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JUBILEE DEBT CAMPAIGN

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Justice for Nigeria:

Why the UK should return Nigeria's £1.7 billion to fight poverty

Summary

Nigeria, one of the poorest countries in the world, is in the process of giving a huge sum of money to the richest countries. UK organisations which are members of the Jubilee Debt Campaign are urging the UK government to return its share of this money to Nigeria to fight poverty.

- **Nigeria is making a huge payment of \$12.4 billion (£7 billion) to the wealthiest countries in the world.** The payments, being received between January and April 2006, are more than the debt deal agreed by the G8 in 2005 will deliver for poor countries in a decade.
- **The UK is receiving twice as much from Nigeria as DFID gave to Africa in 2005.** The UK share is £1.7 billion, one quarter of the total. According to DFID figures, this amount could save 4.2 million lives if spent on fighting poverty. It is unacceptable and inexcusable for it instead to go to the UK Treasury.
- **The payment has come as part of a significant and long overdue debt cancellation deal.** The Paris Club creditors have agreed an otherwise momentous cancellation of \$18 billion of Nigeria's debt. BUT as part of the terms of the deal, the remaining \$12.4 billion must be paid off upfront.
- **Nigeria is funding the payment using money earmarked for fighting poverty and securing the economy against shocks.** This money comes from the windfall gained from high oil prices.
- **Nigeria is one of the poorest countries in the world.** One fifth of Africa's population are in Nigeria; two thirds of Nigerians, over 80 million people, live on less than 60p per day. One in five Nigerian children dies before its fifth birthday.
- **The new democratic government of Nigeria is committed to poverty reduction.** The World Bank and UK government have praised its action to tackle poverty and fight corruption. All funds from debt relief are to be used for reducing poverty and monitored by the World Bank-supported Virtual Poverty Fund.
- **Nigeria has already repaid more than it originally borrowed.** The current huge debt built up through huge fines and interest on arrears. Besides which, many of the original loans were dubious. We argue that these 'debts' are not legitimate.
- **Campaigners internationally are calling for Nigeria's money to be returned.** This includes organisations in Nigeria, the UK and other creditor countries; US congressmen; belief leaders such as Archbishop Tutu; economists including Professor Jeffrey Sachs; and grassroots campaigners.
- **The UK is Nigeria's biggest creditor and has supported debt cancellation and justice for Africa in 2005.** It must now make a stand by returning Nigeria's money for it to spend on fighting poverty.

"Twelve billion dollars in Nigeria would have gone a long way towards saving children, immunisation, healthcare, all kinds of things. But the donors got greedy. They said, 'Take the oil revenue that you have responsibly been saving up, and instead of investing it in your needs, give it to us.' To the donors I say, 'Return that money. Where is it needed? Not in our coffers.'"

Jeffrey Sachs, November 2005

What was Nigeria's debt situation?

At the end of 2005, Nigeria's total external debt was \$35.9 billion, the largest debt burden in Africa. The vast majority— over \$30 billion – was debt to 14 rich governments who are part of the 'Paris Club' group of creditors. This debt ballooned from original loans of less than \$17 billion, despite Nigeria having already repaid around \$20 billion. The UK was the single biggest creditor, with debts totalling \$8 billion (£4.5 bn), more than one fifth of the total.

In recent years, Nigeria has been paying approximately \$1.8 billion each year to service these debts: that is three times its education budget and nine times its health budget. Of this, around \$1 billion was being paid to Paris Club creditors. However, the total service due was even higher, around \$3 billion a year in total: the unpaid amounts have been continuing to accrue interest and build Nigeria's debts even as it was paying them off.

In the past, Nigeria has always been excluded from debt cancellation schemes – such as the Heavily Indebted Poor Countries initiative – despite both its staggering debts and its dire poverty. It has had four previous 'rescheduling' agreements with the Paris Club. Through these, huge sums in fines and late interest imposed on Nigeria by creditors over the years were consolidated into its ever-growing debt.

“80 to 90 million Nigerians live in poverty; only India and China have more poor. Whether Africa attains the Millennium Development Goals depends on Nigeria... Donor and creditor support is critical to maintain the momentum of reform.”

Hilary Benn, October 2004

What does the 2005 deal offer?

Overall the deal will clear the whole of Nigeria's debt to the Paris Club, through both cancellation and pre-payment. This clearance in itself is good news, freeing Nigeria from an enormous debt burden and reducing debt service payments by around \$1 billion a year. However, we have serious concerns about the amount that Nigeria has to pay in this deal – especially given the dubious origins of much of the debt. Nigeria has also had to agree to have its economic policies monitored by the IMF.

The deal cancels 60% (\$18 billion) of Nigeria's debt to the Paris Club creditors. This is equivalent to 50% of Nigeria's total external debt. **BUT** Nigeria is paying back upfront the remaining 40% of Paris Club debts: \$12.4 billion or £7 billion. Creditors are receiving their share of the \$12.4 billion payment in two instalments: the first in January 2006, the second in March 2006. This payment from Nigeria to the rich world is more than the extra debt cancellation agreed by the G8 in 2005 will deliver for poor countries in a decade.

The UK's share of the debt is £4.5 billion (\$8 billion): it is cancelling £2.8 billion (\$5 billion) but between January and March 2006 will receive £1.7 billion (\$3 billion) from Nigeria. This is a substantial sum coming in the wrong direction: it is twice as much as DFID gave to the whole of Africa in 2005. We are calling on the UK government to return this money to Nigeria to spend on its own needs such as health, education or infrastructure.

How does this compare to other debt deals?

The amount Nigeria is having to pay off is huge – as a proportion and in absolute terms – even when compared to cancellation agreements for less poor countries. For instance, in November 2005 the Paris Club agreed to cancel 80% of Iraq's debt (leaving the other 20% to be paid off over 23 years), while Nigeria has been granted only 60% cancellation.

The HIPC initiative includes a number of countries which are less indebted and less poor than Nigeria. (Nigeria was excluded from consideration probably for cost reasons, although technically on the grounds of a technical classification by the World Bank that is now no longer in place.) HIPC results in 100% cancellation of debts to bilateral creditors, and – since the 2005 G8 agreement was accepted internationally – also to major multilateral creditors. Nigeria's deal is therefore considerably less generous.

“Our debts seem to be perpetually on the increase. It is a sore that has refused to heal. The more we pay, the more we seem to owe. And our debt has been paid many times over.”

Rachel Ordu, Nigerian Centre for Economic Growth and Development, January 2005

Why shouldn't the debts be repaid? Where did they come from?

We argue that these remaining 'debts' are not legitimate. Creditors need to accept responsibility for their own decisions – to guarantee reckless lending or impose huge fines and steep interest rates – rather than forcing this burden onto Nigeria's people.

Firstly, many of the original loans to Nigeria were highly questionable. The Director General of Nigeria's Debt Management Office has said that most were fraudulent. Many were made during military dictatorships – including by banks that would have known that some amounts never even reached Nigeria – and often for useless projects. One recent study of 63 projects funded by foreign loans found that 75% of the funding surveyed had gone to failed projects. The debts to the UK government came from commercial loans and exports guaranteed by the Export Credit Guarantee Department (ECGD) during the 1970s and 1980s. The origins of these are not clear: ECGD has said that it “would not be possible” to identify the original loans or projects through which Nigeria incurred debts to the UK. It has stated that many of the original records would have been destroyed, and indeed ECGD may never have been party to many of them.

Secondly, the outstanding amount is now made up not of principal repayments, but of interest and fines mainly imposed during past dictatorships. Nigeria has in fact already repaid more than it borrowed: around \$20 billion on original loans of \$17 billion. Yet it has ended up 'owing' over \$30 billion. These so called 'phantom debts' were consolidated into Nigeria's debt during four previous rescheduling agreements with the Paris Club. In mid-2003, nearly 60% of Nigeria's outstanding debt to the UK was classed as 'moratorium interest'.

“The truth is that if we are serious about development in Africa, the debt burden must be eliminated. Africa will not develop or make progress when its meagre resources are sucked away by debt servicing. To put it bluntly, penalties, interests and all sorts of questionable rescheduling are strangulating our economies and peoples. Our creditors should deal with us with some humane consideration, compassion and true commitment to our development objectives.”

President Olesugun Obasanjo of Nigeria, October 2004

How can we be sure that funds from debt relief won't be lost or misused?

Nigeria has had serious problems with institutional corruption. Fraud and corruption flourished under dictators in the past – and was fed by loans made during the dictatorships which now contribute to the 'debt'.

The new Nigerian government is clearly committed to fighting corruption. Since coming into power in 1999, it has instituted serious structural change in order to punish corruption and prevent its recurrence, not least through a dramatic increase in transparency and monitoring. The UK government has “commended” Nigeria for this progress. The World Bank President Paul Wolfowitz said in September 2005 that Nigeria's ministers “have demonstrated a strong commitment to fight corruption.... I think nothing stands in sharper contrast to the abuses of the Abacha regime than the transparency and willingness of this Nigerian government to commit funds to the poor.” He also described Nigeria as setting a “good example” by which he hoped “other countries will be inspired”. This progress must be supported and encouraged.

The Nigerian government has committed to spending all funds from debt relief on poverty reduction, and has put in place mechanisms by which this spending can be monitored – not least by Nigerian civil society. All spending related to the Millennium Development Goals, including funds from debt relief, is tracked through the Virtual Poverty Fund, a monitoring system supported by the World Bank.

“We think it is inappropriate to accept this payment from Nigeria given the social crisis the country is facing.”

Open letter from 20 US Congressmen and women to the US Treasury, January 2006

Isn't Nigeria an oil-rich country? Does it need this money?

Nigeria is home to one fifth of all Africans, and is a desperately poor country: two thirds of Nigerians live on less than \$1 a day and one in five Nigerian children die before their 5th birthday. Income per head is below the average for low-income countries. Nigeria has the third highest number of people living with HIV / AIDS of any country in the world. In late 2004, Hilary Benn described Nigeria as “severely under-aided” and in June 2005 he again pointed out that Nigeria, of all African countries, is “the least aided in terms of development assistance per capita”. Nigeria’s aid per head is less than one tenth of the average for sub-Saharan Africa: it needs more development assistance, not a raid on its coffers.

Now that Nigeria has a stable, democratic and effective government, it has an opportunity to tackle poverty. Nigeria’s oil revenues do not make it rich: government oil revenue per person per day is only 50 cents, about one fifth that of Iraq. But they could be a crucial weapon in the struggle to stop Nigeria being poor. Thanks to higher oil prices in recent years, the government has very responsibly been building a reserve which, before this debt deal was agreed, Nigeria’s Finance Minister had stated was “earmarked for investment in education, health and infrastructure and against a future drop in prices and revenues.” This is the source of the \$12.4 billion debt payment. Instead of giving Nigeria the assistance it needs, the rich world is taking from its surest source of income.

“Nigeria is invariably described as oil rich. Yes, Nigeria has oil but it is not rich... our revenues are equivalent to about 50 cents a day for each Nigerian. To put that in perspective, it is roughly equivalent to Cameroon, which is defined as heavily indebted and deserving of debt cancellation.”

Finance Minister Ngozi Okonjo-Iweala, January 2005

Can the UK afford to return the money?

Nigeria’s debts are still listed as an asset in the UK accounts – so in accounting terms, the UK will have to accept a loss for the amounts cancelled and any amount returned. However, a large loss provision for these debts was made long ago by all creditors, in light of the age and nature of the debts. An upfront payment of this size now was certainly not expected. The government is effectively receiving a windfall from an extremely poor country, and the money should be returned to Nigeria.

It is also important to monitor how the money is returned to Nigeria. As was the case with aid given after the Asian tsunami, this money should be in addition to existing DFID commitments. A reimbursement to Nigeria must not threaten other aid spending or come at the expense of other poor countries.

“As we applaud your unequivocal leadership in the fight against poverty in Africa we encourage you to actually put your policy commitments into action by not accepting the £1.7 billion due your government as an example, and prevailing on other Paris Club countries to do the same.”

Nigerian civil society organisations in an open letter to Tony Blair, December 2005

This is briefing of Jubilee Debt Campaign, ActionAid International Nigeria, CAFOD, Christian Aid, new economics foundation, Oxfam GB, World Development Movement.

Jubilee Debt Campaign is a coalition of around 200 national organisations and regional and local groups, calling for cancellation of all unpayable and unjust poor country debt.

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