland, among others were still raising strong objections. It was not at all clear that such a deal would be accepted, even in principle. But after the 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 was the first public reference of the change in classification. The Club welcomed



¹³ The Figure "Shares of Total Debt Owed to Paris Club Creditors" is from CGD, "Double Standards," p. 28.

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. The deal "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 PSI with the IMF." This was an agreement in principle for a comprehensive exit deal.¹⁴

It was the largest African Paris Club deal ever, the largest ever debt write-off after Iraq -- larger than both Poland and Egypt in 1991, and the first ever buyback at a discount. Russia and Peru had only just achieved buybacks at par value. President Obasanjo gave a major speech in which he called it a "dividend of democracy," a "total exit, total freedom from Paris Club debt." He talked about Nigeria's economic reform program "that was *home grown but globally recognized and endorsed*."¹⁵ Beyond the issue of the sustainability of the economic reforms, corruption remained the primary sticking point. Skeptical creditor country officials were also worried about justifying debt relief to Nigeria to *their* taxpayers.

Yet the next several months would demonstrate that the game was, in fact far from over. 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. Thus, it was not just a matter of "technical details," although details there certainly were. To assist them with these details and advise them on strategy, as well as facilitating communication with Paris Club countries and the Club's Secretariat, 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. An IMF team arrived in Nigeria in August to draw up a PSI proposal 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 CBN 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 urging of the IMF, which Okonjo-Iweala defended as necessary to prevent macro-economic distortions that, of course, would have also weakened Nigeria's bargaining position with the Paris Club.

The Final Deal

On Monday, October 17, 2005, the IMF executive board approved a two-year PSI for Nigeria based on an 18-month track record of economic reform. The PSI is a classic example of studied ambiguity. According to the Fund, it was for countries "*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." It was not clear that Nigeria matched these presumed terms of a PSI. But the smoke and mirrors built into Nigeria's PSI served the

¹⁴ 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.

¹⁵ Olusegun Obasanjo, "Debt Relief for Nigeria: A Dividend of Democracy," *This Day*, June 30, 2005, emphasis added

political interests of Nigeria, the IMF, and the Paris Club; in this sense, it was a very useful governance innovation.¹⁶

The final Paris Club meeting started the next day, Tuesday, October 18 and concluded about 3:00 a.m. on Thursday the 20th morning after 36 grueling yet tedious hours of nearly non-stop negotiation with almost no sleep. One member of the Nigerian delegation said that Okonjo-Iweala “negotiated with them all night” and she told him, “Those guys thought I will get angry. But I was too tired to get angry.” The smaller creditors, still quite upset with the G-8 for hatching a deal in early June without consulting them, kept raising issue after issue, trying, as the same Nigerian official put it, to “get their pound of flesh, but Okonjo-Iweala held her cool, fended them off, held her ground.” Ann Pettifor, who was there for the whole time, 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.” These demands would



have had the effect of pushing the overall debt reduction below 60 percent, and Okonjo-Iweala told them 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. In fact, a delegation from the National Assembly was present for much of the negotiations. Muhtar said that the creditors



“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 detail;” he said “it was an iterative process involving careful scrutiny of the details; it has been a difficult, tedious, and sometimes frustrating process.” The head of the German delegation provided a creditor perspective: “We didn’t sleep a lot... 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.”¹⁷

¹⁶ IMF, “IMF Executive Board Discusses Policy Support and Signaling in Low-Income Countries,” Public Information Notice 05/144, October 14, 2005, emphases added.

¹⁷ 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 a melodramatic but powerful, “diary of events” of the meeting 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: “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.” Also 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/>; conversations with Ann Pettifor, Cambridge, England, September 21-22, 2007; and Paul Vallely, “Transcript of interview with

The long process of signing the Agreed Minute by the head of each creditor delegation, in the official French and English versions, began just after 3:00 a.m. Thursday morning the 20th and was completed by 4:00. In a closing statement Ambroise Fayolle, a senior Paris Club official who was in the chair, told Okonjo-Iweala, “We are extremely convinced that without your involvement and commitment this would not have been possible,” and in turn she reassured him of Nigeria’s determination to continue on the path of reform.

Okonjo-Iweala was particularly grateful for the support of the British, the IMF and the World Bank. The IMF was absolutely central to the deal. During the negotiations on Wednesday evening, 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... We really have to thank” the IMF. Finally, she made a point of thanking the Lazard Frère advisor who had stayed for the full 36 hours of negotiation. Before she left the Finance Ministry she said, “I do not wish that any Nigerian or set of Nigerians will ever come here to face this again.”¹⁸

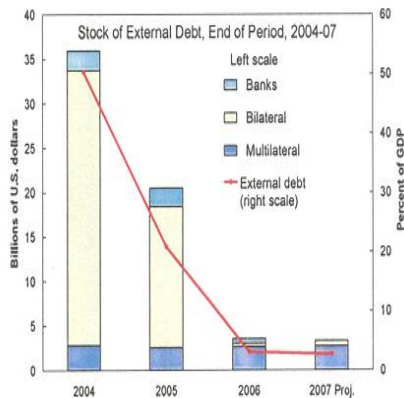
The press release stated that the deal would be implemented in two phases: an immediate payment of all arrears on all categories of debt, and, after the PSI review in early 2006, a buyback of the remaining eligible debt for a estimated debt

cancellation of \$18 billion “representing an overall cancellation of about 60%” of its \$30.1 billion Paris Club debt. 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.”¹⁹ Debt campaign NGOs generally reacted negatively to the deal and launched a campaign to get the creditors to return Nigeria payments to it as aid; the creditors refused.

Mrs Ngozi Okonjo-Iweala, Nigerian Finance Minister,” *The Independent*, May 16 2006: <http://news.independent.co.uk/world/africa/article484595.ece>. Ann Pettifor obtained permission to have an Advocacy International film crew at the meeting, a highly unusual event; it was allowed to film non-closed doors aspects of the meeting; the quotes from Muhtar and the head of the German delegation are from this video footage. 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 had helped to mitigate these tensions at the G-8 level, but the Germans remained difficult right through the final Paris Club meeting, where the head of the German delegation also said, “We are creditors not debtors” and pointed out that “in Germany we have to explain debt forgiveness to an oil country;” from video of the Paris Club proceedings taken by Advocacy International, Wednesday, October 19, 2005.

¹⁸ From video of the Paris Club proceedings taken by Advocacy International, Wednesday, October 19-20, 2005. Except for the picture of the French Finance ministry, the pictures on these two pages and the video of the Paris Club meeting were provided courtesy of Ann Pettifor, for which I am very grateful.

¹⁹ 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/communiques/nigeria9937/viewLanguage/en/downloadFile/PDF/prnigeria201005.pdf>.



Nigeria paid off its arrears right away, but by late February 2006 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 IMF staff completed the PSI review on March 31, recommending that the Executive Board approve it, which it did on April 17, but it warned about the necessity of continued economic reform. The completion of the first PSI review triggered Nigeria's final payment, which was made on Friday, April 21, 2006;

exit had been achieved. By this time Nigeria's foreign exchange reserves had reached \$36.1 billion.

Okonjo-Iweala's assessment of the October 2005 Nigeria debt deal given at the June 2006 celebration of the Paris Club's 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 happy with the deal we got...

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...[and] the MDGs are the new definition of debt sustainability....

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?²⁰

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

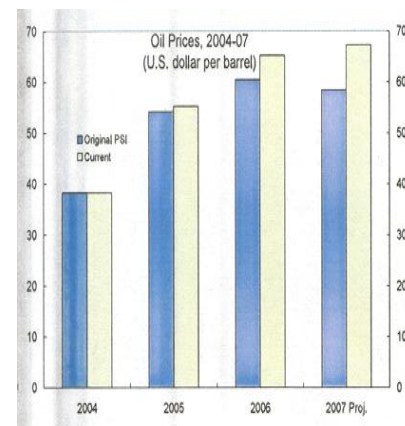
Many of the Paris Club countries remained worried about the sustainability of the economic reform effort. Okonjo-Iweala was also well aware of the potential danger to reform sustainability; she spoke of the need to lock in what Nigeria had already achieved. On June 21, 2006, only 65 days after the final payment to the Paris Club, Obasanjo announced a cabinet reshuffle, part of which moved Okonjo-Iweala from Finance to the Foreign Ministry, with no reason given. 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. Many viewed these changes as linked to revenge by political barons and cronies who had more leverage again now that Obasanjo was lobbying for a third term and spending lots of money to get it. On

²⁰ 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; see: http://www.clubdeparis.org/cdp/sections/50-ans/anglais_071206web-pdf/downloadFile/file/anglais_071206web.pdf?nocache=1170431715.92. 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.

August 2, 2006 while she was in London negotiating a resolution of remaining private external debt issues, word filtered out that she had been removed as head of the Economic Management Team. She returned to Nigerian and resigned. By October 2007, Okonjo-Iweala had come full circle. After a stint at the Brookings, Robert Zoellick, the new World Bank president, appointed her to a revamped senior management team as one of the Bank's Managing Directors.

Conclusion

It is both an irony and a central fact of this story that Nigeria obtained major debt relief when oil prices were 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 magnitude 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 by the British in 1999? 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."²¹ A leading Nigerian legislator who had been at the Paris Club meeting in October 2005 noted 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."²²



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 helped to soften the preexisting debt regime and put new values and policy ideas on the table. In 2003 President Obasanjo had to decide to finally try to live up to his end of "the deal" after his constant demands went nowhere. 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 in turn needed genuine cooperation from the IMF and the World Bank, the efforts and leadership of a major power, and new ideas and analysis from well connected parts of the think tank world, such as the CGD, and, finally support and pressure from international NGOs and civil society networks working on debt.

Since the rules of the nested debt games, both domestic and international, that the Nigerian 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 wheels and keep them moving. Half of the oil windfall was saved, helping the reforms along while pleasing the

²¹ "State of Nigeria's Economic Reforms," Brookings, March 23, 2007, pp. 11

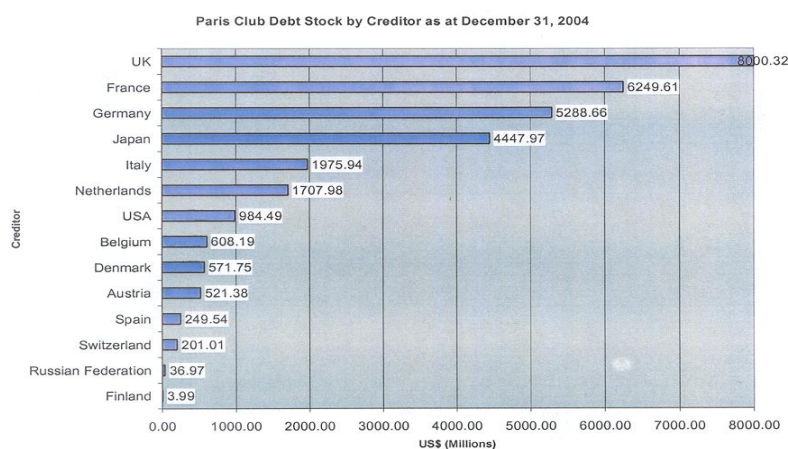
²² Farouk Lawan, a key member of the National Assembly delegation at the final Paris Club meeting; from video of the Paris Club proceedings taken by Advocacy International, Wednesday, October 19, 2005. The Figure "Oil Prices 2004-07" is from IMF, "Nigeria: Fourth Review under the Policy Support Instrument," September 28, 2007, p. 17; part of IMF Country Report No. 07/353, October 2007.

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 a little bit more. 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 in March 2007: “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.”²³ But what about building and sustaining better institutions? Nigerians would no longer have “colonialist” creditors to hurl vituperative rhetoric at; they now stood on their own with their oil wealth in front of them. Okonjo-Iweala and her team proved themselves to the creditors; now other Nigerians had to keep proving it to themselves.

One never knows at the time when key historical tipping points take place – whether it be Korea, Brazil, even Indonesia, much less Nigeria, but one can hope that Nigeria’s stunning 2005 debt deal was just such a tipping point for a country that has for so long been a powerful source of cynicism.

Appendix

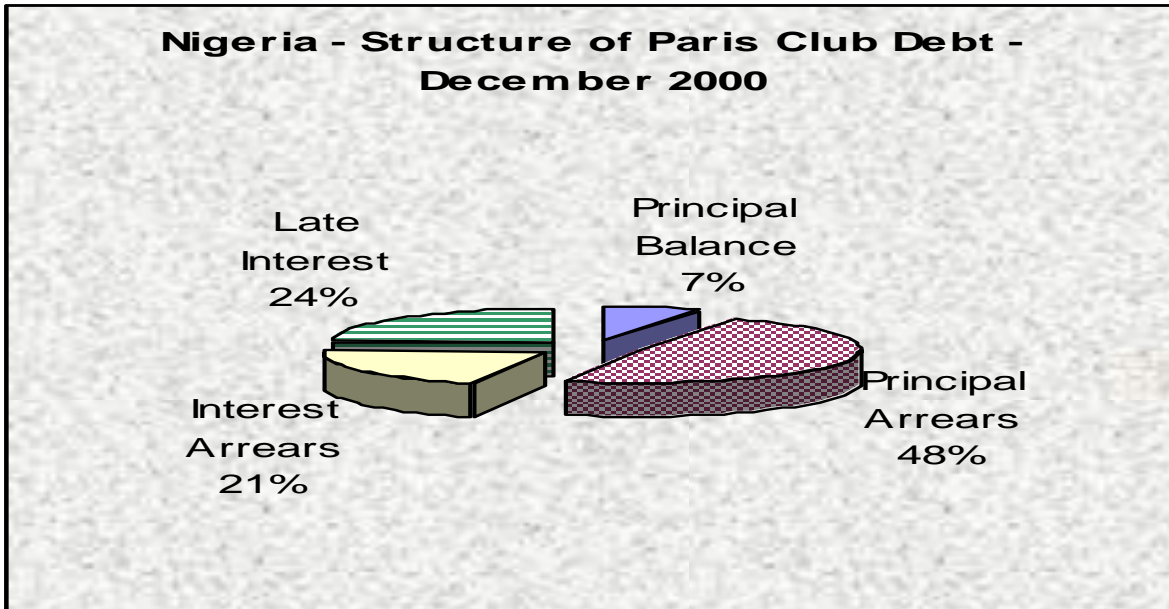
Figure 1



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

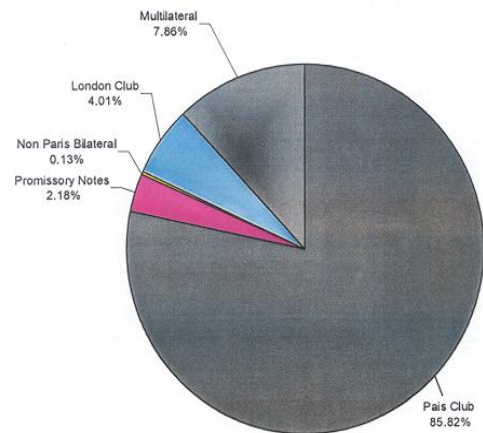
²³ “State of Nigeria’s Economic Reforms,” Brookings, March 23, 2007, p. 27, emphases added.

Figure 2



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

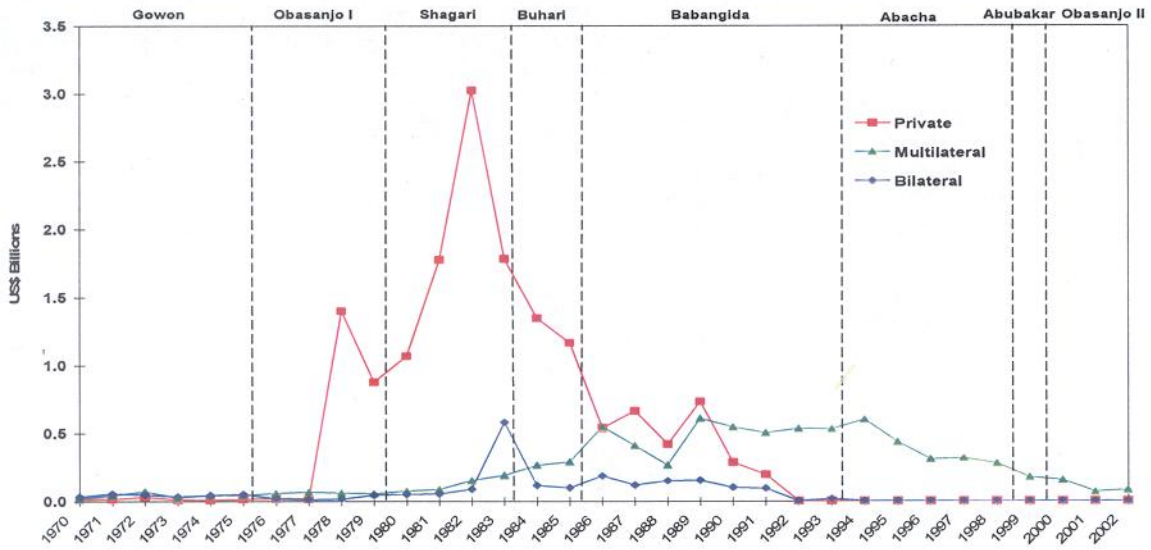
Figure 3
*External Debt Outstanding by Creditor Category
As At December 31, 2004*



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

Figure 4

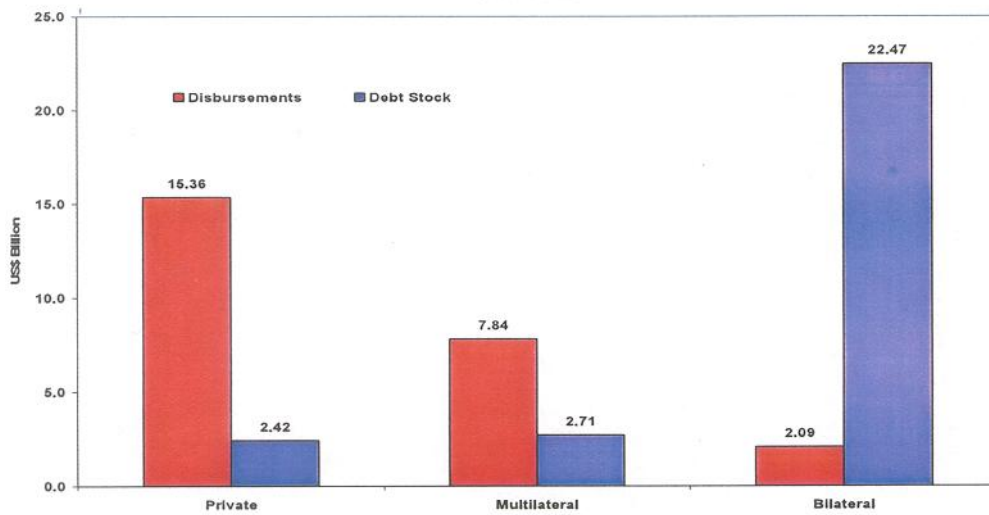
**Annual Disbursements to Nigeria by Creditor
1970 to 2002**



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

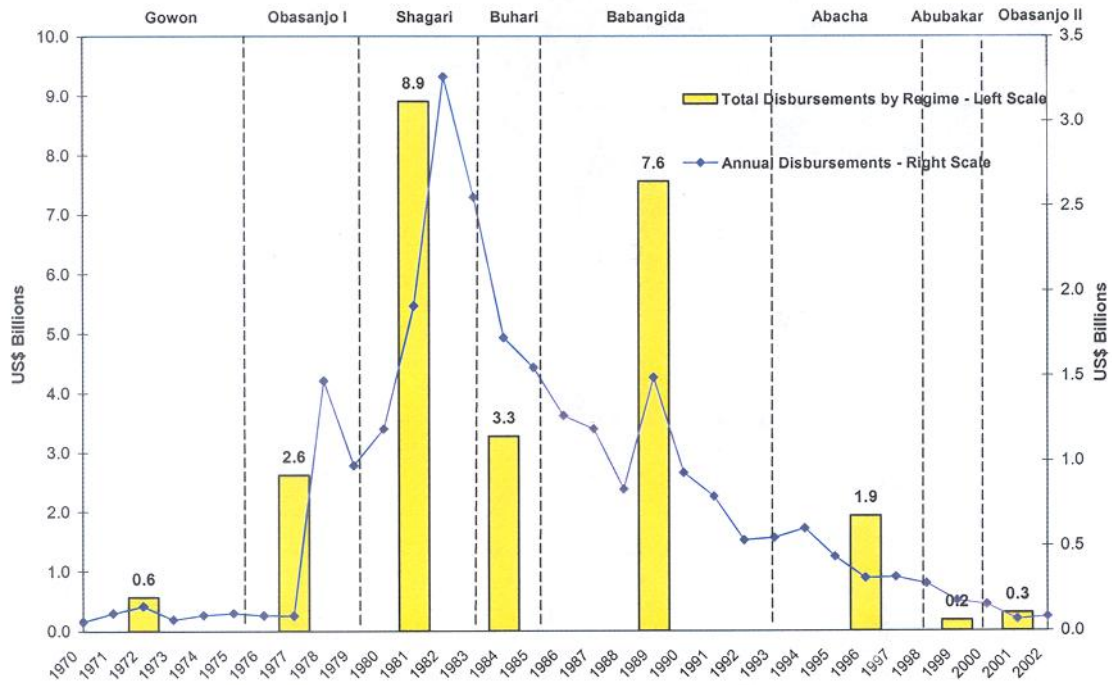
Figure 5

**Disbursements versus Debt Stock Accrued
1971 - 2002**



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

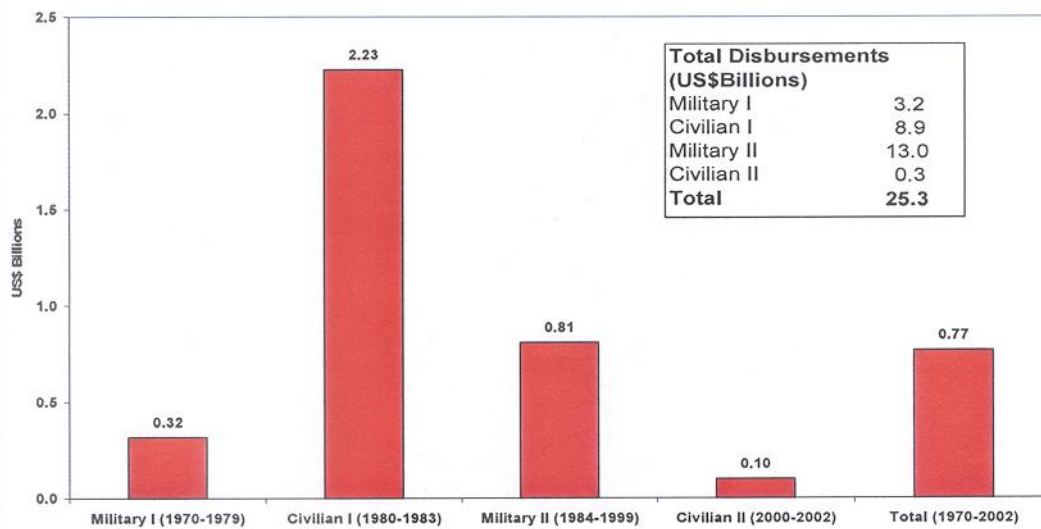
Figure 6
Disbursements to Nigeria



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

Figure 7

Average Disbursements per Year
1970 to 2002



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