Main Report

Mutual interests – mutual benefits

Evaluation of the 2005 debt relief agreement between the Paris Club and Nigeria

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Foreword

This is the main report of the joint evaluation of the debt relief agreement concluded by the Paris Club and Nigeria in 2005.

In 2009, the Special Evaluation Office of International Cooperation of the Belgian Federal Public Service Foreign Affairs, Foreign Trade and Development Cooperation and the Policy and Operations Evaluation Department of the Dutch Ministry of Foreign Affairs started making preparations for the evaluation. Though their invitation to other members of the DAC Network on Development Evaluation to join them met with considerable interest from potential participants, for various reasons none of them took an active part. After an international call for tenders in early 2010, the contract for the evaluation was awarded to a consortium comprising Ecorys Nederland BV and Oxford Policy Management.

The deal agreed by Nigeria's creditors, united in the Paris Club, and the government of the Federal Republic of Nigeria in October 2005 was controversial, to say the least. Nigeria owed its creditors more than US$ 30 billion. It agreed to repay US$ 12 billion from its higher oil revenues, while the creditors cancelled the remaining debt of US$ 18 billion. That was not exactly peanuts. At that time, US$ 18 billion amounted to € 12 billion.

The controversy generated by the deal continued unabated not only in some creditor countries, but also in Nigeria itself, with 150 million inhabitants the country with the biggest population in Africa. However, the debate often was based not on convincing arguments or facts, but on political convictions. In the creditor countries, opponents of the deal portrayed Nigeria as a well-nigh failed state where corruption was rife, the majority of people had no share in the oil wealth, and outbursts of political, religious and ethnic violence were regular occurrences, making democracy and the rule of law little more than a joke. It was high time for an independent evaluation to throw light on the background to, and nature and consequences of the biggest debt cancellation deal ever made, barring the one with Iraq in 2004.

The four most urgent questions were as follows. What were the reasons for the deal? Was agreeing it the right decision? Did it have to cost so much? And last but not least, what were the results?

A team of independent evaluators first turned these questions into almost 30 sub-questions, which they answered with great expertise. The answers are included in this report. Reality is rarely totally straightforward. One thing is clear, however: both parties benefited by the deal. Nigeria – the second biggest economy in Sub-Saharan African – saw its foreign debt virtually disappear, while the creditor nations got back more than they expected. The evaluation clearly shows how this worked.

Were there no losers? Some people say there were. The debt cancellation was reported as Official Development Assistance. In some countries, however, it was not regarded as expenditure over and above the existing budget, raising their ODA performance, but as an item on the development cooperation budget. Funds originally intended for other development-related expenditure had therefore to be used to cancel what amounted mainly to export credits which, in all probability, also benefited both parties when they were first agreed.

The evaluation team's analysis is firmly based on the intervention theory underpinning the phenomenon of debt relief, and the underlying mechanisms are fairly technical. Besides the main report, which contains an excellent glossary, we have therefore opted to present two summaries. The first was written by the evaluators and is mainly of interest to specialists. The second is more accessible to a wider group of interested readers. It does not contain technical analyses or go into detail, but gives a clear account of the main findings and conclusions of the joint evaluation, and lessons learned. The specialist summary is available in English, French and Dutch, the general summary in French and Dutch.

Readers will find much to interest them. The main report comprises the full text, including annexes and an Executive Summary. The enclosed CD-Rom contains not only the full report, but also an interesting paper providing background information on Nigeria. It was specially written for readers with little knowledge of this West African country by Dr Bukola Adeyemi Oyeniyi of the Faculty of History and International Relations at the Joseph Ayo Babalola University, Ikeji Arekeji, Osun State, Nigeria.

The documents are available on the Internet, on http://diplomatie.belgium.be/en and http://www.minbuza.nl/en.

The evaluation team is responsible for the contents of this report. The Special Evaluation Office of International Cooperation and the Policy and Operations Evaluation Department guarantee the quality of the evaluation.

We would like to thank everyone who contributed to this evaluation as a respondent. Their names are listed in Annex 3. We are also very grateful to the Abuja Advisory Group and the European Reference Group for their constructive ideas and useful comments on the draft reports.

The purpose of evaluations is to render account and to learn lessons for the future. We hope you enjoy reading this report.

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Authors' preface

This evaluation report is the product of team work. The authors are grateful to team members Kenneth Chukwuemeka and Adewumi Olajide Ogunsola for their inspiring ideas and for their important support in collecting and processing information before and during the field visits in Nigeria. We also would like to thank all stakeholders interviewed in Nigeria, Brussels, The Hague, and Washington DC, for their time and for generously sharing their information. We are also very grateful to everyone else, in particular from the Abuja Advisory Group, the European Reference Group and the Evaluation Steering and Management Group for their constructive ideas and helpful comments on our presentations and subsequent draft reports. We also thank Ed Humphrey of Oxford Policy Management (OPM), Albert de Groot of ECORYS and Daniel Rogger, our internal peer reviewer, for their many useful comments at the different phases of this report. In Nigeria, Mariam Obia Chukwuemeka was a great help in organising the logistics of the field work. In Europe student assistants Luuk de Blok, Bianca Huizer and José Nederhand contributed to the realisation of this evaluation report. We are deeply grateful to everyone.

The final responsibility for the content of the report rests with the authors.

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Table of contents

PART TWO

List of tables

List of figures

List of boxes

List of abbreviations

AIDS	Acquired Immune Deficiency Syndrome
APRM	African Peer Review Mechanism
ATRRS	Accounting Transactions Recording and Reporting System
BFB	Foreign Financial Relations (Buitenlandse Financiële Betrekkingen), Dutch Ministry of Finance
BLP	Better Life for Rural Women Programme
BOFI	Banks and Other Financial Institutions
BOFIA	Banks and Other Financial Institutions Act
BOQ	Bill of Quantity
BWI	Bretton Woods Institutions
CBN	Central Bank of Nigeria
CCT	Conditional Cash Transfers
CD	Country Director
CDD	Centre for Democracy and Development, Nigeria
CEDAW	Convention on Elimination of All Forms of Discrimination Against Women
CEO	Chief Executive Officer
CEPR	Centre for Economic Policy Research
CET	Common External Tariff
CGD	Center for Global Development (Washington)
CGS	Conditional Grant Scheme
CIDA	Canadian International Development Agency
COA	Chart of Accounts
COPE	Care of The People
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CRS	Cross River State
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CSEA	Centre for the Study of the Economics of Africa
CSO	Civil Society Organisation
CSR	Civil Service Reform
CWIQ	Core Welfare Indicators Questionnaire
DAC	Development Assistance Committee (of OECD)
DAF	Sub-Saharan Africa Department, Dutch Ministry of Foreign Affairs
DC	Development Cooperation (Belgium)
DEK	Direction Effectiveness and Quality (Directie Effectiviteit en Kwaliteit), Dutch Ministry of Foreign Affairs
DFID	Department for International Development, UK
DFRRI	Directorate of Food, Roads, and Rural Infrastructure
DGIS	Directorate General for International Cooperation, Dutch Ministry of Foreign Affairs
DHS	Demographic and Health Survey
DMD	Debt Management Department

DMO	Debt Management Office
DRC	Democratic Republic of the Congo
DRG	Debt Relief Gains
DS	Debt Service
DSA	Debt Sustainability Analysis
DSB	Dutch State Business
DSF	Debt Sustainability Framework
DVF	United Nations and Financial Institutions Department, Dutch Ministry of Foreign Affairs
ECA	Excess Crude Account
ECOWAS	Economic Community of West African States
ED	Executive Director
EFCC	Economic and Financial Crimes Commission
EGDC	Economic Growth and Development Centre
EITI	Extractive Industries Transparency Initiative
EKI	Export Credit Insurance and Investment Guarantees
ERGF	Economic Recovery and Growth Facility
ESMG	Evaluation Steering and Management Group
EU	European Union
EU-SRIP	Support to Reforming Institutions Programme of the EU
EXIM	Export-Import (bank)
FADE	Fight Against Desert Encroachment
FCT	Federal Capital Territory
FDI	Foreign Direct Investment
FEAP	Family Economic Advancement Programme
FERMA	Federal Roads Management Agency
FGN	Federal Government of Nigeria
FINEXPO	Export Financial Support Committee (Comité pour le soutien financier de l'exportation), Belgium
FIRS	Federal Inland Revenue Service
FMF	Federal Ministry of Finance
FPS	Federal Public Service, Belgium
FRN	Federal Republic of Nigeria
GB	Great Britain
GDF	Global Development Finance (WB database)
GDP	Gross Domestic Product
GEP	Girls Empowerment Programme
GNFS	General Number Field Sieve
GNI	Gross National Income
GNP	Gross National Product
GPC	Global Projects Consultants
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
HRM	Human Resource Management

I	Investment
I_p	Private investment
IBRD	International Bank for Reconstruction and Development
ICPC	Independent Corrupt Practices Commission
IDA	International Development Association
IEFA	International and European Financial Affairs, Belgium
IEG	Independent Evaluation Group, World Bank
IEO	Independent Evaluation Office, IMF
IFI	International Financial Institution
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IOB	Policy and Operations Evaluation Department, Ministry of Foreign Affairs (the Netherlands)
IOB-Antwerp	Instituut voor Ontwikkelingsbeleid en – beheer, University of Antwerp
IPPIS	Integrated Personnel and Payroll Information System
IPRSP	Interim Poverty Reduction Strategy Paper
IR	Inception Report
IRF	Inspection of National Finance (Inspectie Rijks Financiën), the Netherlands
ISP	Internet Service Provider
KSRD	Kano State Road map for Development
JDPC	Justice, Development, Peace and Caritas Committee
LGA	Local Government Agency
LIC	Low Income Country
LEEDS	Local Economic Empowerment Development Strategy
LSMS	Living Standards Measurement Survey
MDA	Ministries, Departments and Agencies
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MFA	Ministry of Foreign Affairs
MIC	Middle Income Country
MoF	Ministry of Finance
MLR	Medium and Long Run
MMR	Maternal Mortality Rate
MRR	Mininum Rate of Return, the Minimum Discount Rate of the Central Bank of Nigeria
MTEF	Medium Term Expenditure Framework
MTSS	Medium Term Sector Strategy
M&E	Monitoring and Evaluation
N	Naira
NACA	National Action Committee on AIDS
NACRDB	Nigerian Agricultural Cooperative and Rural Development Bank
NANTS	National Association of Nigerian Traders
NAPEP	National Poverty Eradication Programme
NASSI	National Association of Small Scale Industrialists
NBER	National Bureau of Economic Research

NCCGS	National Committee on Conditional Grant Scheme
NCM	Nederlandse Credietverzekering Maatschappij
NDE	National Directorate of Employment
NEEDS	National Economic Empowerment and Development Strategy
NEITI	Nigeria Extractive Industries Transparency Initiative
NERDC	National Education Research and Development Council
NESG	The National Economic Summit Group
NGO	Non Governmental Organisation
NIC	National Intelligence Council (US)
NIO	Netherlands Investment Bank for Developing Countries
NIPC	Nigeria Investment Promotion Commission
NISER	Nigerian Institute of Social and Economic Research
NITEL	Nigerian Telecommunications Limited
NMET	National Monitoring and Evaluation Team
NPC	National Planning Commission
NPEC	National Poverty Eradication Council
NPI	National Programme on Immunisation
NPV	Net Present Value
NPEC	National Poverty Eradication Council
NTI	National Teachers Institute
NYSC	Nigerian Youth Service Corps
OAGF	Office of the Accountant General to the Federation
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
ONDD	Office National du Ducroire / Nationale Delcrederedienst, Belgium
OPEN	Overview of Public Expenditure of NEEDS
OPM	Oxford Policy Management
ORASS	Operation Reach All Secondary Schools
OSSA	Office of the Senior Special Assistant
OSSAP	Office of the Senior Special Assistant to the President
OVC	Orphans and Vulnerable Children
PARP	Policy Analysis and Research Project
PC	Paris Club
PCAMMDGs	Presidential Committee on the Assessment and Monitoring of MDGs
PEF	Poverty Eradication Fund
PEP	Poverty Eradication Programme
PFM	Public Finance Management
PHC	Primary Health Care
PPG	Public and Publicly Guaranteed Debt
PPP	Purchasing Power Parity
PPP	Public-Private-Partnership
PREM	Poverty Reduction and Economic Management
PRGF	Poverty Reduction Growth Facility
PRS	Poverty Reduction Strategy

PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
PSU	Project Support Unit
Q&A	Question and Answer
QOL	Quality Of Life
S4	Special Evaluation Office of International Cooperation
SEEDS	States Economic Empowerment and Development Strategy
SEO	Special Evaluation Office of International Cooperation, FPS Foreign Affairs, Foreign Trade and Development Cooperation (Belgium)
SFP	State Focal Person
SGA	State Government Agencies
SLGP	State and Local Government support Programme (of DFID)
SME	Small and Medium Enterprises
SMP	Staff Monitored Programme
SSN	Social Safety Net
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
SMET	State Monitoring and Evaluation Team
SPARC	State Partnership for Accountability, Responsiveness & Capacity
SPEB	State Primary Education Board
SRIP	Support to Reforming Institutions Programme (of the EU)
TI	Transparency International
ToR	Terms of Reference
UBE	Universal Basic Education
UBEC	Universal Basic Education Commission
U-5 MR	Under-5 Mortality Rate
UK	United Kingdom
UNDAF	United Nations Joint Donor Assistance Programme
UNDP	United Nations Development Programme
UNIFEM	United Nations Fund for Women
US	United States
USA	United States of America
USAID	US Aid Agency
VEDS	Village Economic Development Solution
VPF	Virtual Poverty Fund
W&S	Water and Sanitation
WB	World Bank
WDI	World Development Indicators (WB database)
WEO	World Economic Outlook
WGI	World Governance Indicators
WH	Women's Health
WHO	World Health Organisation
YEP	Youth Empowerment
ZMET	Zonal Monitoring and Evaluation Team

Glossary

Brady Plan (1989)
Initiative to restructure the debt of highly indebted countries to commercial banks, which included debt reduction. This was achieved through a combination of buy-backs at a discount – with resources from the International Monetary Fund (IMF), the World Bank and Japan – on the secondary market and the issuance of so-called 'Brady bonds' in exchange for banks' claims. Brady bonds were guaranteed by the US Treasury.

Classic terms
Paris Club treatment applicable to any country in need of debt relief, regardless of its income per capita, and implying a debt rescheduling at appropriate market rates.

Cologne terms
Menu of debt relief options agreed in the Paris Club in 1999 for the treatment of official bilateral debt of countries admitted to the enhanced Highly Indebted Poor Countries (HIPC) Initiative, resulting in a reduction of pre-*cut off date* debt of up to 90 per cent (or more if necessary for achieving a sustainable debt) in Net Present Value (*NPV*) terms.

Cut off date
Date established when a debtor country first comes to the *Paris Club*. Only debts resulting from loans and contracts signed before this crucial date, often one to three years before the first agreement, are eligible for possible rescheduling.

Debt buy-back
An agreement between debt and creditor(s) whereby the debtor buys back part of its debt, usually at a discount.

Debt reduction or cancellation
Reduction of the NPV of the sum of all future payment obligations (interest and principal) on a debt.

Debt overhang
Debt payment problems of such magnitude that creditors no longer expect to be repaid in full. Under a debt overhang expected debt payments will no longer increase at the same pace as the debt stock, but will ultimately even decline as the debt continues to grow. In a debt overhang situation (partial) debt forgiveness is in the interest of both the debtor and the creditor. This is because a reduction of the debt improves the ability of the debtor to repay the remaining claims, which raises their value.

Debt relief
Reduction of the *debt stock* or of *debt service* payments. The first always implies *debt reduction*, the latter may involve a reduction, but not necessarily. The debt service can also temporarily be reduced by spreading the same repayment obligations over a longer

period, leaving the stock of debt in NPV terms unchanged. This would be a non-concessional rescheduling.

Debt rescheduling
Change of the payment obligations on an outstanding debt is such a way that debt service obligations in a certain period are reduced, which, depending on the interest charged on deferred payments, may or may not involve *debt reduction in NPV terms*. If there is a reduction of the debt stock in NPV terms, it is called a concessional rescheduling.

Debt sustainability
An (external) debt is sustainable if the debtor country is able to fully meet his current and future debt service obligations without recourse to *debt reductions*, debt rescheduling or accumulation of arrears, and without unduly compromising its growth. According to the criteria of the Enhanced *HIPC-Initiative* this is the case if the *NPV* of debt-to-export ratio does not exceed 150 per cent or if the debt-to-tax revenue does not exceed 250 per cent.

Debt Sustainability Analysis
Study jointly undertaken by staff of the IMF and the World Bank and the heavily indebted country concerned of the sustainability of the external debt.

Effectiveness
The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.

Efficiency
A measure of how economically resources/inputs are converted into outputs.

Enhanced HIPC Initiative
The 1996 *HIPC Initiative* was expanded in 1999 implying more debt reductions, faster, to more countries.

Evian approach
A Paris Club agreement of 2003 that allows for a tailored and more flexible approach for non-HIPC countries in a situation of imminent default, with the aim to achieve debt sustainability. The treatment is phased and conditioned on satisfactory track records under IMF programmes and may comprise various forms of debt relief such as debt service rescheduling and stock reduction, and may include various instruments including a debt buy-back. A change in the cut off date can also be considered.

Export credit insurance
Protects the insured party (normally the exporter), in exchange for a premium, against the risk of non-payment by the buyer. The coverage may embrace both commercial risk (default) and political risk (non-payment due to action by the buyer's host government).

Grant element
The difference between the face value of a loan and the sum of all future debt service obligations (interest and principal) discounted at an interest rate of 10 per cent (the DAC reference rate) and expressed as a percentage of the face value. The grant element results from the financial terms of a loan: interest rate, maturity and grace period. Thus, the grant element is nil for a loan carrying an interest rate of 10 per cent; it is 100 per cent for a grant.

HIPCs
Group of (originally) 41 heavily indebted poor countries: 34 in Africa, 3 in Asia en 4 in Latin America, which constituted the target of the *HIPC Initiative*.

HIPC Initiative
Joint World Bank-IMF framework, of 1996, to reduce the total external debts of the poorest and most heavily indebted developing countries to sustainable proportions, with the support of the entire international financial community and in exchange for strong and sustained policy performance.

Houston terms
Paris Club treatment agreed in 1990, implying more concessional rescheduling than the classic terms for lower middle income countries, to be applied on a case by case basis; ODA credits are rescheduled at a concessional rate and repayment periods for non-ODA credits are lengthened up to 20 years with up to 10 year grace.

IDA-only countries
Countries classifying for concessional loans from the World Bank, via its branch International Development Association (IDA). Criteria include being a *low income country*, having a lack of creditworthiness in international capital markets, and displaying reasonably good policies.

Impact
Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.

Liquidity
Ability to meet short-term payment obligations with currently available resources.
A widely used indicator for liquidity of debtor countries is the ratio of debt service to exports.

London terms or Enhanced Toronto terms
Menu of *debt relief* options agreed in the *Paris Club* in 1991 for the treatment of official bilateral debt of highly indebted low-income countries, resulting in a reduction of pre-*cut off date* debt of up to 50 per cent of eligible debt service in *NPV* terms.

Low income countries
Countries with an income per capita below a certain threshold, in 2010 of US$ 1,165.

Lower middle income countries
Countries with an income per capita below a certain threshold, in 2010 of US$ 2,995.

Naples terms
Menu of *debt relief* options agreed in the *Paris Club* in 1995 for the treatment of official bilateral debt of highly indebted low-income countries, resulting in a reduction of pre-*cut off date* debt of up to 67 per cent of eligible debt service in *NPV* terms. Naples terms also allow for a similar percentage of debt stock reduction.

Net Present Value (NPV)
The sum of all future debt service obligations (interest and principal) on existing debt, discounted at the market interest rate. Whenever the interest rate on a loan is lower than the market interest rate, the resulting *NPV* of debt is smaller than its face value, with the difference reflecting the *grant element*.

ODA (Official Development Assistance)
Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients which are (i) undertaken by the official sector, (ii) at concessional financial terms (if a loan, having a *grant element* of at least 25 per cent) (iii) with promotion of economic development and welfare as the main objective.

Outcome
The likely or achieved short-term or medium term effects of an intervention's outputs.

Output
The products, capital goods and services which result from a development intervention; may also include changes resulting from an intervention which are relevant to the achievement of outcomes.

Paris Club
Informal group of official bilateral creditors who negotiate collectively about concessional or non-concessional rescheduling of debts due to them with debtor nations that have a current programme with the IMF.

Relevance
The extent to which the objectives of a development intervention are consistent with beneficaries' requirements, country needs, global priorities, and partners' and donors' policies (OECD definition). In the present evaluation, however, relevance refers to the extent to wich inputs, via outputs and outcomes, contribute to impact.

Solvency
Ability to meet all future payment obligations as they come due. Widely used indicators for solvency of debtor countries are the ratios of the net present value of debt stock to exports and of the net present value of debt stock to budget revenue.

Toronto terms
Menu of *debt relief* options agreed in the *Paris Club* in 1988 for the treatment of official bilateral debt of low-income countries, resulting in a reduction of pre-*cut off date* debt of up to 33 per cent of eligible debt service in *NPV* terms.

Map 1 Africa and Nigeria

Chronology of key events in the history of Nigeria

Pre-colonial period

Circa 500 BC onwards	First Nok settlements (earliest iron-using culture).
Circa 11th century onwards	Kingdoms and city-states established.
16th to 18th century	Transatlantic slave trade.
Early 19th century	Islamic Fulani empire founded.
Circa 1850	British establish a presence around Lagos.
Second half of 19th century	Christian missionaries active in the south.

Colonial period

1903 onwards	Great Britain controls south and north of country through local leaders ('indirect rule').
1914	Great Britain unites northern and southern regions as one colony.
1958	Shell starts oil production in the Niger delta.

Independence

1960	Nigeria gains its independence.
1962-1963	Controversial censuses fuel religious and ethnic tensions.

Military rule

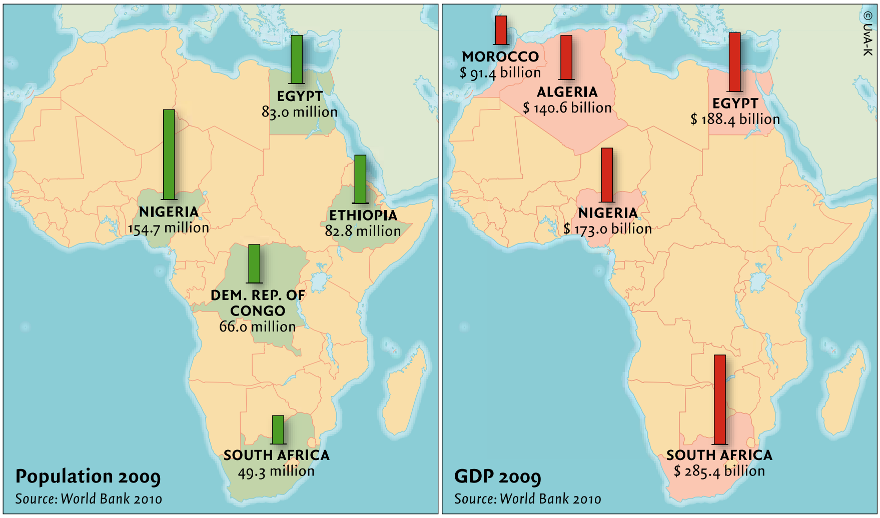
1966	Military coup, followed by counter-coup.
1967-1970	Failed attempt by three southeastern states to establish the Republic of Biafra. Civil war results in an estimated one million deaths.
1970s	Oil production soars.
1976	General Olusegun Obasanjo becomes head of state and promises democratic elections.
1979-1983	Temporary interruption of military rule. Civilian government under President Shehu Shagari.
1983	Military coup. General Muhammad Buhari becomes head of state.
1985	General Ibrahim Babangida seizes power.

1993	Babangida is forced to hand over power after annulling elections. Ernest Shonekan heads an interim government, but is then forced out by General Sani Abacha.
1995	Execution of Ken Saro-Wiwa and eight other activists who campaigned against the oil industry in Ogoniland. EU sanctions follow, and Nigeria is suspended from the Commonwealth.
1998	Abacha dies and is succeeded by General Abdulsalam Abubakar. Nigeria's suspension from Commonwealth and the EU sanctions are lifted.

Civilian rule

1999	Olusegun Obasanjo becomes president following democratic elections.
2000	Introduction of Sharia law begins in northern states. Hundreds die in ensuing violence between Christians and Muslims.
2001	Thousands of people are displaced as a result of ethnic conflict in Benue state.
2003	Obasanjo is elected for second term following disputed elections.
2004	State of emergency in Plateau state after violence between Christians and Muslims.
2005	Paris Club and Nigeria sign debt relief agreement.
2007	Umaru Yar'Adua is elected president in April.
2008	Oil prices rise, driven partly by violence involving militant groups in the Niger delta.
	In November at least two hundred people die in violence between Christians and Muslims in the city of Jos, Plateau State.
2009	In July Islamist movement Boko Haram tries to impose Sharia law on entire country through campaign of violence. Hundreds die in northeastern Nigeria.
2010	In January and March at least 269 deaths in violence between Christians and Muslims in Jos.
	President Yar'Adua dies in May after long illness. Vice- president Goodluck Jonathan succeeds him. Presidential elections planned for April 2011.
	In December thirty die in Plateau State in Christmas Eve bomb attacks.

Map 2 The 36 States of the Federal Republic of Nigeria



Map 3 Africa's Top-5: Population and GDP

Executive Summary

Introduction

The objective of this evaluation is to assess the impact of the debt relief agreement between the Paris Club and Nigeria on growth and poverty reduction in Nigeria, and to learn lessons from this experience. A total of 29 evaluation questions were formulated on context and background, inputs, outputs, outcomes, impact, sustainability and lessons learnt.

The debt relief agreement comprised a debt cancellation of around US$ 18 billion (registered as Official Development Assistance by the creditor countries), around US$ 12 billion in payments by Nigeria, and associated policy conditions.

For this evaluation a *logical framework* has been elaborated. The intervention theory behind this logical framework is, that debt relief may have a positive effect on economic growth, which can occur via three possible channels:

- A stock channel: Via a decrease of the size of the outstanding debt, the debt stock, which may lead to a reduction of the debt overhang. The absence of a high debt that burdens the future may lead to renewed access to international private capital, and thus increases in investments, and to improved policies;
- A flow channel: Via a reduction of the debt service. Lower debt service payments may lead to more resources available for imports (effect on balance of payment) and create fiscal space for public investment in physical and social infrastructure (effect on fiscal accounts) leading to improved service delivery;
- The conditionality channel: Via the reform conditions attached to debt relief, which may lead to policy improvements; provided the right conditions have been selected, these conditions may stimulate economic growth and poverty reduction via, for instance, increased public investment and social spending.

The three channels can be categorised as follows in inputs, outputs and outcome:

Table 1 Intervention theory debt relief			
	Stock channel	**Flow channel**	**Conditionality channel**
Input	The debt relief deal: payment up-front, cancellation and buy-back		Conditions for policies and governance
Output	Debt reduction	Lower debt service, increased government spending, for investment and MDGs	Changes in policies and governance
Outcome	• Higher inflows of private capital • Increased private investment • Better policies	Better quality of, and more access to, public services	• Improved investment climate, leading to higher private investment • More and better service delivery
Impact	Economic growth and poverty reduction		

Context and background

Evaluation questions: context and background

1. What was the origin and nature of the sovereign debt problem in Nigeria and was the debt unsustainable before the debt relief operation?
2. What was the Nigerian debt policy, in particular its debt management policy?

The origin of Nigeria's sovereign debt problem lies in the late 1970s and especially in the 1980s when there was extensive borrowing mostly for projects with a low return. When interest rates rose and the oil prices fell, the debt became unsustainable in the mid-1980s. Nigeria did not service its debt fully which led, through accumulation of arrears, to an even higher debt.

In 1992, Nigeria concluded a Brady deal with private creditors which reduced the debt considerably. From then on, private debts were serviced. Nigeria concluded several non-concessional rescheduling agreements with the Paris Club (1986, 1989, 1991, and 2000). However, the country continued to accumulate arrears with Paris Club creditors after each agreement. By the end of 2004, almost 90 per cent of the external debt was due to the Paris Club and more than half of this debt stock was the result of accumulation of arrears.

At the end of 2004, most debt sustainability ratios were at a sustainable level, to a large extent due to a rising oil price from 2002 onward. The only ratio that was marginally unsustainable was the relation between NPV debt to GDP, which was just above 40 per cent. The debt sustainability analysis carried out by the IMF early 2005 concluded that the external debt was sustainable, but made the comment that it could become unsustainable under a scenario in which the oil price would fall by more than one standard deviation. However, in Nigeria it was broadly felt that these debts should not be paid or not paid in full. The reasons include that the country had already paid back the original loan amounts, and that most of the debt consisted of arrears built up under dictators. Therefore, although on the basis of most debt sustainability ratios the debt could be judged *economically sustainable* in 2005, the debt could be considered *politically unsustainable*.

Debt policy

Before 2000 there was a severe lack of coordination in loan contracting and registration, and debt management was weak. Nigeria paid Paris Club (PC) creditors only partially, and the country also differentiated among PC creditors, while the country paid private and multilateral creditors in full.

Inputs

Evaluation questions: Inputs

3. How was the debt relief operation designed and what where its conditions?
4. Who were the main actors in Nigeria in the debt relief deal and what role did they play?
5. What goals did the government of Nigeria pursue by concluding the debt deal? To what extent were the deal and its conditions 'owned'?
6. What goals did the Paris Club countries pursue by concluding the debt deal?
7. How did the Nigerian debt relief deal and its conditions fit in Belgian and Dutch international cooperation and debt relief policies?
8. How did the Nigerian debt relief deal fit in international debt relief policies of Paris Club members and of the Bretton Woods Institutions, in particular how did it relate to the Enhanced HIPC Initiative?

Design debt relief

The Paris Club creditors had made it clear that a debt reduction would only be considered if Nigeria had put its 'house in order'. This implied, among other things, reconciling the debt figures with all creditors, carrying out responsible macroeconomic policies, improving public finance management (PFM), and reducing corruption. These conditions had to be met before a debt relief agreement.

The debt relief agreement in 2005 involved the full US$ 30.4 billion of Paris Club debt. Nigeria was expected to pay US$ 12.3 billion, while the creditors would cancel US$ 18 billion, implying an overall debt reduction of about 60 per cent. In the first phase, Nigeria paid all arrears to Paris Club members and the so-called levelling up. The creditors then cancelled 33 per cent of the remaining debt. In the second phase, the creditors cancelled 34 per cent of this debt after Nigeria had paid debt service on all post cut off date debts and an amount for the buy-back of the debt remaining after the two cancellations; the discount on the buy-back was around 35 per cent.

The debt relief agreement stresses that the Nigerian government should continue and fully implement the reform programme as pointed out in the Policy Support Instrument (PSI) agreed with the IMF, especially focussing on strengthening the economy, improving of PFM, and fighting poverty. The latter implied the tracking of MDG-related expenditure and the setting up of a Virtual Poverty Fund (VPF) with the annually expected debt relief savings. The second phase of the debt cancellation was contingent upon approval by the IMF of the first review of the PSI.

Main actors Nigeria

For President Obasanjo, in office between 1999 and 2007, achieving debt relief was one of his main objectives. After his re-election in 2003, he installed a new economic management team and debt relief was a primary aim for this team. Main agencies involved in the negotiations were the Federal Ministry of Finance, the Debt Management Office and the Central Bank of Nigeria.

Objectives Nigeria and ownership

The Nigerian government wanted to achieve a comprehensive debt deal with the Paris Club because it considered the debt neither economically nor politically sustainable. Also it wished to free resources for the MDGs. Moreover, it wanted to maintain and improve relationships with the western world. Therefore, going along with the strong repudiation movement of the Nigerian civil society, parliament and the public at large was no option. The government preferred an orderly workout of the debt in cooperation with the creditors, but this workout needed to include a significant debt reduction. Especially from 2003 onwards, the government had carried out substantial policy reforms, including the oil price based fiscal rule which had led to substantial savings on the excess crude account. These savings, combined with a still rising oil price in 2005, induced the government to consider a buy-back modality for the debt relief deal.

The conditions of the PSI were fully based on NEEDS, the government's own policy reform programme. Therefore the PSI reforms reflected a high degree of reform ownership. Value added of the PSI relative to NEEDS was that the PSI gave more specific quantitative targets and more exact timelines to the policies the government intended to implement.

Objectives Paris Club
The main motivations for the creditors to engage in the debt deal included:

- Strategic interests: Nigeria is a large and important West African country that plays a role in the stabilisation of the region and in the fight against terrorism. This motivation held in particular for the US;
- Oil security: a favourable debt treatment would help secure the flow of oil to the US and other countries in the West;
- Financial interests: creditors received an immediate payment of 40 per cent of the debt outstanding which was probably more than they would have received in the immediate future in the absence of the deal;
- Long-term economic interests: by allowing this comprehensive exit strategy Nigeria would become creditworthy again, allowing for expansion of trade with and investment in the country in general;
- Humanitarian interests: the deal would help Nigeria to reduce poverty and achieve the MDGs;
- 'Reputational' interests: the deal inflated ODA figures without disbursing fresh money; this held in particular for donors with no fixed ODA budget such as the UK and Germany.

Dutch and Belgian policies
Both Belgium and the Netherlands were initially not in favour of a debt cancellation, because they considered the Nigerian external debt to be sustainable. Dutch and Belgian policy makers felt under pressure to agree with the G8-decision that already had been made; they had to agree because the Paris Club operates by consensus and the Club is considered to be an important institution for settling international debt positions. The Nigerian debt to the Netherlands amounted to about € 1.3 billion and to Belgium approximately about € 470 million. The Netherlands was more active in its protest in the Paris Club. In addition, the Netherlands tried to influence the conditions of the deal; in line with the earlier Dutch attempts to influence the contents of the HIPC initiative, Dutch policymakers stressed the importance of the PSI and of securing that freed resources would be used for poverty reduction.

Financial interests were to some extent important for both countries and were used to defend the deal in Dutch parliament. The other official motivation for the Dutch government was humanitarian; the deal was expected to lead to higher social spending via the establishment of the Virtual Poverty Fund from the debt relief savings. For Belgium the reputational interests played a role as all money involved in the cancellation and buy-back was registered as ODA and led to an increase in these ODA figures. For the Netherlands, with a fixed ODA budget in per cent of GDP, the deal reduced other aid flows to developing countries in the years 2005-2007. However, the consequences for existing programmes were limited due to a higher GDP growth than expected in this period and to the fact that the discount on the buy-back was not registered as ODA.

Comparison with international debt relief policies
The Paris Club agreement with Nigeria eliminated the debt fully. Another special feature of the agreement was the debt buy-back. Furthermore, the role of the IMF was different from other debt deals. The IMF did not need to assess the payment capacity of Nigeria in order to

establish the degree of concessionality of the rescheduling or forgiveness. In addition, Nigeria was the first country for which a Paris Club agreement was accompanied by a PSI.

A difference with the HIPC initiative is that this deal only concerned the bilateral Paris Club debt while HIPC involves debt to all creditors. In addition, the overall debt reduction was not based on Nigeria's capacity to pay and was lower than in most HIPC cases. Furthermore, the deal with Nigeria was a full stock treatment. Nigeria had to pay a large amount up front but received an even larger immediate cancellation of the (full) debt stock with the Paris Club. Finally, the conditionality was different. There was extensive 'informal' conditionality before any debt reduction would be considered, but there was no requirement to elaborate and implement a Poverty Reduction Strategy Paper (PRSP). The requirements of having an IMF programme and being on track with that programme for at least six months (the first review) is a similar condition as the one for reaching the HIPC Completion Point.

Outputs

Evaluation questions: Outputs

9. What is the counterfactual for the flow and stock effect? Would debts have been serviced? Would ODA from the 15 creditors have been higher in absence of the debt relief operation?
10. What was the effect of the debt relief operation on debt stock and on debt service, both for federal and for state governments?
11. What was the effect of the debt relief operation on the balance of payments (in particular imports, exports, reserves)?
12. What was the effect of the debt relief operation on federal government and state government public finance accounts? (deficit, revenue and expenditure, composition of expenditure (investment-recurrent, spending by sector), financing of eventual deficit)?
13. What was the effect on MDG-related expenditure in the six sectors (health, education, water, power, roads, and agriculture), both in and outside of the VPF; and both at federal and at state level?
14. What changes in macroeconomic policies, public sector reform, debt management, anti-corruption policies and poverty reduction policies occurred in anticipation of a possible debt deal?
15. Were the conditions in the PSI with respect to macroeconomic policies, public sector reform, anti-corruption policies and poverty reduction policies implemented?
16. Did debt management improve, both at federal government level (Debt Management Office, DMO) and at state government level? Have other institutions played a role in improving debt management?

Counterfactual scenario debt relief

In the absence of the 2005 debt deal, Nigeria would have partially serviced its debt to the Paris Club creditors. The most likely counterfactual scenario would have been a debt service of about US$ 1 billion annually, in line with what Nigeria was paying in 2003-2004. Under this scenario, Nigeria's external debt stock would have increased from US$ 36 billion in 2004 to US$ 54 billion in 2009. Compared to an actual external debt stock of US$ 4 billion in 2009, the counterfactual ***stock effect*** by end 2009 is US$ 50 billion.

Under the assumption of a counterfactual debt service payment of about US$ 1 billion a year, and given that Nigeria had to pay around US$ 12 billion as part of the agreement, technically the ***flow effect*** is negative up to 2019. Aid flows were not reduced as a result of the debt deal, so the flow effect was not further reduced by reduced aid flows.

Effects on the balance of payment and public finance

The US$ 12 billion paid in 2005 and 2006 by Nigeria to its creditors was paid from the excess crude account. The excess crude account is the account on which oil revenues over and above a prudent annual estimate are accumulated, through the application of the so-called 'oil price based fiscal rule'. In 2005 the excess crude account had accumulated already large savings as a result of the rising oil price. For this reason, the US$ 12 billion payment did not hamper imports or government expenditure. In Nigeria this payment is seen as a sunk cost or an investment that eliminated the debt stock and created annual debt relief savings of US$ 1 billion from 2007 onward. A positive effect on the balance of payment and on the government expenditure was expected from these savings. However, in 2007 and 2008 this effect was not noticeable due to the continued sharp rise in the oil price. This changed in 2009, when export income and tax revenues were lower and the positive flow effect of the US$ 1 billion debt relief savings was noticeable.

At state level the conclusion is different. The states' share in total Paris Club debt was around 25 per cent, so the states also had to pay 25 per cent of the around US$ 12 billion from their share of the excess crude account. The states with a higher share in the Paris Club debt than their share in the excess crude account had to make proportional compensation payments to states with no or lower debts. This means that these states experienced a negative flow effect of the debt deal, often phased out over several years.

Policy reform in anticipation of a debt deal

The anticipation of the debt deal has had a moderate to strong effect on policy reforms carried out before 2005, and especially from 2003 onwards. After the change in government in 1999 some reforms would have been implemented anyway. However, the prospect of possible debt reduction gave political leverage to more controversial reforms such as macroeconomic policies (in particular the application of the oil price based fiscal rule), civil service reforms, privatisations, EITI, and the fight against corruption. The anticipation of a debt deal also helped achieving a stronger focus on spending for the MDGs and on poverty reduction policies (social safety net, human development). In the absence of the prospect of the debt deal, much lower savings would have accumulated in the excess crude account.

Debt management

Although debt management and debt recording would have advanced somewhat without the (prospect of a) debt deal, the anticipation of possible debt reduction provided a strong motivation to implement improvements at the federal level faster and more thoroughly. The debt deal itself brought about attention for improving debt management capacities of the states, but these capacities vary and are often still weak.

PSI conditions

The PSI helped to maintain prudent macroeconomic policies by setting specific quantitative targets with a clear timeline for foreign reserves and government expenditure. However, towards the end of the 2005-2007 period and especially before the 2007 elections, reform implementation became weaker. Although savings in the excess crude account continued to accumulate, the oil price based fiscal rule and its accompanying excess crude account were not followed as strictly as before. After 2007, some reforms continued but in other areas there is some backsliding.

MDG-expenditure and VPF

The MDG-expenditure was tracked in the federal budget from 2006 onward and a Virtual Poverty Fund (VPF) of about US$ 750 million was established - proportional to the federal share in debt relief savings. There is no VPF at state level, but since 2007 part of the federal VPF is transferred to the states for MDG-related projects with matching funds from the states through the conditional grant scheme (CGS). Actual VPF spending has been at around three quarters of budgeted spending. Most money has been allocated to strengthen primary health care, primary education and to provide access to water and sanitation. Smaller shares were allocated to social safety net projects including a (still small) conditional cash transfer programme, and to improving rural infrastructure.

The VPF has designed innovative practices for, in particular, the planning and costing of projects, and for monitoring and evaluation. VPF projects are not only tracked in the budgets, but their outputs and outcomes are monitored via a decentralised Monitoring & Evaluation framework (OPEN) in which the private sector and civil society are involved. As VPF projects are implemented through ministries, departments and agencies, and also through states (since 2007) and local governments (to be started in 2010 or 2011), the VPF aims to institutionalise these practices more broadly.

Additionality

Total government expenditure increased in real terms over the years 2005-2009, as did capital expenditure. The share of spending for the MDGs in the federal government budget was maintained at around 23 per cent in this period, which means that in absolute terms MDG-spending increased. Actual VPF spending fluctuated between US$ 490 million and US$ 725 million annually in the period 2006-2009, with no clear trend. VPF expenditure decreased relative to total capital expenditure of the federal government over the years 2006-2008, from 14 to 8 per cent. For sectors such as health and education, the share of the VPF in total capital expenditure was high in 2006 (for health 57 per cent and for education 38 per cent). However, the share for education declined in later years. According to relevant stakeholders, most of the VPF spending has been additional to other spending for the MDGs; additionality is higher for the states and smaller federal MDAs (ministries, departments, agencies) than for the larger federal MDAs.

Outcomes

Evaluation questions: Outcomes

17. Did the debt deal and possibly improved debt management, both federal government level and states, result in a more sustainable external debt and in a sustainable total public debt? Why or why not? What was the role of DMO and other institutions?
18. Did the reduction in the debt stock lead to improved incentives for designing and implementing development policies, at both federal and state government level?
19. Did the reduction in the debt stock lead to reduced domestic interest rates and improved creditworthiness?
20. To the extent that interest rates reduced and creditworthiness improved, have these development led to an increase in private investment and in inflows of private capital from abroad?
21. To the extent that (federal and state) government expenditure on MDG related sectors increased, within or outside of the Virtual Poverty Fund, what was the effect on improved access of the poor to social services, water, power, agricultural services, and roads? What was the effect on agricultural production? Are there any differences between states and/or regions? What was the role of the VPF?
22. Has there been 'crowding in' of induced higher public investment (no. 12) on private investment? Did public sector reforms induce growth of the private sector?
23. What were the effects of possibly improved macroeconomic (financial and monetary) policies on intermediary variables such as macroeconomic stability, exports and investment? Were exports influenced by eventual effect of debt relief operation on exchange rate?
24. Did public sector reforms and better anti-corruption policies improve governance and accountability at both federal and state level, and lower corruption? Why or why not?

Debt sustainability

All debt sustainability ratios show that the external debt has become very sustainable after the debt deal, while it would have been marginally sustainable in the absence of the debt deal. This relatively positive counterfactual scenario is due to the high growth rates and high oil prices in the years after the debt deal. However, the recently rapidly increasing domestic debt, although still at a low level, is cause of concern. The fact that debt management at federal level improved strongly is a reassuring factor in maintaining a sustainable public debt.

Improved policies

The reduction of the debt stock eliminated the full debt overhang, which has been shown by others to be the cause of the high volatility of fiscal expenditure in Nigeria from 1984 onwards (Budina et al., 2007). This high fiscal volatility was one of the causes of low economic growth. This means that the elimination of the debt overhang indeed allows for better fiscal policies. This is not so much an effect of improved incentives for better policies, as would be the theoretical assumption, but more an effect of the removal of a real constraint.

Interest rates and creditworthiness

After 2005, nominal interest rates fell, especially interest rates on 3-months Treasury bills. However, this trend cannot be ascribed to the debt relief agreement. Nigeria's creditworthiness clearly improved as evidenced by the first sovereign rating ever given to Nigeria by two rating agencies just after the debt deal. This was partly the result of the elimination of the debt overhang, but also of the many policy reforms carried out - in turn to a large extent induced by the anticipation of debt relief. The debt deal also served as a signal that policies had improved.

Inflows of private capital and private investment

Public investment increased but not as a result of debt relief savings. This means that there cannot have been a 'crowding in' effect on private investment from the debt relief induced public investment. The combination of policy reforms and the elimination of the debt overhang led to improved creditworthiness, while the debt agreement itself acted as a signal that policies had improved and further improved investor confidence. All this contributed to the increase in foreign direct investment and portfolio capital inflows, at least until 2009. It can theoretically be expected that the same combination of factors led to an increase in private investment but the private investment figures are not sufficiently reliable to confirm this. It is clear that the private sector response also depends on many other factors and that Nigeria's investment climate still faces many challenges, most notably the frequent power cuts but also the continuing violence and high level of corruption.

Macroeconomic stability

The improved macroeconomic policies (strongly influenced by the conditionality attached to the agreement, both in the form of the 'carrot' and in the form of formal conditions), had some positive effect on macroeconomic stability in particular on inflation. In addition, the accumulated savings on the excess crude account allowed for a stimulating fiscal policy in 2009, when Nigeria suffered from lower tax revenues as a result of the global economic crisis.

Governance

The anti-corruption policies carried out since 2000 and especially since 2003 (the ICPC, the EFCC, the new procurement regulations and the participation in EITI) had some impact on the governance and corruption indicators. These indicators in general improved between 2002/2004 and 2007/2008, and this can be partly attributed to the (anticipation of the) debt deal. After 2007/2008 most indicators deteriorated slightly.

Access and quality of public services
The Virtual Poverty Fund, fully the result of the debt agreement, has already produced some intermediate outcomes. The VPF projects and programmes were focused on critical areas for MDG achievement and they have shown improved completion rates over time. The activities financed by the VPF, in combination with the increased efforts for achieving the MDGs from the beginning of the decade, have contributed to increased primary enrolment rates, higher immunisation rates, increased use of primary health care facilities and increased access to potable water, among other achievements.

The institutional effects of the VPF on poverty reduction are perhaps even more important. The M&E system of the VPF is widely seen as good practice, but federal agencies and states are not (yet) applying the VPF framework for their other expenditure. Yet there seems to be some influence already on project formulation and planning, as MDG costing exercises are becoming more common and these exercises are integrated in Medium Term Sector Strategies. These changes are likely to lead to more effective government spending and thus to better service delivery in the future.

Impact, sustainability and lessons learnt

Evaluation questions: impact, sustainability and lessons learnt

25. What is the impact of the debt relief operation, via the possible outcomes such as improved debt sustainability and debt management, higher public and private investment, higher private capital inflows, improved macroeconomic stability, and higher exports on economic growth?
26. Is there an effect from economic growth on income poverty reduction?
27. What are the effects of (possibly) improved poverty reduction policies and more access of the poor to social and other services on income and non-income poverty?
28. To what extent are the (possible) results in terms of outcomes (debt sustainability, improved macroeconomic framework and PFM, reduced corruption) and impact (growth, poverty reduction - both income poverty and social indicators) sustainable?
29. What lessons can be learnt regarding validity and appropriateness of the intervention theory underlying debt relief as a means to contribute to economic growth and poverty alleviation?

Impact on economic growth
In the years 2004-2009 growth has been at around 6 or 7 per cent, while non-oil growth was even higher at 8 or 9 per cent. Growth was particularly high in agriculture and services. According to the theory-based evaluation methodology, some of this growth can be ascribed to the debt relief if and to the extent that positive stock, flow or conditionality outcomes of the debt deal can be identified. We have shown that the stock and the conditionality channel have produced some outcomes. These outcomes include improved

confidence in the economy and improved creditworthiness, leading to some increase in foreign capital inflows, and improved macroeconomic stability and in particular the possibility to cushion the effects of the 2009 crisis. In addition, the improved policies in general will have benefitted the investment climate, for example leading to increased acreage under cultivation. Some of the outputs of the VPF such as improved rural infrastructure and some components of the social safety net can also be expected to have contributed to growth, and to do so in the future.

Effect on income poverty reduction via economic growth
Given the conclusion that the debt deal had *some* impact on economic growth, it may also have an (indirect) effect on poverty reduction, namely *via* this economic growth. The high agricultural growth rate suggests that there has been some income poverty reduction, as poverty has proven to be strongly correlated with having a rural occupation. However, there is also evidence that growth in the recent past (1999-2008) has not been accompanied by increases in formal employment. Regional figures show that between 2004 and 2007, income poverty decreased in the North and in the South West of the country but not in South South and South East. The recent reduction in violence in the South after the amnesty announced early 2009 may imply that growth will now also be accompanied by some poverty reduction in the South. On balance, and given that growth was somewhat enhanced by debt relief, the debt relief also contributed modestly to income poverty reduction in Nigeria.

Direct impact on income and non-income poverty
Several non income poverty indicators have improved between 2003 and 2008, such as literacy rates, infant mortality rates and maternal mortality rates. These improvements can be attributed to improved poverty alleviation policies since the beginning of the decade, partly as a result of the the anticipation of debt reduction, and partly to the VPF that was established with the debt deal. Income poverty indicators for the period after the debt deal are not available yet, so no definite conclusions with regard to income poverty can be drawn. However, we can conclude that the outputs of the VPF (including the institutional changes it induced) are likely to have an effect on both income and non poverty outcome and impact indicators in the future.

Sustainability
The debt relief agreement has made the external debt more sustainable and eliminated the debt overhang that reinforced the volatility of the economy which impacted economic growth negatively. These positive effects will certainly be sustained over the next three to five years. The effect of the conditionality on macroeconomic and other policies is gradually waning, although some of the achievements are resilient. This includes the important oil price based fiscal rule which has been maintained although it has been implemented much less prudently in recent years.

The VPF proved resilient. It will probably be sustained over the medium term as vested interests have been created among a broad group of stakeholders: state and local governments, members of parliament, and civil society. The institutional changes promoted by the VPF in other federal agencies and in state and local governments, could become more visible over time and may lead to a greater achievement of the MDGs in the future.

In general, the sustainability of the results depends on the extent to which overall political and economic stability in the country can be maintained.

Lessons learnt

This study confirms the validity and appropriateness of the intervention theory of debt relief, more than in other evaluation studies of debt relief. The somewhat more positive results for Nigeria can be explained by the fact that in this case the debt overhang was eliminated completely. Second, the conditionality channel was more effective than in other cases. The *prospect* of debt relief provided the political leverage for policy reforms and the motivation to appoint an economic team with strong ownership of the reform package. The political leverage of the reform conditionality of the agreement itself was weaker than the political leverage induced by the 'carrot' (prospect of debt relief). However, the conditionality of the agreement had a positive influence on the timeliness of policy implementation. In addition, the VPF was established, which may have a lasting effect on poverty reduction in the country.

Finally, the question must be answered whether these positive findings justify the use of around US$ 18 billion in aid money and the use of US$ 12 billion of Nigerian resources. We think they do. The investment is substantial, but the potential benefits are also huge: Nigeria is a large country with a large population of which more than half was still below the poverty line in 2004. The debt deal not only removed Nigeria's debt overhang but also improved government policies, including poverty reduction policies. Even if not all of these policy changes can be sustained, there are already positive effects on the welfare of about 150 million people in Sub-Sahara Africa.

From the perspective of Nigeria, the spending of the US$ 12 billion can be seen as an investment for achieving a fresh start in the relations with its creditors and the private sector in the creditor countries. Nigeria also got rid of a debt service that not only would continue to drag on available resources, with particular harmful effects in years with lower oil revenues, but that would also have continued to provoke domestic debate. In addition, there are also in Nigeria undisputed positive effects on debt management, debt sustainability, and poverty reduction policies especially via the funding and institutional contributions of the VPF.

1

Introduction

1.1 Objective of the evaluation

This report assesses the results of the debt relief agreement between the Paris Club and the Federal Republic of Nigeria agreed upon in 2005. The aim of the evaluation is two-fold; first, to account for US$ 18 billion ODA funds registered as debt cancellation to Nigeria[1] and for the payment of US$ 12.4 billion by Nigeria to its creditors. Second, to learn lessons from this debt relief experience with all its components, including the agreement itself between the Paris Club creditors and Nigeria, and the conditions that were attached to the agreement. Although this evaluation is undertaken by the Dutch and Belgian evaluation departments, it is expected that the results will be relevant for Nigeria and for the thirteen other creditors involved in the operation, as well as for a broader audience of academics and policy makers.

As it is impossible to separate the effect of debt relief supplied by Belgium and the Netherlands from the other 13 Paris Club members, we analyse the impact of the full Paris Club operation. The evaluation period covers the years 2005-2010, but of course the years before this period will be analysed in order to assess the appropriateness of the 2005 debt operation.

1.2 Methodology and evaluation questions

The evaluation attempts to answer the six main evaluation questions that are given in the Terms of Reference (ToR) (see Annex 1):

1. What political, economic and institutional developments led to the comprehensive debt deal?
2. Did the debt deal result in or lead to a sustainable debt?
3. What role did the conditionalities play which accompanied the debt agreement?
4. How effective was the Virtual Poverty Fund?
5. How sustainable are the outcomes?
6 What lessons can be drawn regarding the validity and appropriateness of the intervention theory underlying debt relief as a means to contribute to economic growth and poverty alleviation?

We use an Evaluation Matrix that assesses the efficiency, effectiveness and relevance of debt relief. This matrix, based on a logframe, covers most questions mentioned in the ToR. Questions 5 and 6, on the sustainability and on the lessons learnt, are added as separate questions.

The evaluation framework arranges the various levels of the assumed objective-means hierarchy vertically, and orders ways to check the degree to which objectives on successive levels have been achieved horizontally (Table 1.1). As a phenomenon in the objective-means hierarchy becomes more distant from the original intervention (inputs), the more difficult

[1] According to DAC criteria, the cancellation of export credit loans is classified as ODA, while cancellation of aid loans is not, because aid loans have already been counted as ODA when they were disbursed. Export credit loans constituted almost 98 per cent of the total cancellation, see section 3.3.1.

it is to prove a causal linkage between them, as the effect of other factors on the results increases. As a result, we can draw more firm conclusions on the *outputs* of the debt deal, the more direct effects, than on the *outcomes*, the more indirect effects. As will also be explained below, for the step from outcomes to impact we rely on fully economic theory. In fact, the full evaluation matrix Table 1.1 is based on important theoretical insights into the way in which debt relief may contribute to economic growth and to poverty reduction.[2] *If* debt relief is to promote economic growth and poverty reduction, this can in principle occur in three ways (Table 1.2).

(1) **A stock channel**, or debt overhang channel: the reduced debt stock (output), if large enough, will lead to several positive results at the outcome level: it will improve debt sustainability, also in the medium term; it will improve creditworthiness of the government and of the country, for example evidenced in a lower interest rate on government bonds and in higher inflows of foreign capital; the combination of lower interest rate and improved creditworthiness will increase private investment and foreign direct investment inflows; the removal of the debt overhang may also improve incentives for better government policies;[3] these outcomes may in turn lead to higher economic growth (impact).

Table 1.1 Evaluation matrix Debt relief Nigeria

Objectives-means	Indicators	Sources	Evaluation criteria
Input Debt relief modality: repayment up-front, cancellation and buy-back; Policy dialogue.	Amounts involved; Conditions.	Parliamentary documents, policy papers; archives /files Belgian and Neth. Ministry of Foreign Affairs and of Finance; appraisal memorandum for the debt deal; Fed Rep of Nigeria and State and local government policy papers, including NEEDS; IMF and WB documents on Nigeria; Interviews The Hague, Brussels, London, Washington, and Nigeria.	
degree to which realised outputs offset chosen inputs and their manner of employment →			Efficiency

2 See, for example, Cohen (1993), Elbadawi et al. (1997) and Serieux & Samy (2001).

3 The idea is that an unsustainable debt reduces the incentives for good policies, as the fruits of these policies (growth) will accrue to the creditors in the form of higher debt service. See, for example, Deshpande (1997) .

Table 1.1 Evaluation matrix Debt relief Nigeria

Objectives-means	Indicators	Sources	Evaluation criteria
Output Reduction of debt and debt service; Effects on reserves, imports, exports, exchange rate, government expenditure in particular poverty expenditure; Changes in policies and governance, in particular macroeconomic policies, debt management, PFM and anti-corruption policies.	Total debt (nominal and net present value); Interest payments and amortisations; Balance of payments; Fed government and state income and expenditure accounts; Size of virtual poverty fund; Qualitative assessment of policy and governance changes.	Global Development Finance; World Development Indicators; IMF and WB country reports; Fed Rep of Nigeria and state and local government documents and statistics; Interviews in Washington, and in Nigeria with different stakeholders at federal level and in some states.	
degree to which outputs contribute to desired outcomes →			Effectiveness
Outcome Improved debt sustainability; Improved international creditworthiness and domestic investment climate; Improved effectiveness of public spending, resulting in improved access to government services; Growth in agriculture; Lower corruption.	External and total public debt / GNP; External debt service / exports; Total public debt service/revenues; International credit ratings; I / GDP; I_p / GDP; Inflows private capital; Social indicators (access), also by gender; TI ranking; African Peer Review Mechanism (APRM) ratings.	Global Development Finance; World Development Indicators; IMF, WB, UNDP country documents; Fed government (CBN, NBS) and state government local documents and statistics; M&E Reports Virtual Poverty Fund and on MDG expenditures; Budget analysis studies; OSSAP/ MDG reports; LSMS, DHS; Credit rating agencies; Transparency International Reports; Interviews stakeholders in Nigeria at federal level and in some states.	
degree to which outcomes lead to intended impact →			Relevance
Impact Economic growth, poverty reduction.	GDP; extreme and core poverty; Gini and other inequality measures; Social (outcome) indicators, MDGs, quality of life indicators.	World Development Indicators; IMF, WB, UNDP reports; Fed Rep of Nigeria reports and statistics, LSMS, DHS; CWIQ (NBS), OSSAP/MDG reports.	

(**2**) **A flow channel**, or debt service channel: to the extent that the debt relief operation frees resources (depending on whether the debt would have been serviced), it may lead to a shift from debt-related expenditure to higher other government expenditure or a lower deficit (outputs). A lower deficit may imply a lower interest rate which in turn may enhance private investment (outcome) and thus growth. The increase in non debt-related expenditure (through for example a virtual poverty fund) may be used for poverty reduction expenditure and therefore improve the intermediate poverty outcomes such as access to services, and/or to higher investment in physical infrastructure (outcome); all these (intermediate) outcomes may enhance growth and final poverty outcomes (impact).

(**3**) **A conditionality channel**: the conditions for policies and governance attached to the debt relief deal; provided the right conditions have been selected, this may induce better policies and institutions (output), and thus also lead to better outcomes and impact, i.e. growth and poverty reduction.

This can be pictured as follows:

Table 1.2 Intervention theory debt relief

	Stock channel	Flow channel	Conditionality channel
Input	The debt relief deal: payment up-front, cancellation and buy-back		Conditions for policies and governance
Output	Debt reduction	Lower debt service, increased government spending, for investment and MDGs	Changes in policies and governance
Outcome	• Higher inflows of private capital • Increased private investment • Better policies	Better quality of, and more access to, public services	• Improved investment climate, leading to higher private investment • More and better service delivery
Impact	Economic growth and poverty reduction		

In the case of Nigeria, possible effects are not only expected to occur at federal level but also at state and local government levels.

In assessing efficiency, effectiveness and relevance of the debt relief operation, it is important to establish a counterfactual. Only to the extent that there is a difference between the actual result and the counterfactual situation, the result can be attributed to the intervention, in this case, the debt relief operation. In this evaluation, the counterfactual is the hypothetical situation without the debt relief operation, so without *all* inputs: the Nigerian payments for the arrears and for the buy-back (US$ 12.4 billion), the US$ 18.4 billion cancellation by the creditors, and the policy conditions.
For the stock and the flow channel, we establish the most likely extent to which Nigeria would have serviced these debts in the absence of the debt relief operation. In addition, for the flow

channel, we analyse whether the creditor money involved in the cancellation was *additional* to ODA flows to Nigeria of these creditors/donors. Only if and to the extent debts would have been serviced, and to the extent that debt relief money is additional to aid, debt relief leads to a flow of money to Nigeria. The counterfactual debt stock also depends on the extent of servicing: if not all debt is serviced, the debt stock increases. The most realistic counterfactual on both items has been established after interviews with key stakeholders and experts, and via an assessment of actual (past) developments in debt service and ODA flows.

No attempt has been made to compare ODA allocated to the debt relief deal with ODA spent in another way in Nigeria or elsewhere. This restriction is unavoidable if the research is to be kept manageable: it is not feasible to compare the actual with all different possibilities for spending.

With respect to the conditionality channel, establishing the counterfactual involves two phases. A first step is to establish whether policy reforms would have taken place in the absence of the *prospect* of the debt relief deal. The focus was here on the period 2000-2005, before the debt relief agreement. The second step is to examine what reforms would have occurred after October 2005 if there had not been a debt deal with its accompanying Policy Support Instrument (PSI). For both phases, it is important to establish the extent to which key policymakers intended to implement the reforms anyway - without the (prospect of the) debt relief agreement.

Inputs

The inputs comprise both monetary inputs and conditionality inputs. Among the monetary inputs are the about US$ 18 billion that has been cancelled by Paris Club creditors on Nigeria sovereign debt (public and publicly guaranteed debts) to these bilateral creditors, and the about US$ 12 billion that has been paid up front by Nigeria to its creditors. Bilateral debts contain both export credit debts and debts originating from bilateral aid loans. The conditionality inputs are the conditions that accompanied the deal, in particular the PSI of the IMF with its assessment criteria and benchmarks.

Outputs

In order to analyse *efficiency*, inputs are compared with outputs. The assumed outputs, i.e. the direct results of debt relief, are a reduction of the debt service (a decrease in the flow of outgoing payments) and of the debt stock (a decrease in the size of the outstanding debt). In Nigeria there is also a (flow) effect on reserves, as a result of the payment of arrears and the buy-back. The reduced debt service flow may have effects on the federal and state governments' budgets and on the balance of payments. It will be analysed whether positive effects are traceable in the form of lower budget deficits, higher expenditure and increased imports. The composition of expenditure will also be examined, including the composition of Millenium Development Goals (MDG)-related expenditure, including spending within the Virtual Poverty Fund.

Another type of output is the implementation of the policy and governance conditions attached to the debt relief. In keeping with the ToR, we focus on debt management, macroeconomic policies, public sector reform, anti-corruption policies and the tracking of poverty reduction expenditure within the Virtual Poverty Fund (VPF) both at federal level and at state government level. The changes before the deal in these areas are investigated and compared to what would have happened without the prospect of a deal; also, the degree of implementation of conditions after the debt deal is investigated. If conditions are not (fully) implemented, we investigate why this is the case.

Outcome

The investigation into the effectiveness of debt relief is concerned with a comparison of (intermediary) outputs and outcomes. The counterfactual approach implies that the actual developments at outcome level ('gross outcome') are compared with the most realistic counterfactual scenario, implying the situation in which the (earlier established) outputs would not have been obtained. The difference between gross outcome and counterfactual can be formulated as 'net outcome' of the debt relief operation.

Possible net outcomes include:

- An increased sustainability of the debt;
- A decrease of the debt *stock* will reduce the debt overhang, evidenced in a lower domestic interest rate,[4] improved creditworthiness, increased inflows of private capital, increased private investments, and improved policies. This is the stock effect of debt relief;
- Increased government expenditure and in particular poverty expenditure (the flow effect) will, in combination with the condition on the VPF - to the extent implemented - (conditionality effect) lead to improved government effectiveness in enhancing growth and in reducing poverty, evidenced in increased public investment and in increased access of the poor to social services such as water, agricultural extension, power, and rural roads;
- To the extent that policy conditions with respect to macroeconomic policies, public sector reforms, and anti-corruption policies are implemented, this might have positive effects on intermediate variables such as macroeconomic stability, exports, and investment, on government effectiveness and on a reduction in corruption;
- A possible increase in public investment may increase private investment (*crowding in*);[5]
- Possible output effects of the debt operation on the balance of payments (changes in imports, reserves) may have consequences for the exchange rate which in turn may influence macroeconomic stability and export performance.

Impact

Research into the *relevance* of debt relief implies a comparison of realised outcomes with the impact. The impact variables are the principal objectives of debt relief, i.e. economic growth and poverty reduction. In order to establish the impact of debt relief on economic growth, it is very difficult to apply the counterfactual approach. Conclusions here are thus

[4] A lower debt stock will reduce the risks involved in lending to Nigeria, and thus reduce the interest rate. This effect has been established, for example, for Mexico (Claessens et al., 1994) .

[5] In the logic of the evaluation, an eventual increase in public investment cannot lead to crowding out as the freed resources as a result of debt relief would provide the resources.

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

Table 1.3 Counterfactual for outputs and outcomes

	Counterfactual	Net Output	Net Outcome
Theory	No debt relief deal.	Comparison gross output with counterfactual output.	Comparison net outputs with actual ('gross') outcomes, taking into account all other possible factors leading to gross outcomes.
Stock	Bilateral debt stock maintained or increased.	Actual reduction in bilateral debt stock.	What outcomes would have occurred without the reduction in debt stock?
Flow	No payment of arrears and payment of buyback. Would the debt have been serviced in the absence of the debt deal? Would ODA have been higher in the absence of debt relief?	How much reduction in what accounts as a result of these payments? Comparison actual debt service payments with counterfactual.	What outcomes would have occurred without net outputs in terms of balance of payment changes and changes in federal and state government accounts?
Conditionality	What policy and governance changes would have been implemented without the prospect of the debt deal? What policy and governance changes would have been implemented without the deal's conditionality?No VPF.	Policy and governance changes as a result of the prospective debt deal and as a result of the conditionality to the deal.	What outcomes would have occurred without the debt deal-related policy and governance changes?

If and to the extent that debt relief has contributed to economic growth, it may also have fostered income poverty reduction.[6] This effect depends on the poverty elasticity, which in turn depends on existing income inequalities and on the type of growth. There can also be a more direct effect of the debt relief deal on poverty reduction, in particular through improved poverty policies and through increased MDG spending, whether or not via the VPF. The net outcomes in these areas, such as higher access of the poor to social services, water, power, agricultural extension and roads, are compared to actual changes in income or consumption poverty, income distribution measures, also by region (state), measures for vulnerability and poverty risks, and quality of life and other outcome indicators for well being.

The question whether outcomes and impact are sustainable is understood as whether these outcomes and impact can be expected to continue to hold over the medium term, defined as three to five years. This is an expert judgement on the basis of a combination of the results on all other evaluation questions, and specific questions posed in interviews with key stakeholders and experts.

The following tables summarise our approach to the counterfactual and the issue of attribution. The general approach is to compare actual (gross) outputs with counterfactual outputs; this then establishes the net outputs. In some cases, we have to establish a realistic scenario for the counterfactual outputs. At outcome level, we compare actual ('gross') outcomes with counterfactual outcomes. This will only be done for those areas where net outputs have been established.

Table 1.4 Counterfactual approach for impact

Variable	Counterfactual approach
Economic growth	If net outcomes can be established, there has been a net impact on economic growth. How much of GDP growth can be attributed to the net outcomes of stock, flow and conditionality channels, taking into account all other possible factors leading to GDP growth?
Indirect effect on poverty reduction via economic growth	Is it possible to attribute part of the change in income poverty reduction to an (eventual) net impact of debt relief on economic growth? This depends on the poverty elasticity, which in turn depends on existing income inequality and type of growth.
Direct effect on poverty reduction	What results in terms of income poverty indicators and quality of life indicators would have been obtained without net outcomes of flow and conditionality channels, taking into account all other factors influencing these indicators?

6 In the medium and long term, economic growth will also positively influence other poverty and well being indicators (health, education) but in the short run, the main effect is on income or consumption poverty.

The above analysis, combined with requested specific evaluation questions in the ToR regarding context and inputs, leads to the following 29 specific evaluation questions that are answered in this report:

Table 1.5 Evaluation questions

I	**Context and background**
1	What was the origin and nature of the sovereign debt problem in Nigeria was the debt unsustainable before the debt relief operation?
2	What was the Nigerian debt policy, in particular its debt management policy?
II	**Inputs**
3	How was the debt relief operation designed and what where its conditions?
4	Who were the main actors in Nigeria in the debt relief deal and what role did they play?
5	What goals did the government of Nigeria pursue by concluding the debt deal? To what extent was the deal and its conditions 'owned'?
6	What goals did the Paris Club countries pursue by concluding the debt deal?
7	How did the Nigerian debt relief deal and its conditions fit in Belgian and Dutch international cooperation and debt relief policies?
8	How did the Nigerian debt relief deal fit in international debt relief policies of Paris Club members and of the Bretton Woods Institutions, in particular how did it relate to the enhanced HIPC initiative?
III	**Outputs – efficiency**
9	What is the counterfactual for the flow and stock effect? Would debts have been serviced? Would ODA from the 15 creditors have been higher in absence of the debt relief operation?
10	What was the effect of the debt relief operation on debt stock and on debt service, both for federal and for state governments?
11	What was the effect of the debt relief operation on the balance of payments (in particular imports, exports, reserves)?
12	What was the effect of the debt relief operation on federal government and state government public finance accounts (deficit, revenue and expenditure, composition of expenditure (investment-recurrent, spending by sector), financing of eventual deficit)?
13	What was the effect on MDG-related expenditure in the six sectors (health, education, water, power, roads, and agriculture), both in and outside of the VPF; and both at federal and at state level?
14	What changes in macroeconomic policies, public sector reform, debt management, anti-corruption policies and poverty reduction policies occurred in anticipation of a possible debt deal?
15	Were the conditions in the PSI with respect to macroeconomic policies, public sector reform, anti-corruption policies and poverty reduction policies implemented?
16	Did debt management improve, both at federal government level (DMO) and at state government level? Have other institutions played a role in improving debt management?
IV	**Outcomes – effectiveness**
17	Did the debt deal and possibly improved debt management, both federal government level and states, result in a more sustainable external debt and in a sustainable total public debt (including internal debt)? Why or why not? What was the role of DMO and other institutions?
18	Did the reduction in the debt stock lead to improved incentives for designing and implementing development policies, at both federal and state government level?
19	Did the reduction in the debt stock lead to reduced domestic interest rates and improved creditworthiness?

Table 1.5	Evaluation questions
20	To the extent that interest rates reduced and creditworthiness improved, have these development led to an increase in private investment and in inflows of private capital from abroad?
21	To the extent that (federal and state) government expenditure on MDG related sectors increased, within or outside of the Virtual Poverty Fund, what was the effect on improved access of the poor to social services, water, power, agricultural services, and roads? What was the effect on agricultural production? Are there any differences between states and/or regions? What was the role of the VPF?
22	Has there been 'crowding in' of induced higher public investment (no. 12) on private investment? Did public sector reforms induce growth of the private sector?
23	What were the effects of possibly improved macroeconomic (financial and monetary) policies on intermediary variables such as macroeconomic stability, exports and investment? Were exports influenced by eventual effect of debt relief operation on exchange rate?
24	Did public sector reforms and better anti-corruption policies improve governance and accountability at both federal and state level, and lower corruption? Why or why not?
V	**Impact- relevance**
25	What is the impact of the debt relief operation, via the possible outcomes such as improved debt sustainability and debt management, higher public and private investment, higher private capital inflows, improved macroeconomic stability, and higher exports on economic growth?
26	Is there an effect from economic growth on income poverty reduction?
27	What are the effects of (possibly) improved poverty reduction policies and more access of the poor to social and other services on income and non-income poverty?
VI	**Sustainability of results**
28	To what extent are the (possible) results in terms of outcomes (debt sustainability, improved macroeconomic framework and PFM, reduced corruption) and impact (growth, poverty reduction - both income poverty and social indicators) sustainable?
VII	**Lessons learnt**
29	What lessons can be learnt regarding validity and appropriateness of the intervention theory underlying debt relief as a means to contribute to economic growth and poverty alleviation?

The evaluation period covers the years 2005-2010, but the period before 2005 was included for answering questions 1, 2, 7, 8 and 14. Understandably, 2010 data were not available but qualitative information relative to this year has been included.

1.3 Approach

The evaluation comprised of two main phases; a desk study phase and a field study phase. The first objective of the desk study was to answer the questions related to context and input (questions 1-8) in a preliminary way. During this phase information from official files and archives in Belgium and the Netherlands was collected and analysed, and interviews were held in Brussels, The Hague, and Washington. The second objective of the desk study phase was to describe as completely as possible the actual developments in Nigeria before and after the debt relief deal: the gross outputs, outcomes and impact. Data was collected both in Nigeria and via internationally available sources.

In the second phase, field work was carried out in Nigeria. The team spent two weeks in Abuja, the federal capital, from August 2-14, 2010. In this period we carried out interviews with a range of stakeholders from government agencies, Non Governmental Organisations (NGOs) and representatives of development agencies and the private sector. Between August 15 -20, three team members visited two states in order to analyse possible impact of the debt deal at state level on government expenditure and poverty reduction (in the context of the Virtual Poverty Fund), Public Finance Management (PFM), and debt management.The visits were not meant to validate findings at federal level, but merely as illustrations of how the debt deal was perceived at state level and whether the two visited states identified any direct impact of the debt deal. The two states selected were Kano state in the North and Cross River state in the South. Both states have high poverty levels, and both had incurred debts prior to 2005. Cross River state is considered to be pro-active in addressing reforms and Kano state has accomplished less reforms in the area of poverty reduction policy and public financial management. We decided not to choose Lagos state because debt management in this state is very much above the average level in the country. Both Kano and Cross River state have a Debt Management Department (DMD). Kano has been one of the UK's Department for International Development (DFID) pilots in this respect. The DMD of Cross River state is more recent and has been funded by the Canadian International Development Agency (CIDA). In 2001, Kano state's external debt mounted to US$ 93 million, and Cross River state's debt to US$ 73 million. By the end of 2008, Kano's external debt had been reduced to US$ 40 million, while that of Cross River had risen to US$ 99 million. Yet, Kano has extensive rural and urban poverty and migration problems (poor stateless citizens from surrounding states and countries) and has poor performance in Public Finance Management (PFM).

In the first week of November, three team members made a second visit to Abuja. The aim of this visit was to present the first draft of the final report to the Abuja Advisory Group (see below) and to conduct some additional interviews. At various stages in the evaluation process, the preliminary findings have been presented and discussed with persons and agencies involved in quality control of this evaluation. This process will be described in the next section.

1.4 Organisation of the joint evaluation

This evaluation was prepared, commissioned and steered by the evaluation departments of the Belgian and Dutch Ministries of Foreign Affairs, the Special Evaluation Office of International Cooperation, SEO (Belgium) and the Policy and Operations Evaluation Department, IOB (the Netherlands). IOB was the lead agency for this joint evaluation. Two members of staff of SEO and IOB, together with the respective heads of the organisations, formed the Evaluation Steering and Management Group (ESMG). The ESMG prepared the Terms of Reference and provided comments to all draft reports.[7]

External quality control of this evaluation was provided in the form of two review panels, one in Abuja (Abuja Advisory Group) and one in The Hague (European Reference Group). The review panels were also important to raise the sense of ownership among relevant policymakers in Nigeria and in the involved creditor countries, Belgium and the Netherlands.

The meetings of the Abuja Advisory Group were chaired by one of the members of the ESMG. The following persons and agencies participated in the Abuja Advisory Group:

Table 1.6 The Abuja Advisory Group

	Organisation	Name
	Government	
1	Central Bank of Nigeria (CBN)	Mr. Charles Mordi
2	CBN	Mr. Newman Oputa
3	CBN	Mr. G. Sanni
4	CBN	Mr. Mela Y. Dogo
5	CBN	Mr. M.U. Yakub
6	Federal Ministry of Finance (FMF)	Mr. Abiodun Alao
7	FMF	Mr. NSK. George
8	FMF	Mr. Aliyu Ahmed
9	FMF	Mr. Pius Aihyafen
10	FMF	Mr. Bode Oyetunde
11	Debt Management Office (DMO)	Mr. Ibrahim Natagwandu
12	DMO	Mr. Ibrahim Aliyu
13	Office of the Senior Special Advisor to the President on the Millennium Development Goals (OSSAP-MDGs)	Mr. I.M. Mahid
14	OSSAP-MDGs	Mr. Jonathan Phillips
15	OSSAP-MDGs	Mr. Zhenbo Hou
16	OSSAP-MDGs	Mr. Barth Feese
17	OSSAP-MDGs	Mr. Akinfemide Philip
18	National Planning Commission (NPC)	Mr. Samuel Eloho

7 The ESMG had developed an Approach Paper that was discussed with stakeholders in Nigeria. The resulting draft Terms of Reference was submitted to key stakeholders in Nigeria before being finalised in the official Terms of Reference of the joint evaluation.

Table 1.6	The Abuja Advisory Group	
	Organisation	**Name**
19	NPC	Mr. Obasi Philip Ikechi
	Independent	
20	Centre for Democracy & Development (CDD)	Mr. Jibril Ibrahim (Director)
21	CDD	Ms. Mercy Ezehi
22	University of Ibadan	Mr. David U. Enweremadu
	Donor community	
23	DFID	Mr. Tony Burdon
24	DFID	Mr. Tom Adams
25	Embassy of Belgium	Ms. Clémentine Fauconnier (Acting Head of Mission)
26	Embassy of France	Mr. Jean-Michel Dumond (ambassador)
27	Embassy of France	Mr. Vincent Huyghues Despointes
28	Embassy of Germany	Mr. Burkard Werth
29	Embassy of Germany	Ms. Sophia Armansky
30	Embassy of the Netherlands	Mr. Bert Ronhaar (ambassador)
31	Embassy of the Netherlands	Ms. Margriet Struijf (Acting Head of Mission)
32	World Bank	Mr. Adetunji Oredipe
33	World Bank	Mr. Volker Treichel

In the European Refererence Group, the following persons participated:

Table 1.7	The European Reference Group	
	Organisation	**Name**
	Government	
1	FPS Finance, Belgium	Mr. Eddie Boelens
2	Ministry of Finance, the Netherlands	Ms. Nicole Bollen
3	Ministry of Foreign Affairs (MFA), Africa Department, the Netherlands	Mr. Job van den Berg
4	MFA, Africa Department, the Netherlands	Ms. Marion Eeckhout
5	MFA, Africa Department, the Netherlands	Mr. M. Hendrix
6	MFA, Department for IFIs and UN affairs, the Netherlands	Mr. Gerben Planting
	Independent	
7	Africa Studies Centre, the Netherlands	Mr. Akinyinka Akinyoade
8	Freelance	Mr. Bernard Berendsen
9	University of Antwerp, Belgium	Mr. Stefaan Marysse (Team leader Joint Evaluation Debt Relief Democratic Republic of Congo, DRC)

The meetings of the European Reference Group were chaired by the (acting) head of IOB. The evaluation team had three meetings with the European Reference Group and three meetings with the Abuja Advisory Group. The Intermediate Report of this evaluation was discussed in the European Reference Group in June 2010 and in the Abuja Advisory Group in August 2010, on the first day of the field work. At the end of the three weeks of field work the evaluation team met with the Abuja Advisory Group to present and discuss the preliminary findings, again leading to helpful comments.

The first draft of the final report was discussed with the Abuja Advisory Group on November 2, 2010. A revised draft final report was submitted for comments to the Abuja Advisory Group (by e-mail) and on December 1 discussed with the European Reference Group. A third draft of the final report was submitted to the European Reference Group late December (by e-mail). In all meetings, many useful comments and suggestions were received. Some members also provided helpful written comments. The definitive version was submitted to the Evaluation Steering and Management Group in January 2011.

1.5 Outline of the report

The results of the evaluation of the debt relief agreement between the Paris Club and Nigeria are presented in this report. Part One gives the answers to all 29 evaluation questions. Part Two contains the Annexes: the Terms of Reference of the joint evaluation, the bibliography, the list of persons interviewed, and it provides information on the ***gross*** outputs and outcomes of the debt relief agreement. These gross outputs and outcomes are the actual developments related to debt, economic development, reforms, and poverty reduction policies and results. Part One analyses the extent to which these gross outputs and outcomes are ***net*** outputs and outcomes, in other words, to what extent these developments can be attributed to the debt relief agreement. The two parts are complementary.

- Part One follows closely the different steps of the evaluation methodology and the 29 evaluation questions and is structured as follows:
- Chapter 2 describes the background and context for the debt relief agreement in Nigeria.
- Chapter 3 assesses the inputs of the debt relief agreement: the exact design of the agreement, the amounts involved and the conditions attached. Chapter 3 also deals with the specific context of the debt relief agreement in Belgium and the Netherlands.
- Chapter 4 elaborates on the outputs of the debt deal, both the monetary outputs and the outputs related to the conditionality attached to the deal. It focuses on the ***net*** outputs of the debt deal, the outputs which can be attributed to the debt deal.
- Chapter 5 concludes on the ***net*** outcomes of the debt deal, related to debt sustainability, macroeconomic stability, creditworthiness, and poverty reduction.
- Chapter 6 examines the *impact* of the debt relief agreement on economic growth and poverty reduction, assesses the sustainability of the outcomes of debt relief over the medium term (3-5 years), and draws conclusions on the lessons learnt from this evaluation.

Part Two's structure:
- Annex 1 presents the Terms of Reference of the joint evaluation.
- Annex 2 contains the bibliography.
- Annex 3 provides an overview of all interviews held in Abuja, the two visited states, Brussels, The Hague, and Washington DC.
- Annex 4 presents the ***gross*** outputs, the actual output developments in the area of reforms, public finance, debt management, poverty reduction, and the Virtual Poverty Fund (VPF).
- Annex 5 elaborates on the ***gross*** outcomes, the actual outcome development. The sub-Annexes focus on debt sustainability, macroeconomic stability, and poverty reduction outcomes.

Annex 4 and annex 5 are related to respectively Chapter 4 and 5 of the report.

2

The context

2.1 Introduction

This chapter describes the background and context for the debt relief agreement in Nigeria. It describes causes of the debt problems of developing countries since the late 1970s, and analyses the responses of the creditors to these problems over the 1980s, 1990s and the years after 2000. This provides the context for answering evaluation question 8 on 'How did the Nigerian debt relief agreement fit in international debt relief policies?', which will be taken up in section 3.3. The third section in this chapter analyses the origin of Nigeria's debt, in particular. This is an answer to evaluation questions 1 and 2, on origin and nature of the debt and on Nigeria's debt policies before the debt relief agreement.

2.2 International debt relief policies before 2005

2.2.1 Historical overview

Many developing countries started to experience problems of debt servicing in the early 1980s. During the 1970s borrowing had been cheap as a result of excess liquidity in western banks, in turn the result of large deposits of oil exporting countries. Developing countries built up large debts with commercial banks. However, after 1979, a combination of high oil prices, high international interest rates, falling demand and falling prices for many exports brought about large balance of payments problems. The commercial banks were not willing to provide more loans anymore. This meant a double shock for the affected countries. Most sovereign debts of Sub-Saharan African countries were not with commercial banks, but with bilateral creditors. These countries suffered less from the higher interest rates but they did experience large falls in export income, and many of them had debt service problems as well. Nigeria had debt with both types of creditors, commercial and bilateral, so was affected by high interest rates and falling export income, especially when the oil price fell from 1985 onwards.

The responses differed from the different groups of creditors. Commercial banks quickly began to write off their non-performing debts and to engage in trading debt claims on the secondary market (Dooley, 1994). The 1989 'Brady Plan' was inspired by these market-based debt reductions. Countries could exchange their old debts at the current market rate for new debt claims with a higher priority, or they could buy back their own debt at a market-determined discount. This often implied large debt reductions, and allowed countries to become creditworthy again. Many Latin American countries concluded the so-called Brady deals between 1989 and 1992, and for these countries the debt crisis of the 1980s was over.

Official creditors, however, continued lending to the debtor countries and did not write off their debts. During the 1980s, export credit agencies continued to insure exports and bilateral aid loans were also still provided on a large scale, especially to Sub-Sahara Africa. Official creditors were of the view that the debtors did not have a solvency problem but a liquidity problem. The countries needed additional finance in order to grow out of the debt problems. As a result, these African countries indeed did not have to adjust as drastically as Latin American countries. The net resource flow to Sub-Sahara Africa remained positive

(Dijkstra, 2008). But a second result was that debts of African countries continued to increase – both as a result of arrears accumulation, and as a result of new loans. Most African countries could not service these debts.

The reasons for the different response of official creditors include i) governments are not subject to banking regulations that would have forced them to write down their assets in the books, and ii) writing off debts would have to be paid for, and ministers for development cooperation were not willing to bear these costs; [8] they preferred to continue lending instead of using development cooperation funds for debt write-offs (Daseking & Powell, 1999).

In order to deal with payments problems on sovereign debts with bilateral official creditors, countries had to approach the Paris Club. The Paris Club was established in 1956 as an informal Group of mostly OECD countries that collectively negotiate on debt rescheduling with debtor countries. Until 1988, all Paris Club agreements had been non-concessional flow reschedulings. This implied that no debt reductions were involved, and that the rescheduling only concerned the flow of debt service due during the next one to three years. As a result of these reschedulings, the debt stocks in nominal terms increased due to cumulative interest.

The IMF has always played an important role in Paris Club agreements. First, countries had to have an IMF arrangement with accompanying policy conditions before a Paris Club rescheduling could be agreed upon. Second, the IMF advised on the capacity of the debtor country to pay, by computing the 'financing gap'. Another Paris Club rule is that reschedulings only concern the debts contracted before the cut off date.[9] The cut off date is defined the first time that a country negotiates a Paris Club deal (usually one to three years before the first agreement) and is not changed after that.

In 1988, the Paris Club introduced concessional rescheduling, leading to some reduction in the net present value of debts, but only for Low Income Countries. In fact, Low Income Countries were defined as countries classifying for the concessional IDA (International Development Association, one of the institutions of the World Bank Group) window of the World Bank, the so-called 'IDA-only' countries. These countries had an income below an annually updated threshold,[10] were considered not creditworthy in international capital markets and had reasonably good policies.

The concessionality of Paris Club reschedulings was originally modest. The so-called Toronto terms (1988) implied that a maximum of 33 per cent of the net present value of the flow of debt service due in the next 1-3 years could be cancelled. The share of cancellation was later increased to 50 per cent (London terms, 1991) and to 67 per cent (Naples terms, 1995). For

8 Writing off is more costly for official creditors than for private creditors as the latter usually have already made some profit in the first years of the loan due to much higher interest rates.

9 In recent years, and especially since the enhanced HIPC Initiative of 1999, there have been some cases in which reduction of post cut off debts is also considered, in particular if that was considered necessary in order to obtain a sustainable external debt.

10 In 2010-2011, this threshold was US$ 1,165 per capita.

Heavily Indebted Poor Countries (HIPC) and in the context of the enhanced HIPC Initiative, the cancellation was increased to 90 per cent or more, if necessary (Cologne terms, 1999). With Naples terms, it was possible for the first time that Low Income Countries were also granted a reduction in the debt stock, and not just in the flow of debt service due.

For Middle Income Countries, the Paris Club applied classic or Houston terms, and this always was a non-concessional debt rescheduling.[11] In 2003, when the Paris Club was preparing a debt deal with Iraq, a new type of rescheduling was agreed upon for Middle Income Countries, the so-called Evian terms. Evian terms meant a more flexible treatment. In the Iraq case, concluded in 2004, it led to an 80 per cent reduction.

In the 1990s, when bilateral creditors began to reduce debt obligations and when bilateral creditors that were also donors switched to grants, the multilateral institutions continued to expand their lending, also to countries with severe debt payment problems. They did not recognise yet that debts from multilateral institutions were part of the problem and could not always be serviced (IOB, 2003). By imposing policy conditions they hoped to persuade other creditors and donors to provide new funds. Multilateral institutions could continue lending because they are preferred creditors and their loans were usually fully serviced by the debtors.[12] Yet, in many cases they were serviced by grants from bilateral donors.

This began to change in 1996 when the initiative for the Heavily Indebted Poor Countries (HIPC initiative) was launched. This meant that, for the first time, multilateral debts could be partially cancelled. In 1999 this initiative was expanded to include larger and faster debt relief for more countries. The HIPC initiative was meant for countries eligible for 'IDA-only' status (World Bank) and for the low-income facility of the IMF, suffering from an unsustainable debt, defined as a present value of debt to export ratio of more than 150 per cent, or a debt-to-tax revenue ratio of more than 250 per cent. Originally, 41 countries were in principle eligible for the Initiative. As usual, countries had to have an IMF programme. A new condition was that they had to write a Poverty Reduction Strategy Paper. In order to qualify for the Decision Point of the Initiative they could write an 'Interim PRSP', with lower requirements with respect to the consultation process. After achieving the Decision Point, countries may receive interim debt relief from bilateral and multilateral creditors. To achieve the Completion Point, countries had to show a satisfactory macroeconomic track record. In practice, this meant that they were on track with an IMF programme for at least six months. They also had to have an approved PRSP and having implemented it satisfactorily for a year,[13] and they had to comply with a list of country-specific policy reform conditions. After Completion Point, the debt relief would become irreversible. All creditors would provide the same debt reduction per centage after applying 'traditional debt relief' (Naples terms).

[11] The middle income countries Poland and Egypt managed in 1991 to get a more favourable treatment, mainly due to political reasons (Rieffel, 2005).

[12] There are exceptions, but countries in arrears with IMF or World Bank do not receive new loans from these institutions until arrears are cleared, as happened, for example, with Nicaragua, Peru and Zambia in the early 1990s.

[13] This condition aimed at securing that eventually freed resources from debt relief would be used for poverty reduction within a macroeconomically sustainable framework.

This common reduction factor is country-specific and is chosen such that the present value of debt to export ratio becomes 150 per cent after the debt relief.[14]

For several countries the HIPC initiative still proved not able to reduce debts permanently to sustainable levels (IEG, 2006). This was sometimes due to lower than expected export prices but also to large volumes of new multilateral loans. For this reason, the July 2005 G8 summit in Gleneagles decided to grant further reductions on multilateral debt. This was later (2006) formalised in the Multilateral Debt Relief Initiative (MDRI). Countries having already achieved the Completion Point of the HIPC initiative were now granted a full cancellation of their debts outstanding by January 2005 to World Bank,[15] IMF, and African Development Bank, later also to Inter-American Development Bank. The cancellation would be provided as flow relief: as debt service would become due, it would be cancelled. The IMF is an exception, as it provides stock relief in one go at Completion Point. The novel thing about MDRI was that it was automatically granted to HIPC Completion Point countries; no IMF programme or other policy conditions were needed. However, given the importance of policies and governance criteria in the allocation of new resources, countries benefiting from MDRI with lower policies and governance scores would definitively get fewer new loans.

2.2.2 The debate on debt relief

The academic debate around international efforts for debt relief has focused on many different issues. Some argued that debt relief leads to moral hazard among the debtors; expecting that debts will be cancelled they will continue borrowing for non profitable projects (Easterly, 2002). Studies of the allocation of debt relief showed that it was not going to countries with better policies and better governance (Neumayer, 2002). On the other hand, many authors claimed that not enough debt relief has been provided. This was especially the case before the (enhanced) HIPC initiative and also before the MDRI. Official creditors were providing just enough debt rescheduling and some forgiveness so that debtor countries could meet some of their repayment obligations. But it was not enough for growth or poverty reduction (Sachs, 2002).The argument has been extended to the MDGs: the resources needed for achieving the MDGs should be factored in the amount of debt relief needed (Berlage et al., 2003; Hanlon, 2000).

Others have been concerned with the additionality of debt relief. If debt relief is accompanied by reduced (other) aid flows, debtor countries do not experience an increased resource envelop (Birdsall and Williamson, 2002; Cohen et al., 2004; IEG, 2006). This is related to how debt relief is financed and accounted for on the donor side. With respect to export credit loans (commercial bilateral loans), cancellation of these loans is usually registered as ODA in conformity with the rules of the Development Assistance Committee (DAC) of the OECD.

[14] For Paris Club creditors this reduction factor was applied to debt before the cut off date. In several cases post cut off date debt was included, and individual creditors often raised the cancellation to 100 per cent on a bilateral basis ('HIPC Initiative', www.clubdeparis.org/sections/types-traitement/reechelonnement/initiative-ppte, accessed 1 November 2010.)

[15] January 2005 held for all agencies except for the World Bank. For the latter, debts incurred before January 2004 were cancelled.

This has given rise to criticism (IOB, 2002; IOB, 2008), as OECD rules also stipulate that national export credit agencies should not be dependent on subsidies and should break even in the long run - losses should be covered from the premiums paid.[16]

In the case of bilateral aid loans, formally only the cancellation of interest payments may be accounted for as ODA. The cancelled main sums are registered as outgoing aid flow, but must be compensated for by an 'offsetting entry'. However, cancellation of ODA loans leads to higher net ODA in the years in which repayments were due, because repayments would have to be subtracted from gross ODA. This means that in fact all cases of bilateral loan cancellations increase net ODA, provided we include the consequences for ODA not only in the year of the cancellation but also in future years. For donors with a fixed ODA budget, or fixed in relation to GDP (e.g. Netherlands, Sweden), debt relief substitutes for other aid. Debt relief may lead to lower other aid for the same country or, more likely, to lower aid for other recipient countries. For donors not having a fixed ODA budget (Belgium, UK) debt relief may conveniently inflate ODA figures, but also in these cases the question is whether they maintain their ODA at the same level.

Debt cancellations by multilateral institutions must also be paid for. Both World Bank and IMF have designated some resources from their own 'reserves': the Word Bank out of profits on IBRD loans, and the IMF by off-market selling of some of its gold reserves. But most of the financing for HIPC and MDRI comes from additional contributions from bilateral donors to the concessional window of the World Bank (IDA) and the concessional window of the IMF. These contributions have been forthcoming,[17] but they reduce bilateral aid disbursements - compared to a situation without additional disbursements to the International Financial Institutions (IFIs). As a result, the plea for additionality of multilateral debt relief and the maintenance of multilateral lending to the poorest countries leads to a relative increase of multilateral transfers at the cost of bilateral transfers to developing countries. As most bilateral aid is provided as grants and most multilateral aid is loans, this shift from bilateral transfers to transfers from the International Financial Institutions also implies a (partial) shift from grants to loans (Dijkstra, 2008).

All these debates focus on the flow effect of debt relief. But debt relief may also have a stock effect. By removing the 'debt overhang', which is a debt so large that it cannot be paid and is not paid (Krugman, 1988; J. Sachs, 1989), the country can become creditworthy again. Governments can borrow again in private markets at reasonable rates, and the private sector is willing to invest because it no longer has to fear that profits will be taxed away in order for the government to pay its debts. The debt overhang also has a policy component (Deshpande, 1997). Governments suffering from a debt overhang do not have incentives to improve their policies, because as soon as the country's macroeconomic indicators improve, creditors will require repayment.

[16] This rule is meant to create a level playing field among export credit agencies and avoid distortions. However, in the past, this rule was less strictly applied (Source: oral information from a member of the European Reference Group).

[17] For example, the bilateral contributions to the IDA Replenishment Fund for 2008-2011 were the largest ever.

With the HIPC and MDRI initiatives, the international community[18] recognised that multilateral institutions were not only part of the solution, but also part of the problem of the heavily indebted poor countries. Their continued lending had contributed to the unsustainable debts. Some have considered this a case of moral hazard on the side of these creditors: they did not suffer the consequences of their risky lending themselves (Dijkstra, 2008). In a way, multilateral creditors were bailed out by bilateral donors and creditors: the bilateral creditors had to accept a lower repayment rate on their own loans, and many of them provided debt relief on multilateral debt as part of their aid to these highly indebted countries. The requirement that countries always needed an IMF-supported programme in order to qualify for debt relief, also meant that these countries incurred more debt: until 2005, an IMF programme always implied policy conditions plus a loan. This also meant that the IMF had two incompatible roles vis-à-vis highly indebted countries. On the one hand, the IMF was expected to assess the country's policies and to determine whether new finance, or debt relief, for this country was justified, the gatekeeper role, and on the other hand the IMF was creditor itself and had an interest in new finance for this country so that the country could repay previous IMF loans.

In view of these issues, in particular the continued IFI lending to uncreditworthy countries and the mixing of roles by the IMF, several reforms in the international aid and debt architecture were carried out. First, the World Bank increased the maximum share of grants from the IDA window from 10 to 30 per cent in 2005. The maximum has since remained at this level, but in practice the share of grants has never been higher than about 20 per cent. Second, two new instruments were designed, the Debt Sustainability Framework (DSF) developed by World Bank and IMF, and the Policy Support Instrument (PSI) of the IMF. The DSF builds on the earlier Debt Sustainability Analysis but is now also forward-looking, assessing future risks of debt problems and advising on the country's borrowing capacity. The DSF is, among other things, used to decide whether the country is able to receive IDA loans, or instead should receive IDA grants. If the country receives only grants and no loans, the total amount of IDA disbursements is reduced by 20 per cent. Factors determining the debt sustainability include the size of the debt in relation to GDP and the country's policies and governance, as measured by the Country's Policy and Institutional Assessment (CPIA). One of the objectives of the PSI was to separate the gatekeeper from the creditor. In short, it is an IMF programme without money for low-income countries, so the programme would be able to endorse the country's policies and give a 'stamp of good behaviour' while not increasing the country's debt.

18 Decisions in IMF, World Bank, and other multilateral banks are made by the shareholders; rich countries, so representatives of bilateral donors, hold the majority of voting power in these institutions.

2.3 The origin of Nigeria's debt

2.3.1 The increase in debt[19]

Nigeria's external debts were small until 1978 (Figure 2.1). They consisted of long-term loans from the World Bank and other official sources and were mainly used for public investment. These were borrowed on concessional terms and with abundant oil revenues during the oil boom between 1973 and 1976, repaying these loans was not difficult. Based on the belief that oil prices would remain high, the country began to borrow more. This expansion of borrowing began during the first reign of (then) Lieutenant-General Obasanjo (1976-1979). When in 1977-78 the oil price fell and the country still wanted to continue with the investments, it raised the first big loan of more than US$ 1.0 billion from the international capital market. This loan, with a three year grace period, was used for several infrastructure projects but these were not profitable enough for its repayment.

The second rise in oil prices in 1979, which led to a price of US$ 39 per barrel in 1980-81, led the authorities to believe that the economy was buoyant. Some deflationary measures introduced in 1978 were relaxed. This increased consumption levels in the country, and this consumption had a high import content. The import substitution industrialisation strategy also brough about high imports of raw materials and equipment. The overvalued exchange rate raised the price of non-tradable goods and domestic investment and favoured capital intensive projects that had a high import content.

In 1980, total public and publicly guaranteed external outstanding debt was US$ 8.92 billion, representing a debt to GNI ratio of 14.1 per cent.[20] Total external debt service payments as a per centage of exports was low at around 2 per cent.

The debt started to increase significantly from the early 1980s, under the presidency of Shehu Shagari, elected in 1979 (Figure 2.1). Many projects included in the Fourth National Development Plan (1981-85) had a high import content. The plan was based on a foreign exchange inflow of US$ 30 billion per annum. However by 1982, when oil prices began to fall significantly, monthly import bills averaged US$2 billion while export receipts averaged only US$ 1.5 billion, accounting for only 60 per cent of the planned inflow. The production and consumption patterns that emerged during the oil boom could not be maintained against the background of declining foreign exchange earnings. Instead of addressing this imbalance by changing the production and consumption patterns started during the oil boom, the federal and state governments embarked upon massive external borrowing from the international capital market. This extensive borrowing continued under the military regime of Major-General Muhammed Buhari (Figure 2.1) who took over power in mid 1983.

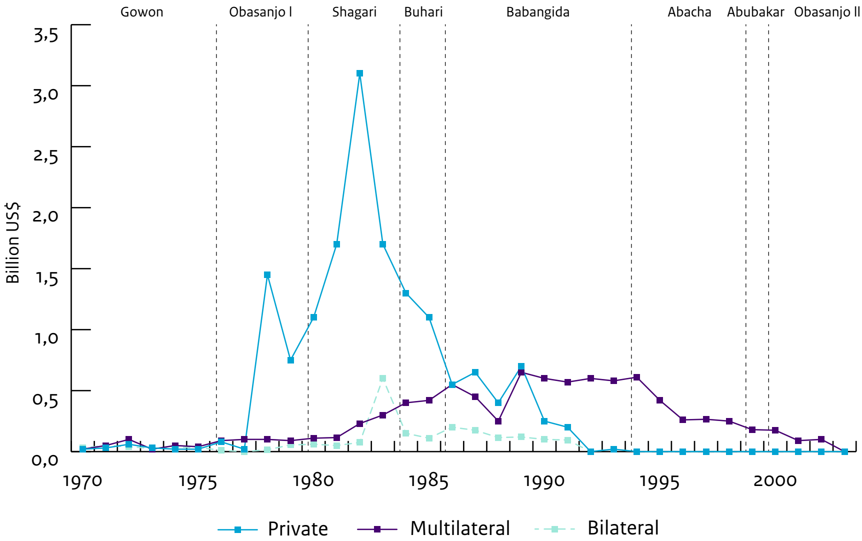
The borrowing included commercial bank loans, short term insured and uninsured trade credits and longer term officially supported export credits. The overvaluation of the

[19] The information on the rise in borrowing in the 1970s and 1980s and the use of the loans is largely based on DMO, "*Nigeria's external and domestic debt*", document downloaded from www.dmo.gov.ng, accessed 16 August 2010.

[20] World Development Indicators, 2009.

exchange rate not only stimulated excessive imports but also led to over-invoicing of imports and under-invoicing of exports, provoking capital flight. The borrowed funds were often invested on projects which did not give reasonable rates of return, while the Letter of Credit for imports of consumer goods were often given for fake imports; just leading to capital flight.

Figure 2.1 *Loan disbursements under different political leaders, in US$ billion,1970-2002*

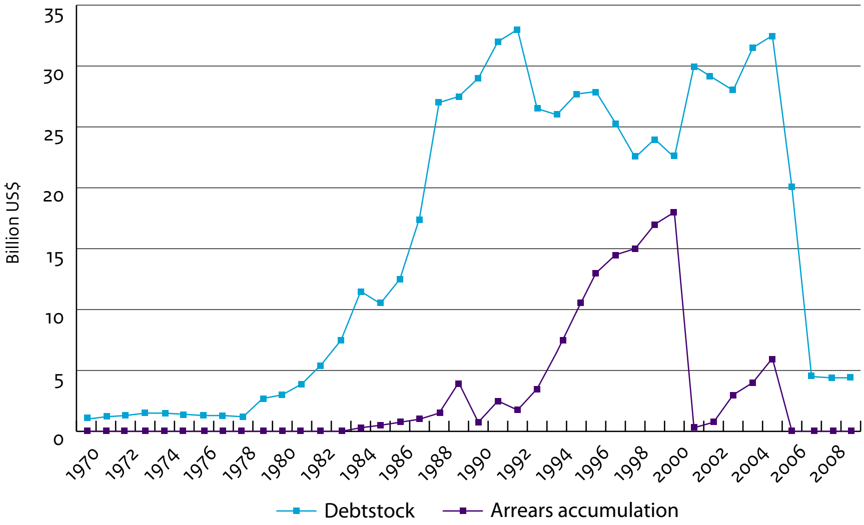


Source: Figures from Worldbank, GDF; presidential periods added as in "Double Standards, Debt Treatment, and World Bank Classification: The Case of Nigeria," Working Paper 45, Centre for Global Development (CGD), September 1, 2004, page 30.

By 1983, Nigeria faced payment difficulties on short term trade credits and consequently trade arrears accumulated. This led to the refinancing agreement of 1983 for Letters of Credit amounting to US$2.1 billion. Outstanding trade debts contracted through open accounts and import bills for collection as at December 31 (1983) were refinanced through issuance of promissory notes. Payment difficulties increased as the oil price continued to fall and the interest rate had increased in the early 1980s. Many new debts were contracted in order to pay the old claims.

Oil revenues continued to fall from a high of US$ 25 billion in 1980 to US$ 6 billion in 1986. In that year, creditors refused to open new credit lines for imports to Nigeria. From then on, arrears began to accumulate (Figure 2.2).

Figure 2.2 *External public debt stock and arrears accumulation, in US$ billion, 1970-2008*



Source: Global Development Finance.

2.3.2 Debt policies and rescheduling[21]

The history of Nigeria's debt prior to 2005 can be divided into five phases. In the first phase, including 1970s and up until 1982, debt service was not a major concern of the government. The ratio of external debt service to exports hovered around 10 per cent. Though many of the projects were, as explained earlier, not giving the expected rate of return and in some cases they were classified as 'white elephants', the high external borrowing in late 1970s and early 1980s did not raise any concerns at that time because oil prices were high and therefore revenues were high enough to pay the debt service.

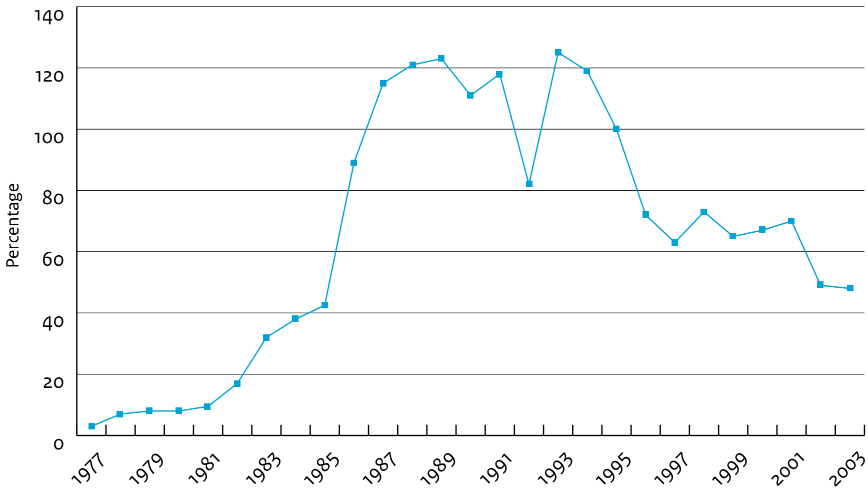
The second phase, from 1982 to 1986, was one of increasing debt service but with continued access to foreign borrowing. When oil prices fell and market interest rates rose, debt service payments became a major expenditure. By 1985, the ratio of external debt service to exports had increased significantly to around 30 per cent. In 1986, the ratio of external debt to GDP ratio was 89 per cent, while it climbed to about 120 per cent in the years after 1986 (Figure 2.3).

The third period started in 1986 when access to new credit lines was refused and the government considered restructuring its bilateral debt. General Babangida who had seized power in 1985 began to negotiate for a Paris Club rescheduling in 1986. The creditor governments agreed to reschedule more than US$ 7 billion of medium and long term debt in arrears at the time of the negotiations and falling due over the coming year. Accompanying this debt rescheduling was the implementation of an IMF adjustment programme, which did not receive much support from the Nigerian public. The depreciation of the Naira made debt payments of external debt more expensive in local currency.

21 This section is largely based on Rieffel (2005).

The country's continued inability to service its debt caused Nigeria to revisit the Paris Club in 1989 and 1991. Nigeria rescheduled another US$ 6 billion including arrears with the Paris Club in 1989 and a further US$ 3 billion in 1991. All agreements were accompanied by IMF Standby arrangements, but these programmes often went off track. Nigeria never actually drew on IMF resources but needed the IMF arrangement to monitor and endorse its policies - because this was a condition for Paris Club reschedulings. Nigeria also went to the London Club to reschedule commercial bank debt in 1987 and 1989.

Figure 2.3 *External public and publicly guaranteed debt to GDP ratio, in %,1977-2004*



Source: Own calculations based on WDI, DMO reports and NBS.

All these reschedulings were on non-concessional terms, implying that they only postponed part of the debt service due, continuing to charge interest on the postponed debt service. This implied that the nominal debt stock continued to increase. Until 1992, both the official bilateral creditors and commercial banks refused to accept any debt reduction in their rescheduling packages.

The fourth phase in Nigeria's debt began in 1992 and lasted until 1999. In this period, the relations between Nigeria and its different creditors began to diverge. In 1989, the Brady Plan was introduced which contained an element of debt reduction for commercial bank debt. In January 1992, Nigeria managed to agree on a Brady deal. This implied that US$ 5.6 billion in commercial debt was converted into US$ 2.1 billion of new bonds, leading to a discount of 62 per cent (Rieffel, 2005). Part of the new bonds, also referred to as Brady bonds, were issued as oil warrants, which meant that if the oil price would remain higher than US$ 28 per barrel for six consecutive months, bond holders were entitled to additional income. After this reduction, Nigeria was able to service these debts to private creditors. The commercial debt stock gradually diminished as private creditors did not provide new loans to Nigeria.

Following the 1991 Paris Club agreement, it was expected that another deal would be accomplished in 1992, with a similar reduction per centage on the bilateral debt as in the Brady deal for commercial debt. However, no such deal was realised. The Paris Club refused to offer debt reduction to Nigeria. One reason was that Nigeria was off track with the 1991 IMF programme. Another reason was that the concessional rescheduling (Toronto, London and later Naples terms) were only open for IDA-only countries. Nigeria was not classified as such, having become a 'blend' country (eligible for both IDA and IBRD borrowings) in 1989.

In the expectation of a concessional debt reduction, Nigeria started to limit payments to Paris Club creditors to no more than 30 per cent of oil revenues (Budina et al., 2007). This led to huge arrears accumulation during the 1990s, especially when oil prices were low in 1994 and 1995. Nigeria also started to discriminate among its Paris Club creditors from 1992 onwards, paying some more than others. The increase in bilateral debt after 1992 was also partly the result of new lending by Paris Club creditors (60 per cent of which was from Japan).

The different treatment by private and official creditors in around 1991-1992 had major consequences for Nigeria's debt in this period. While private creditors accepted their losses and wrote-off their debt, official creditors did not and non-performing debts accumulated significantly. The build-up of arrears implied capitalisation of interest, late interest and penalties and so further increased the debt stock. It is worth mentioning that during this period Nigeria paid the multilateral debt on time and disbursements continued to take place.

The fifth phase was between 1999 and 2005 covering the first and part of the second term of elected president Olusegun Obasanjo. In this period, the government took the decision to work towards debt reductions from the Paris Club (further elaborated upon in section 3.2). In 2000, Nigeria entered into an IMF Standby arrangement, followed by a fourth Paris Club rescheduling. Though some debt service payments were made, arrears continued to accrue and by the end of 2004, Nigeria's external debt had reached approximately US$ 34 billion, of which Paris Club debt was around US$ 30 billion. The UK, France and Germany accounted for most of this outstanding debt (Table 2.1). Most of the original loans were contracted before 1985. After 1985, the outstanding debt increased mostly as a result of arrears accumulation (Figure 2.4).

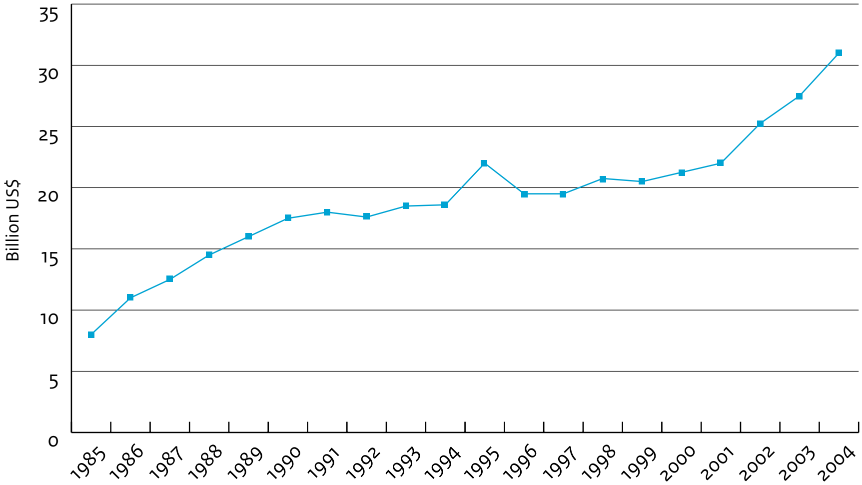
Table 2.1 Debt stocks by creditor country, amounts outstanding by end 2004, in US$ million

Country	Outstanding as at 31.12.04
UK	8,000.32
France	6,249.61
Germany	5,288.66
Japan	4,447.97
Italy	1,975.94
Netherlands	1,707.98
USA	984.49
Belgium	608.19
Denmark	571.75
Austria	521.38
Spain	249.54

Table 2.1 Debt stocks by creditor country, amounts outstanding by end 2004, in US$ million	
Switzerland	201.01
Russia	36.97
Finland	3.99
	30,847.80

Source: Callaghy (2009), based on DMO figures.
Authors' note: Brazil, the fifteenth creditor country and co-signatory of the October 2005 debt agreement was accidentally omitted from this table. It held outstanding debts totalling over US$ 100 million.

Figure 2.4 *Nigeria's debt to creditor countries of the Paris Club, in US$ billion, 1985-2004*



Source: CBN Statistical Bulletin 2003, 2004, 2005.

2.3.3 Internal debt management and debts of the states

During the whole period of extensive external borrowing, it was very easy to contract loans. Every senior official at federal and states and local government level was authorised to borrow. There was no strong legal framework that provided a clear mandate, purposes for borrowing and types of loan that can be contracted, and there was very little oversight on the uses of the loans. The lack of coordination in borrowing implied that there was no accurate record of the size of the debt stock. This problem continued until the establishment of the Debt Management Office (DMO) in 2000. Three agencies were involved in the recording of debts: two departments in the Central Bank of Nigeria and one in the Federal Ministry of Finance. The agencies did not coordinate with each other and none of them had a complete overview of Nigeria's debt situation.

All states had external debts, but the origin of these debts was not always clear. In the course of time, the number of states had gradually increased. When Nigeria started to borrow, the number of states had just expanded from 12 in 1967 to 19 in 1976. The governments of Buhari, Babangida, and Abacha further increased the number of states, in respectively 1985, 1991 and 1996, to reach the current number of 36 (Iyoha and Oriakhi, 2008). Each additional state meant a new layer of politicians engaging in high public and private spending and often also enhancing capital flight. The newly created states often did not feel responsible

for debts that had been accrued in the past by their 'mother' state and that were artificially assigned to them. For this reason, they often refused to pay debt service.
By end 2004, the total external debt stock of the states was US$ 7.7 billion, constituting about 25 per cent of the total external debt of Nigeria. Table 2.2 provides an overview of the debts of the states.

Table 2.2 Debts stocks of the states, in US$ million, 2001-2005

	States	2001	2002	2003	2004	2005
1	Abia	608.89	639.75	647.38	655.87	312.36
2	Adamawa	258.23	267.53	269.55	267.71	134.17
3	Akwa Ibom	138.71	143.76	144.63	143.52	118.07
4	Anambra	120.40	122.91	122.49	119.50	68.53
5	Bauchi	88.42	84.79	86.96	88.50	59.06
6	Bayelsa	144.81	151.49	154.36	154.71	78.63
7	Benue	255.83	265.74	270.48	276.77	132.10
8	Borno	139.85	141.40	139.22	140.60	65.88
9	Cross River	70.19	71.52	72.08	71.70	100.85
10	Delta	133.18	134.57	133.58	132.50	80.10
11	Ebonyi	165.84	171.56	172.72	171.48	83.92
12	Edo	293.49	302.79	306.73	302.36	162.71
13	Ekiti	162.34	170.54	177.18	148.10	74.53
14	Enugu	293.11	306.13	311.12	311.75	156.60
15	Gombe	99.64	102.31	103.73	105.57	51.86
16	Imo	408.62	426.41	427.98	427.37	212.42
17	Jigawa	69.02	71.56	70.54	69.52	38.77
18	Kaduna	62.14	61.00	60.53	59.90	68.86
19	Kano	92.70	93.44	93.56	92.68	67.57
20	Katsina	60.80	59.90	59.49	58.95	63.13
21	Kebbi	33.35	30.29	29.78	29.40	28.49
22	Kogi	341.37	358.60	363.99	358.26	182.60
23	Kwara	333.52	350.42	352.04	352.88	180.48
24	Lagos	421.92	417.93	415.10	411.16	272.55
25	Nassarawa	94.34	88.17	90.97	91.94	54.05
26	Niger	443.93	461.26	500.40	514.72	264.84
27	Ogun	221.08	232.17	243.33	247.74	140.74
28	Ondo	120.00	119.76	122.72	156.14	96.73
29	Osun	366.18	377.61	398.61	426.75	240.71
30	Oyo	147.08	135.76	138.73	141.50	127.02
31	Plateau	504.99	529.09	569.78	592.55	280.63
32	Rivers	171.85	180.05	191.76	189.45	106.28
33	Sokoto	189.63	193.38	197.40	200.96	92.93
34	Taraba	142.41	149.03	156.11	151.23	77.12
35	Yobe	42.57	40.89	40.59	39.88	9.32
36	Zamfara	24.89	23.38	23.06	22.48	14.40
	Total	**7,265.27**	**7,476.88**	**7,658.65**	**7,726.10**	**4,299.01**

Source: DMO.

3

Inputs

3.1 Introduction

The main aim of this chapter is to describe the inputs of the debt relief agreement: the exact design of the agreement, the amounts involved and the conditions attached. In addition, the chapter sets out to answer the evaluation questions that are linked to the contents of the debt relief agreement. These are the questions related to the actors involved in Nigeria and the aims of these actors, the objectives and motivations of the creditors. Furthermore, the chapter answers the evaluation questions on how the debt relief agreement fits with Belgian debt relief policies, Dutch debt relief policies and international debt relief policies.

The chapter begins with describing the developments in Nigeria and abroad that were important in the run-up to the agreement: it tells the story of how the initially widely diverging points of view on debt reduction for Nigeria, between the Nigerian government on the one hand and the creditors on the other, gradually came together and which factors eventually allowed for an agreement. Section 3.3 describes the details of the agreement itself, and assesses the deal in the light of international debt relief policies at the time. Section 3.4 analyses the motivations and objectives for the agreement of the creditors. Section 3.5 describes which actors were involved in the agreement in Nigeria, while section 3.6 analyses the motivations and objectives on the Nigerian side. The final two sections examine how the Nigerian debt relief agreement relates to the Belgian and Dutch debt relief policies.

3.2 The background to the debt deal

When President Obasanjo was elected President in 1999, Nigeria began to push for a more favourable debt relief deal with the Paris Club. President Obasanjo argued that a debt reduction was needed in order to implement economic reforms. According to Callaghy (2009), both Gordon Brown (UK Treasury Secretary) and Larry Summers (US Treasury Secretary) were telling Nigeria that it had to carry out reforms first, and that the Paris Club would then consider a more favourable treatment of Nigeria's debt. In fact, Gordon Brown attached the phrase 'If Nigeria would need it' (Callaghy, 2009: 16), while the US promised 'a more comprehensive solution' without this qualification. In January 1999, the IMF began a Staff Monitored Programme. It was quickly off track due to fiscal targets not being met, but in 2000 fiscal performance was better and a one year Standby arrangement was concluded in August 2000. This was followed by a Paris Club agreement in December 2000. It was again a non-concessional agreement (only rescheduling, no cancellation) but it was a generous rescheduling. It restructured US$ 23.4 billion, and led to a reduction of debt service due to US$ 1 billion in 2001, instead of the due US$ 3 billion (Callaghy, 2009: 20). It was expected that after one year of successful implementation of the IMF programme, Nigeria could get a more favourable deal in 2001, although no firm commitments were made. However, this did not happen for several reasons.

One problem was that Nigeria was not an 'IDA-only' country, and, according to Callaghy, the World Bank was not willing to consider 'IDA-only' status at that time precisely because it would make Nigeria eligible for Naples terms (Callaghy, 2009: 21). But a more immediate problem was that Nigeria did not live up to the promises of reform. In early 2001 the IMF programme was already off track, and the scheduled April 15 review that was part of the Paris Club agreement never took place. Rising oil revenues were spent generously, for example on a luxurous sports stadion, a space programme and other 'white elephant' projects. In the meantime, the country did not pay all debt service due, and arrears began to accumulate again (Figure 2.1 above). Multilateral creditors have always been paid, and most non-Paris Club bilateral creditors as well, in return for sometimes substantial reductions (Rieffel, 2005: 10).

In May 2003 Obasanjo started his second Presidential term after his re-election. This time, he appointed a highly qualified professional, Mrs Dr Ngozi Okonjo-Iweala as Minister of Finance. She was Managing Director at the World Bank and had briefly been the President's advisor in 2000 to help set up the Nigerian Debt Management Office (DMO). She shared Obasanjo's desire to achieve a substantial debt deal with the Paris Club. Along with Dr Okonjo-Iweala, other well qualified persons were appointed such as Professor Charles Soludo as Governor of the Central Bank and Dr Mansur Muhtar as Director General of the DMO.

3.2.1 Issues solved in the run-up to the debt deal

From the creditors' point of view, there were several hurdles for a debt deal that would include debt reductions. First, Nigeria had a huge reputational problem both in the form of irresponsible macroeconomic policies and rampant corruption and in the form of lack of payment on the restructured amounts to the Paris Club. Second, as long as Nigeria was no IDA-only country concessional rescheduling was not impossible,[22] but considered more difficult. Third, Paris Club creditors required an IMF programme. And fourth, creditors would have to be convinced that Nigeria would not be able to pay, or in other words, that Nigeria's debt was unsustainable.

On all four issues, progress was made. The new economic management team began to implement important reforms. An oil price based fiscal rule[23] was introduced to stabilise government expenditure and improve macroeconomic management. Government financial management was improved and a civil service reform monetised benefits and eliminated thousands of ghost workers. Corruption was combated by, among other measures, implementing a new procurement system, by establishing the Economic and Financial Crimes Commission (EFCC) and by publishing the amounts transferred from the federal government to the states. The National Economic Empowerment and Development Strategy was elaborated, which in a way described all these reforms that were already being implemented.[24] Apart from the election year 2002, the country began to service the Paris Club creditors the agreed (reduced) amount of US$ 1 billion annually.

[22] As mentioned above, it had been applied for Poland and Egypt. In 2004 Iraq was another such exceptional case.

[23] This rule implies that the budget is based on estimates of the oil price and the oil production volume. Oil revenues in excess of these estimates are tranferred into an 'Excess Crude Account' at the Central Bank. See also section 4.3.1.

[24] Interview with Ms Ngozi Okonjo-Iweala.

Another important step in obtaining debt relief was the reverse change required in the status of Nigeria from being a 'blend' country to an 'IDA only' country. After a meeting between Ms Ngozi Okonjo-Iweala and Ms Nancy Birdsall,[25] founding President of the Centre for Global Development, an influential think-tank in Washington DC, the latter institution began to study the Nigerian debt situation. It wrote a paper showing that if the three criteria for the 'IDA-only' classification were applied to Nigeria in the same way as for other countries, Nigeria qualified as 'IDA-only' (Moss et al., 2005). The three criteria for 'IDA-only' included having low income per capita, not having access to commercial external finance and reasonable policies. In 2003, the country had a per capita income (GNI) of US$ 320, as compared to the cut off threshold between 'blend' and 'IDA-only' which was around US$ 895. Nigeria had not received private loans for a long time, and despite being a 'blend' country since 1989, in practice no IBRD loans had been disbursed. Nigeria's scores on the Country Policy and Institutional Assessment (CPIA) were not worse than for other 'IDA-only' countries.

Decisions on 'IDA-only' classification can be made by World Bank staff and management, but obviously consent of Executive Directors is necessary. According to Callaghy (2009), important Executive Directors that were also Paris Club creditors to Nigeria had blocked this for a long time precisely because it would open the possibility of Naples terms to the country. On the other hand, the World Bank country director for Nigeria at the time was a supporter of granting Nigeria 'IDA-only' status.[26] When and by whom exactly the decision to re-classify Nigeria as an 'IDA-only' country was made is not known, as this decision has never been announced formally. The 'IDA-only' status appeared for the first time in the joint World Bank –DFID Country Partnership Strategy for Nigeria 2005-2009 dated 2 June 2005, which was discussed in the Executive Board on 28 June 2005 (Callaghy 2009: 59). Not all Executive Directors (ED) had been consulted in this decision. Callaghy analyses that the French and the German became in favour of the 'IDA-only' status after the CGD had written about the possibility of a buy-back for Nigeria (see below). The French were in favour because they wanted a discounted buy-back to be within the rules of the Paris Club and the Germans because the possibility of getting part of their money back (through a buy-back) made them willing to consider a debt reduction (Callaghy, 2009: 55-56).

The requirement of having an IMF programme was a difficult issue. All earlier IMF-supported programmes had gone off track quickly. In addition, the IMF was very much contested in Nigeria as it was widely seen as having 'wrecked' the economy in the 1980s.[27] The new economic management team started by inviting the IMF to monitor Nigeria's policies, as it wanted some kind of signalling that its policies were on the right track. From 2004 onward the IMF engaged in 'intensified surveillance'. This implied quarterly monitoring of policies, leading to six-monthly reports. The IMF also provided technical assistance in several areas.

[25] Ms Nancy Birdsall also had a Work Bank background. She had worked there until 1993, and after that was Executive Vice-President of the Inter-American Development Bank.

[26] Interview World Bank staff Washington.

[27] This public sentiment in Nigeria was communicated to the team in several interviews with stakeholders and is also described in, for example, Okonjo-Iweala (2008) and Vreeland (2007).

However, this 'intensified surveillance' was not sufficient for the Paris Club. The Club continued to demand a formal IMF programme.[28] Coincidentally, in 2004-2005 discussions began on the PSI, a full-fledged programme without money (see 2.1 above). This was exactly what Nigeria needed, and the country began to push for the implementation of this facility. Nigeria became the first country benefiting from this PSI in 2005.

After 2003, oil prices began to rise and this made it difficult for Nigeria to show that it would not be able to pay its debt. In fact, an IMF debt sustainability analysis carried out in early 2005 showed that debts were sustainable (IMF, 2005a). This study was carried out according to the jointly (IMF-World Bank) agreed Debt Sustainability Analysis (DSA) template. This template prescribes that sustainability must be examined for the case that the oil price decreases with one standard deviation. In that case, Nigeria's debt was sustainable. But the IMF also presented a scenario with the oil price dropping another 0.5 standard deviation (US$ 6) over and above the usually included 1 standard deviation.[29] Only in that case, the debt would not be sustainable.

In April 2005, the World Bank presented another study for which the main question was how Nigeria could achieve the MDGs. Increased public spending for the MDGs would require much lower debt and debt service. This study showed that if MDG financing was taken on board, Nigeria's debt was not sustainable (World Bank, 2005). This study was presented as annex to the earlier mentioned joint World Bank – DFID country partnership strategy for Nigeria that was discussed in the Executive Directors meeting of 28 June 2005. Annex 5 (Annex to 5.2.1) provides the details on the different DSAs of Nigeria, 2001 and 2005.

In addition to working on these four issues, the Nigerian government engaged in an intensive international lobbying campaign for debt relief. The CGD was an important ally, but also a British former Jubilee activist, Ann Pettifor. Nigeria also managed to get direct support from the largest Paris Club creditor, the UK. The situation was favourable. Britain was chairing the G8 and was making great strides for more aid and more debt relief to Africa. The Report of the Africa Commission, chaired by UK Prime Minister Tony Blair, had just been published. Apart from helping to achieve the 'IDA-only' status (as described above), CGD was also instrumental in the design of a possible debt deal. In view of the high oil prices and rapidly increasing Nigerian external reserves, CGD proposed in a short note that a possible debt deal would include a buy-back. This would allow creditors to recover part of their debts which they probably would not have been able to recover otherwise in the immediate future (Moss, 2005).

On June 10-11 (2005) the G8 Ministers of Finance met in London in preparation of the later G8 summit in Scottish Gleneagles. During this meeting, the ministers settled on a broad debt deal for Nigeria, but they did not announce it publicly in order not to offend the other Paris Club creditors. While Nigeria hoped for a 70 per cent debt reduction and considered

[28] A formal IMF-supported programme means that policies have to meet a certain standard, namely that of 'upper credit tranche conditionality' in IMF parlance; such conditionality is absent in the assessment made in the context of surveillance, intensified or not. (Source: interview at IMF Washington).

[29] Standard deviation is computed on the basis of the historical trend in the relevant oil price.

Naples terms (67 per cent) the absolute minimum, the creditors started from a much lower reduction per centage (Callaghy, 2009: 57). After long negotiations in which UK Treasurer Gordon Brown checked with Ms Okonjo-Iweala and she in turn with President Obasanjo, the agreed reduction per centage was about 60 per cent of the total bilateral debt.

The Paris Club met a few days later in Paris. During this meeting the non-G8 members of the Paris Club, including the Netherlands and Belgium, were very unhappy with this result on which they had not been consulted, and they did not agree (Callaghy, 2009: 62). These non-G8 members, and in particular Austria, Denmark, the Netherlands and Switzerland, questioned the need for the debt cancellation given the high oil prices and also protested against the deviation from Paris Club rules according to which discussions take place among all creditors until consensus is achieved. They suggested much lower debt cancellation per centages such as 30 per cent or 50 per cent. On June 29 another Paris Club meeting was scheduled, as no agreement could be reached on June 15. In between, high-level Nigerian government officers including the President visited several of these creditors. After intensive negotiations the creditors achieved a consensus, in principle, on a debt deal in line with the G8 outcome. But the Netherlands and other creditors succeeded in bringing in some additional requirements. Nigeria would need to have a formal IMF programme and a second phase in the debt cancellation would become dependent on the first review of this programme and on Nigeria paying its arrears, first (see section 3.8). The fact that Nigeria had set up the Virtual Poverty Fund just before the June 29 Paris Club meeting helped to convince the creditors that the money freed from debt service would be invested in poverty reduction (Callaghy 2009: 67).

Between October 18 and October 20 the Paris Club met with a delegation of the Nigerian government and there were heavy and long negotiations on the exact content of the deal, finally leading to an agreement.

3.3 The deal itself

3.3.1 The amounts involved

The agreement with Paris Club, signed on October 20 (2005) involved two phases. In the first phase, Nigeria paid all arrears to Paris Club members and the so-called levelling up.[30] This amount, about US 6.3 billion, had to be paid before October 31, 2005. The creditors then cancelled 33 per cent of 'eligible debt'. In the second phase, the creditors would cancel 34 per cent of eligible debt after Nigeria had paid all post cut off date debts and an amount for the buy-back of the remaining debt at a discount of around 35 per cent. Condition for the second phase was that the Executive Board of the IMF would approve before May 31 (2006) the first review under the PSI, based on December 31 (2005) data.

Out of the US$ 30.4 billion of debt, Nigeria was expected to pay US$ 6.3 billion (arrears & levelling up) and US$ 6.0 billion (post cut off date debt and debt buy-back), while the creditors would cancel US$ 18 billion, implying an overall debt reduction of about 60 per cent.

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

The deal had a complicated structure, apparently to bring it in line with Paris Club rules (Callaghy 2009: 76; Rieffel 2005: 21). The 33 per cent and 34 per cent reduction on eligible debt gives a total of 67 per cent reduction on eligible debt, in accordance with Naples terms. The exact amount of the buy-back and the discount on the buy-back have not been revealed, but according to stakeholders involved in the debt relief agreement it was 35 per cent.[31] The Press Release (Paris Club, October 20, 2005) only speaks about a payment in the second phase of US$ 6.1 billion 'to complete the exit strategy'. Nigeria paid faithfully on this agreement. In addition, the first review of the PSI was also favourable and the IMF Board approved it in time. This means the agreement was fully implemented as envisaged. Roughly, the amounts are as presented in Table 3.1.

Table 3.1 The debt relief agreement between the Paris Club and Nigeria, October 2005, in US$ billion

	Debt	Relief	Payment
Debt stock	30.4		
Payments of arrears and levelling up			6.3
Remaining debt	24.1		
First cancellation of 33% (of remaining debt)		8.0	
Payment of post cut off date debt and payment of buy-back			6.1
Second cancellation 34%		8.0	
Discount of buy-back (around 35%)		2.0	
Remaining debt	0		

Table 3.2 shows the amounts of debt relief provided by creditor as registered by OECD/DAC. Figures are only available for those Paris Club creditors that are also donors, thus excluding Brazil and Russia. The largest amounts of debt relief have been provided by the UK, Germany and France, in line with their share in the debt (Table 2.1). Most donors registered the cancellation in 2005 and 2006 only. Japan, also a large creditor, registered most of its amount in 2006. The Netherlands spread the registration over 2006, 2006 and 2007, while Austria registered the full amount in 2007 only. Denmark registered its debt relief in 2006, 2007 and 2008.

Table 3.2 Net debt relief by donor/creditor country, in US$ million, 2002-2008

	2002	2003	2004	2005	2006	2007	2008
Austria	0	0	0	0	0	321	0
Belgium	0	0	0	141	196	0	0
Denmark	0	0	0	0	86	94	81
Finland	0	0	0	1	0	0	0
France	0	0	0	1,415	2,035	0	0
Germany	33	0	0	1,150	1,769	6	0

31 This percentage also follows from a reconstruction of the figures for the debts to Belgium and the Netherlands (see below).

Table 3.2 Net debt relief by donor/creditor country, in US$ million, 2002-2008							
	2002	2003	2004	2005	2006	2007	2008
Italy	0	0	0	530	762	0	0
Japan	0	0	0	88	1,933	0	0
Netherlands	0	0	0	197	259	342	0
Spain	0	0	0	0	134	0	0
Switzerland	0	0	0	50	51	0	0
UK	0	0	0	2,064	3,034	0	0
US	0	0	0	0	615	0	0
Total	**33**	**0**	**0**	**5,635**	**10,873**	**763**	**81**

Source: DAC.

As to the around US$ 12 billion payments by Nigeria, the country actually made three payments: a first of US$ 6.3 billion in October 2005, then a second of US$ 1.3 billion in December 2005 and a third of US$ 4.5 billion in March 2006. The total was US$ 12.1 billion, somewhat lower than the originally foreseen US$ 12.4 billion due to exchange rate changes (Callaghy, 2009).

These payments were made from the excess crude account, the savings as a result of the rising oil price and the application of oil price based fiscal rule. In November 2005, total external reserves (including the excess crude account) stood at US$ 29 billion.[32] From the federal viewpoint the use of the excess crude account was a complication since according to the Constitution, all three tiers of government are owners of this account. This means that all state assemblies had to pass a resolution (also on behalf of local governments) for approval of the use of the excess crude account for the payment to the Paris Club, and they did so. This approval was linked to a compensation scheme that the federal government had negotiated with the states. States with a higher share in the debt to the Paris Club than their share in the excess crude account had to pay extra money to the excess crude account, and states with low or no debts to the Paris Club were receiving money. These compensation payments were spread across several years to smoothen the burden for the states that had to pay them. In some cases, for example, Katzina state with no debt, compensation receipts are still due.

3.3.2 The conditions

From the above analysis (3.2.1) it is clear that Nigeria had to meet several conditions before the UK and the US were willing to consider a debt reduction and to propose such a reduction to the other Paris Club creditors. Nigeria had to put 'its house in order' as one of our respondents in Nigeria called it. This implied, among other things, reconciling the debt figures with all creditors, carrying out responsible macroeconomic policies, improving public finance management, and reducing corruption. Next to these conditions that had to be met before negotiations on debt reduction could start, there were the conditions more directly attached to the deal itself. The Paris Club always maintains the condition that the country must have an arrangement with the IMF before an agreement with the Club can be negotiated. This also happened in the case of Nigeria. The Paris Club deal was agreed three days after the Executive Board of the IMF had approved the PSI.

32 Speech by Ms Ngozi Okonjo-Iweala cited in Callaghy (2009: 43).

Preparation of the PSI started on June 29, 2005, shortly after the Paris Club announced its intention for debt relief. Nigeria and IMF finalised its discussion on August 15, which resulted in a draft report on October 7 that was submitted to the Executive Board. Nigeria's two-year PSI was approved by the Executive Board on October 17, 2005.

The 2005 Paris Club debt deal does not directly include conditions, but refers to the PSI of the IMF. The Paris Club is happy with the 'ambitious economic programme' that the Nigerian government had been implementing since 2003 and expects the government to comply with the PSI programme.[33] In particular, the second phase of the US$ 18 billion cancellation is not only contingent upon the payment by Nigeria of the arrears and of the buy-back, but also subject to approval of the first review of the PSI. This means that the PSI includes the policy related conditions for debt relief. The PSI was a two-year programme and included four reviews.

The Letter of Intent of the PSI includes (IMF, 2005c):
1. Quantitative assessment criteria and (for later periods) indicative targets;
2. Structural assessment criteria; and
3. Structural benchmarks.

What is listed under these headings gets more attention during the monitoring of the IMF programme. Quantitative assessment criteria include targets for the federal government non-oil primary balance, for reserve money, for the stock of net foreign assets, for non-concessional external debt (zero) and for external arrears (zero). The structural assessment criteria refer to financial sector reform, trade, transparency of the oil sector, and to market regulation of utilities. Within the structural benchmarks, the focus was on PFM, privatisation and market regulation, and financial sector reform. One of the structural benchmarks was the gradual introduction of an expenditure tracking system within the Medium Term Expenditure Framework (MTEF) for six MDG-related sectors: health, education, water, agriculture, power and roads. This would be applied in the budget and in the Chart of Accounts.

The Virtual Poverty Fund itself is not part of the structural assessments or benchmarks, but is mentioned in the text of the Letter of Intent. The Request for a PSI (IMF, 2005c) reads *'An extra allocation of US$ 1 billion has been made (in the 2006 budget) to well-defined programmes related to achieving the MDGs at both federal and subnational government levels'* (p. 10). The text of the Letter of Intent mentions other additional reforms for the public sector and PFM, including civil service reforms, making a guideline for public procurement, improvement in tax administration, and improvement of the work of the Accountant General. In terms of anti-corruption measures, the government promises to increase funding for the Economic and Financial Crimes Commission and to conduct a country anti-corruption survey. Furthermore, the country is expected to institutionalise the reforms by passing a Fiscal Responsibility Bill, a Public Procurement Bill, a Tax Reform Bill, and the Extractive Industries Transparency Initiative (EITI) bill.

[33] Paris Club Press Release October 20, 2005, *'Paris Club agrees on a comprehensive treatment of Nigeria's debt'*. (Source: www.clubdeparis.org).

The content of the PSI as laid down in the 'Letter of Intent' and in the 'Request for a PSI' was to a large extent based on the National Economic Empowerment and Development Strategy (NEEDS), the government's own reform programme. In fact, the government wanted to include all policy reforms as specified in NEEDS under the 'structural benchmarks' of the PSI, while the IMF preferred to have fewer of these benchmarks.[34] This means that there was a high degree of ownership of the PSI, in particular among the economic management team. There are two important differences between NEEDS and the PSI. First, NEEDS describes policies to be carried out in a more qualitative way and without sharp timelines. The PSI includes timelines for the reforms and also includes quantitative targets, especially for fiscal and macroeconomic policies. Second, although poverty reduction is an important objective of NEEDS and 'empowering people' is one of its strategic reform areas, NEEDS does not mention a Virtual Poverty Fund (VPF). The idea to establish a kind of VPF came up in the context of the debt deal. It was strongly recommended by some of the creditors (UK, the Netherlands) and found resonance with the government. The government then further elaborated it and included it in the PSI.

3.3.3 Comparing the Nigerian deal with other Paris Club operations and with HIPC

The deal had a number of elements that are not always present in Paris Club deals. First, the deal comprised *all* debts to the Paris Club, not only pre cut off date debts but also post cut off date debts.[35] Second, the agreement did not just leave Nigeria with a 'sustainable debt', as most other Paris Club treatments do, but fully eliminated the debt: the remaining debt to the Paris Club was zero. Third, the role of the IMF in this agreement was somewhat different than in other Paris Club negotiations. Usually, the IMF advises the Paris Club on the amounts of debt service the country is able to pay and thus on the amount of rescheduling or cancellation necessary, by providing figures on the debtor country's 'financing gap'. This did not happen in the case of Nigeria. In addition it was the first Paris Club agreement on the basis of a PSI and not a Stand-By arrangement, PRGF or other IMF facility.

Nigeria had been on the original list for the HIPC initiative in 1996 but was then suddenly removed.[36] One of the reasons for this appeared to have been that the envisaged resources for the HIPC initiative would not be sufficient to cover the Nigerian debt. In June 2005, Nigeria was classified as an 'IDA-only' country but this was not sufficient to also classify as a HIPC country. Apart from having a low income per capita, HIPCs also have an unsustainable debt, defined as a present value of debt to export ratio of 150 per cent or higher. As a result of the high Nigerian exports in that year, this did not apply to Nigeria.

If we compare the terms of Nigeria's deal with those of the HIPC initiative then a few things stand out. First, the deal only concerned the Paris Club debt and did not include multilateral or other debts. Second, the forgiveness per centage was lower (60 per cent instead the usually higher per centages for HIPC countries) and the country had to pay this other 40 per cent up front. On the other hand, the modality of debt relief was more favourable, as cancellations

34 Interview with IMF experts involved in the negotiations.

35 Nigeria is not the only country where this occurred; there are other cases in which post cut off date debt is included but it is a minority.

36 Interview with Dr. Okonjo-Iweala, Washington June 2010.

were provided immediately and not in the form of lower debt service due in future years. Finally, the policy conditions for this deal were different. As usual with HIPC and Paris Club agreements, the country had to have a programme with the IMF. However, in the Nigerian case, part of the cancellations depended on a first review of this programme. In addition, Nigeria was the first country benefiting from a PSI. On the other hand, other conditions for the HIPC Initiative were not set for Nigeria, for example there was no condition of elaborating and implementing a PRSP. Yet, Nigeria had elaborated a kind of PRSP, the NEEDS programme. Poverty reduction was an important element of this programme, along with improving the private investment climate and improving the working of the government itself.

Not being a HIPC country, Nigeria did not have access to MDRI either. MDRI only applies to multilateral debts, however, and Nigeria's multilateral debts were not very high.

3.3.4 The ODA-bility of the debt deal

According to DMO figures, total Paris Club debt at end 2004 amounted to US$ 30.85 billion, while total bilateral debt was US$ 30.90 billion. Out of the total bilateral debt, only 2.2 per cent were ODA loans. All other debts originated from bilateral commercial loans, usually export credit loans. Assuming, probably rightly so, that the non-Paris Club bilateral debt does not include ODA loans, the picture is as in Table 3.3.

Table 3.3 Composition of the Paris Club debt stock, in US$ million, end 2004[1]

	in US$ million	in %
ODA	682	2.2
Non ODA	30,166	97.8
Total Paris Club debt	**30,848**	**100.0**

[1] *Assuming that all bilateral ODA originates from Paris Club creditors, as explained in text.*

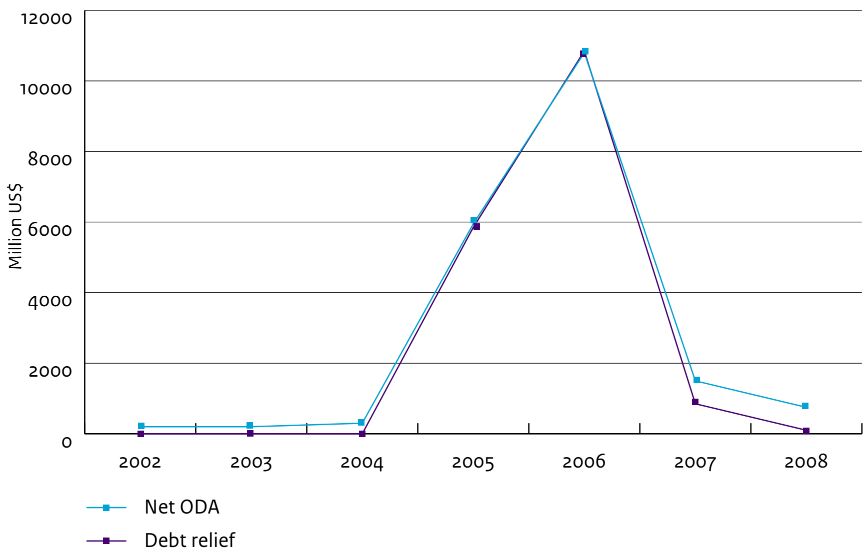
Source: Own calculations based on DMO figures.

The difference between ODA and non-ODA is important as the cancellations of the ODA loans officially are not registered as ODA. But as argued above, and despite the offsetting entries, the cancellation of bilateral loans also leads to a higher net ODA (in the years in which repayment of main sums are due) than if the loans would be repaid. As the share of ODA loans in total debt is small anyway, we do not make a large mistake if we include all cancellations as ODA.

However, there was another complicating factor on the ODA-bility, as part of the cancellations consisted of the discount involved in the buy-back. This gave rise to a heated discussion in the context of the DAC, as there were no DAC rules yet for registering discounts on buy-backs. Some donors, including the Netherlands, argued that a buy-back is a purely commercial transaction. The country pays the market price for the debt and the discount has no relation whatsoever with development or poverty reduction. The Netherlands' position was shared by a few other DAC donors, but not by other Paris Club creditors to Nigeria. Several other creditors/donors involved in the Nigeria deal argued that the debt buy-back was part of the overall deal for debt reduction and that the full cancellation – including the discount on the debt buy-back – should therefore be accounted for as ODA. Contrary to other cases, the participation in the Nigerian buy-back was not voluntary for the creditors because it was part of the overall deal. In addition, the 'discount' on the buy-back, around 35 per cent, probably did not reflect a 65 per cent market value of the debt, as in other cases. Instead, the market value was probably more in line with the 'discount' on the overall deal, i.e. 40 per cent.[37] The DAC donors discussed the ODA-bility of the discount on the buy-back several times in 2006 and early 2007. In March 2007, it was concluded that discounts on stand-alone debt buy-backs could not be attributed to the ODA budget. However, when debt buy-backs are part of a comprehensive debt deal, discounts can qualify as ODA and that donors could choose whether or not to account for the discount on the buy-back as ODA. The DAC Secretariat proposed to add a footnote to the figures in the Development Cooperation Report. However, this footnote is not visible in the ODA figures published as tables on the OECD/DAC website.

Figure 3.1 shows that ODA to Nigeria indeed climbed to astonishing heights in 2005 and 2006 as a result of the accounting for debt cancellation. In 2007 ODA was again somewhat higher than it would have been without debt cancellation.

Figure 3.1 *Net ODA and debt relief to Nigeria, in US$ million, 2002-2008*



Source: Elaboration of data from OECD/DAC.

[37] The 60 per cent cancellation of the overall debt can be said to reflect a market value of the debt of 40 per cent, as this 60 per cent was the agreed discount on the overall debt.

3.4 Motivations and objectives for the creditors

The motivations and objectives for the deal were different for the different creditors, and sometimes also within creditor governments. The most important protagonists were the US and the UK. When President Obasanjo began his campaign for debt relief in 1999 and 2000, he received conditional 'green lights' from the two Treasury Secretaries, Summers and Brown respectively. Both countries were willing to consider some debt reduction, provided Nigeria would carry out reforms and in particular would stay on track with an IMF programme (Callaghy, 2009).

3.4.1 The USA

The US State Department was already in 1999 willing to provide a 'democratic dividend' without many strings attached (Callaghy, 2009). Some debt reduction would create goodwill in Nigeria, an important oil supplier to the US. After 9/11, the interests in the stability of Nigeria increased further (Lubeck et al., 2007). In view of lower oil supplies from Iraq and possibly other Middle Eastern countries, it was expected that a larger share of US oil imports would have to come from Nigeria – at that moment accounting for 10 to 12 per cent of total US oil imports. In addition, Nigeria was considered by the military in the US government a frontline state in the Global War on Terrorism.

In January 2005, a conference on the future of Africa organised by the National Intelligence Council (NIC) classified Nigeria as possibly becoming a 'failed state'. Contested elections in several states combined with the violence in the Niger delta (the oil producing region) could lead to the collapse of the federal state and to open warfare all over the country (NIC, 2005). According to Nwozor (2009), there might be a relation between these statements and the swift granting of debt relief in the same year. Debt relief might help to avoid a failed state. The debt deal was also linked to other foreign policy interests. When the G8 deal was discussed in the US Congress, several Senators - among whom Illinois Senator Barack Obama - wanted to make the debt deal conditional on Nigeria handing over former Liberian dictator Charles Taylor – living in exile in Nigeria – to the Special Court in Sierra Leone.[38]

3.4.2 The UK

As former coloniser, the UK has a special relationship with Nigeria. Economic interests are an important part of the relationship, in particular those related to oil. The return of democratic elections re-intensified relationships and restored the official British aid programme. In the years preceding the deal, the UK had an interest in a stable and prosperous Nigeria, and debt relief was expected to contribute to that. Another factor was that the Blair government was actively engaged in a pro-Africa, pro-aid and pro-debt relief campaign and debt relief to Nigeria perfectly fitted this agenda. A third factor was that a large debt reduction to Nigeria would increase the UK ODA figures and would help showing that the country was on its way to meeting the Monterrey agreements.[39] Finally, while the Paris Club deal with Iraq was largely imposed by the US against the opinions of the UK and other European countries, the UK government felt that Nigeria deserved a similar treatment.

[38] Financial Times, June 23, 2005.

[39] This motivation is not documented but this was revealed in several interviews with stakeholders.

3.4.3 Other creditors

Several of the motivations that held for US and UK also held for the other G8 creditors, such as France and Germany. The stability of Nigeria as important oil supplier, as host of (oil-related) investment by national companies, and as big West African country played a role for many. Some, and in particular Germany, were also interested in raising their ODA figures in a non-structural way.[40] In addition, several creditors were happy with receiving at least part of the outstanding debt as immediate payments; these amounts they might not have received in the absence of the deal. The latter argument was also important in convincing the non-G8 creditors, most of which were initially not in favour of the deal. Some of these non-G8 creditors emphasised that the debt relief savings would have to be used well, and wanted to see guarantees for this to happen. In response, the Nigerians proposed the Virtual Poverty Fund. The governments of these sceptical creditors could then defend the deal in their parliaments by saying that the deal would help to reduce poverty.

In sum, six motivations and objectives played a role:

- Strategic interests: Nigeria is a large and important West African country that plays a role in the stabilisation of the region and in the fight against terrorism. This motivation held in particular for the US;
- Oil security: a favourable debt treatment would help secure the flow of oil to the US and other countries in the West;
- Financial interests: creditors received an immediate payment of 40 per cent of the debt outstanding which was probably more than they would have received in the immediate future in the absence of the deal;
- Long-term economic interests: by allowing this comprehensive exit strategy Nigeria would become creditworthy again, allowing for expansion of trade with and investment in the country in general;
- Humanitarian interests: the deal would help Nigeria to reduce poverty and achieve the MDGs;
- 'Reputational' interests: the deal inflated ODA figures without disbursing fresh money; this held in particular for donors with no fixed ODA budget such as the UK and Germany.

3.5 Actors involved in Nigeria

As stated earlier, during the first democratic government of Obasanjo (1999-2003), the president himself travelled around the world to meet the bilateral creditors hoping that democracy itself would be sufficient to clinch a debt deal. However, the creditors stated that any consideration for debt relief would be predicated on implementing a range of reforms. At that time, the government was not making sufficient efforts in designing and implementing reforms.

The situation changed during the second term of Obasanjo. He selected a technically competent team and placed them in strategic positions to bring about the reforms necessary. The selected team can be placed in two tiers. The top tier comprised three highly

[40] Interviews with some stakeholders.

qualified and experienced technocrats. Ms Ngozi Okonjo-Iweala led the team as the new Minister of Finance. She had been a senior officer in the World Bank and became a short term special advisor to President Obasanjo during his first term. She had a wealth of experience in economic reforms while working in the Bank and was familiar with Paris Club negotiations. Mansur Muhtar had been in the World Bank as a senior economist before being appointed as the Director General of DMO. Professor Charles Soludo, head of the African Institute for Applied Economics, was president of the National Planning Council before being appointed as Governor of the Central Bank of Nigeria.

In the second tier, the team was as follows:
- Ms O Ezekwezili, senior special assistant to the President, involved budget monitoring and later in NEITI;
- Ms N Usman, Minister of State for Finance;
- Mr O Agusto, Budget Director General;
- Mr N Ribau, Chairman, Economic and Financial Crimes Commission;
- Mr N el-Rufai, Minister for the Federal Capital Territory;
- Mr J Ihonvbere, special advisor to the President on Programme and Policy monitoring;
- Mr F Kupolokun, Managing Director NNPC;
- Dr K Naiyeju, Accountant General for the Federation;
- Ms I Chigbue, Director General, Bureau of Public Enterprises.

The team had to work towards an acceptable debt relief agreement against a background of many citizens, civil society and Non Governmental Organisations agitating for repudiation. They also had to agree on reforms that were both implementable and acceptable to the public.

The two main agencies involved in preparing for the debt deal were the Federal Ministry of Finance and the Debt Management Office. DMO, as before for the 2000 Paris Club rescheduling, had to validate and reconcile all the debt data. It worked with the Federal Ministry of Finance to sensitise the local press and parliament on the benefits of such a deal. The other institutions that were helping the government to clinch a deal were the Central Bank of Nigeria and the Ministry of Justice. Our interviews in the two states, Kano and Cross River state (CRS) showed that the states were aware of the debt relief initiative that was being worked out at federal level but they did not actively participate in the process.

3.6 Motivations and objectives of Nigeria

It is difficult to clearly distinguish between the objectives and motivations of President Obasanjo's government. The two are interconnected. As the external borrowing had started during his first term in office in the late 1970s, President Obasanjo felt a special responsibility for resolving Nigeria's debt situation. He realised at an early stage that 'debt rescheduling' options would not be sufficient to release significant resources for economic development and poverty reduction. His earlier attempts in trying to obtain debt relief gained support from some important Paris Club countries. However, obtaining debt relief proved to be difficult without the implementation of appropriate policies and economic reforms. During the second term, after appointing Ms Ngozi Okonjo-Iweala as Finance Minister, the President placed this task as the top of the agenda for the new minister to carry out.

The Minister of Finance felt that obtaining a substantial debt relief and exiting from a high debt burden was essential, so that the savings made in debt service could be allocated towards poverty reduction (Okonjo, 2008). She was of the opinion that requiring debt service while at the same time asking Nigeria to achieve the MDGs was hypocrisy on the part of the creditors/donors. Nigeria was a low income country with poor performance on the MDGs, yet Nigeria received only a fraction of aid per capita of other African countries.

Another important argument she held in favour of debt relief was that the debt was unsustainable. It created a large debt overhang that prevented foreign investment in Nigeria. The practical approach taken by the Government was to pay the Paris Club only US$ 1 billion a year, while the US$ 2 billion that was not paid accrued interest over time. This increased the debt stock and the debt overhang. Ms Okonjo also argued that the debt was unsustainable politically, as the Nigerian population was not willing to pay for debts they considered not to be theirs.[41]

Our interviews in Nigeria confirmed that there was indeed huge resistance from both the population at large and from the Nigerian parliament to service the Paris Club debt. This was recognised by the Government at an early stage. The population at large believed that the debt was 'odious' and that it had already been repaid several times over. It was felt that most of the debt stock originated from arrears that had been built up during military governments. Many felt that no payment should be made and that repudiation was the only course of action.

The government had to take into account the feeling of the majority of the population towards repudiation. At the official level including the Presidency, the preferred action was a settlement with the creditors but with substantial debt reduction that can be seen by the general public as a close substitute for paying off the debt and getting rid of the Paris Club creditors. For the government this would be a significant political victory not only for continuing democratic rule but also seeking a third term for President Obasanjo.

On the external political side, Nigeria wanted to engage with the international community and regain access to the Commonwealth.[42] It felt that as a populous, oil rich country in West Africa, it could lead, participate and contribute immensely in the politics of West Africa in particular and Africa in general.

On the economic front, Nigeria felt that substantial potential gains could be made. The simple direct benefit was to reduce the debt level and debt service so that the potential savings made from debt service can be used for attaining many of its socio economic

[41] Also based on interview with Ms Okonjo-Iweala, Washington June 2010.

[42] In November 1995, Nigeria was expelled from the Commonwealth. This was due to its poor record on human rights and democracy, a strong principle that was enshrined in the Harare Declaration in 1991 during the Heads of Commonwealth Government Meeting.

development goals. There were also indirect benefits. By clearing the debt arrears and resolving the debt problem in general, it would gain credible recognition by the international partner countries. A higher credit rating would place the country to borrow more easily from the official and commercial creditors. It would be also in a strong position to issue international sovereign bonds. As a more creditworthy country it would attract more foreign direct investment not only in the oil sector but also in the non-oil sector. Both short and medium term credible trade transactions between Nigeria and the trading partners would become more acceptable and would create more opportunities to expand even further. All these will have a significant impact on macroeconomic performance in terms of improved international trade position, investment and growth.

3.7 Nigerian debt relief and the Belgian policy

3.7.1 Introduction

The aim of this section is to better understand the motivations and objectives for Belgium of the debt relief granted to Nigeria. To answer this question, we will first analyse the Belgian debt relief policy, differentiating between the different types of loans and the public agencies involved. We will then explain the main reasons why Belgium agreed on the deal, before analysing in detail the amounts involved in the cancellation and the effect on the Belgian ODA figures. Finally, we will study the assessment of the deal made ex-post by representatives of various public agencies.

3.7.2 Belgian debt relief policy

The bilateral debt between Belgium and developing countries is mainly composed of State to State loans and export credits. In this section we first analyse precisely how those loans/credits are granted and cancelled in Belgium, before outlining the exact role of the different actors in the Belgian debt relief procedure.

State to State Loans

The State to State loans facility (bilateral loan facility) is managed by the Administration of International and European Financial Affairs (IEFA Administration) in the Ministry of Finance (Federal Public Service Finance- FPS-Finance). IEFA prepares the bilateral loan files that are introduced at the advisory committee FINEXPO (or Export Financial Support Committee), composed of delegates from the FPS Finance, the FPS Foreign Affairs, Foreign Trade and Development Cooperation, the FPS Economic Affairs, the FPS Budget, the Belgian export credit agency ONDD (or Office Nationale du Ducroire – Nationale Delcrederedienst) and representatives of the three regions of the country. The advices are formulated to the Council of Ministers that is in charge of the political decisions to grant the loans. The IEFA takes care of the implementation of the political decisions.[43] The objective of bilateral loans is to finance specific development projects in developing countries. A large share of those loans is tied

[43] See http://www.iefa.fgov.be/en/topics_finaid_loans.htm, the website of International and European Financial Affairs (IEFA). The amount granted as State to State loans are part of the Development Cooperation Budget and represent nowadays about € 54 million a year.

(following two objectives: contributing to the development of the recipient country, and supporting Belgian exports), and an increasing share is now composed of untied loans. These loans are granted at concessional terms.[44] This means that the value of the initial loan can be accounted for as ODA, following the Development Assistance Committee (DAC) agreements. If the country pays back, the amortisation payments decrease Belgian ODA figures. If the developing country defaults, those interests and repayments build up as arrears.

It can be decided, bilaterally or in the Paris Club, to cancel the debt of developing countries, bilateral loans or export credit loans. Belgium has always followed the decisions taken in the Paris Club. There are also three occasions where Belgium unilaterally decided (without a Paris Club agreement) on a bilateral debt relief agreement. The first one was in December 1990, when Belgium decided to cancel the outstanding amount of the bilateral loans to ten African countries (Benin, Burundi, Kenya, Madagascar, Mozambique, Niger, Rwanda, Senegal, Tanzania and Zambia) for a total amount of around € 63 million. The second one was in 2002, when the Democratic Republic of Congo (DRC) reached the Decision Point of the HIPC-initiative and Belgium decided to cancel more of the DRC debt than what had been agreed in the Paris Club. Finally, in 2006, Belgium signed an agreement for the rescheduling of the outstanding State to State loans debt of the Seychelles. Apart from this, Belgium has never taken a very pro-active stance in the Paris Club, especially since the inception of the HIPC Initiative.[45]

Once a decision of debt cancellation is taken at the Paris Club, Belgium has to cancel those State to State loans. As they were initially accounted for as ODA, only the cancelled interest payments can be accounted for as Belgian ODA. According to the DAC, this has to be done for the entire amount of the interests, in the year the cancellation is decided (it can't be spread over several years), and Belgium does follow this policy recommendation.

Export Credits

The ONDD ('Office National du Ducroire / Nationale Delcrederedienst'), the Belgian public credit insurer, is responsible for issuing and managing the export credits for Belgium. In 1990, the company set up a risk assessment strategy in which it classifies the importing countries from risk 1 (the 'safest' countries) to risk 7 (the riskiest countries). The ONDD insures all the export credits for countries with risk 1 to 6 on its own account, and the export credits for risk 7 countries are dealt with by the ONDD, on behalf of the Belgian state, in the "state's" account.[46] On January 1 2005, the value of the claims on ONDD's own account was around € 385 million, and about € 602 million on the state's account.[47]

[44] See Senate session (July 2006). The interest rate applied on those loans is either 0 (zero) per cent (if the country has a GNP that is lower than the band set up by the World Bank to receive IDA loans) or 2 per cent otherwise. Those loans also have relatively long repayment periods (around 30 years) and often include a 10 year grace period (those figures apply to tied loans). The maximum amount for the projects must not exceed € 10 million.

[45] Except for the law set up in 2008 against Vulture Funds. See Cassimon et al. (2010).

[46] As the risk for those risk 7 countries is too high, a credit insurer would never accept to grant insurance for them, so those export credits are then taken over by the state.

[47] See Belgian Senate, (July 17, 2006, pp. 11-12).

The claims that the ONDD manages are accounted for in their balance sheet at their 'economic' value, computed with an internal model (also used by the OECD), taking into account 95 different criteria reflecting the overall creditworthiness of the importing country.[48] Just like for standard insurance companies, the ONDD provides for a provisioning whenever there is a difference between the nominal and the economic value of the claim.

For the insurance of the export transaction, the exporting company is paying a premium to the ONDD. The amount of the premium depends on the risk category of the developing country and the risks that the exporter wants to cover. If the importer defaults, the Belgian exporter bears a cost: it will only be repaid up to 90 per cent of the original claim (10 per cent being the average loss/risk the exporter carries). Once the ONDD has compensated the Belgian exporters for their loss, it will try to receive further repayments from the importing country, whilst accounting for the non-received payments as arrears. If it is not able to recover the payments, those claims become bilateral debt between the importing country and Belgium, and are then eligible for Paris Club agreements.[49]

Internal compensations

There are three agreements that give rise to internal compensations between the public institutions. The first agreement was signed in 1991: the ONDD had important liquidity problems in the late 1980s (due to the severe debt crises in several developing countries), so the Belgian state took over a number of the ONDD's claims and financed the operation with a 30 year loan. The service of the loan is managed by the ONDD and was initially to be borne by Development Cooperation (around € 14 million a year), the Federal Public Service, FPS (Ministry) of Finance (around € 5 million), and Foreign Trade (around € 0.6 million).[50] Afterwards, in the early 2000s, it was decided that the compensations should exclusively be borne by 'Development Cooperation' (paying € 19.6 million a year).[51]

The second and third agreements were signed in 2001 and 2005, and regulate the compensations to be paid to the ONDD following HIPC debt relief operations. The motivation behind those compensations is that the decisions taken at the Paris Club are a case of *force majeure*, so the ONDD, as it is forced to cancel its credits, should be compensated by an amount that is a function of the economic value of the claims it owns. At first, like in the 1991 agreement, the cost of those compensations had to be borne by various ministries, but since 2004 it is

48 Information received during our interviews at the ONDD.

49 It has to be highlighted that all the claims the ONDD manages, on the state's and on its own account, are eligible for Paris Club agreements, except for credits related to military spending.

50 The Federal Public Service (FPS) Foreign Affairs, Foreign Trade and Development Cooperation is composed of the three components mentioned.

51 'Development Cooperation' (DC) receives its budget from the state, and the amount received used to be annually exactly 60 per cent of the ODA goal for Belgium (i.e. if the country aimed at spending 0.5 per cent of GNP on ODA, then the DC would receive 60 per cent * 0.5 per cent * GNP). But DC complained that they had to use part of that given budget to pay off the compensations to the ONDD, even though these compensations could not be accounted for as ODA according to the DAC definition. Following this complaint, DC did not pay the compensations in 2006 and 2007. The government subsequently agreed on a new budget for the DC: 60 per cent of ODA **plus** the compensations. The DC agreed, and has been paying the compensations to the ONDD ever since.

again only 'Development Cooperation' that bears the cost. Notwithstanding this agreement, the payment of these compensations by 'Development Cooperation' has stopped since 2005.[52]

Role of the different actors

At the Paris Club, the Belgian delegation is composed of members of the Ministry (FPS) of Finance and the ONDD. They attend the meetings, participate at the debates, and sign the agreements for Belgium. The Ministry of Finance is delegation leader and represents the Belgian state formally. Neither 'Development Cooperation' nor 'Foreign Affairs' joins those meetings.

For countries going to the Paris Club with which Belgium has no specific bilateral link (political or historical), there are no ex-ante meetings or discussions between the different Federal Public Services. On the other hand, for countries with which Belgium has tighter links (for example the RDC) the Paris Club meetings are prepared at the national level by coordination between the Federal Public Services concerned. The delegate of the Federal Public Service Finance signs the Paris Club agreement. Afterwards, separate bilateral agreements are signed for the consolidation of the ONDD and the State to State loans debt.

3.7.3 Why debt relief for Nigeria?

Various internal documents, dating from end-2004, show that Belgium was thinking of asking an increase in the repayments made to the Paris Club countries (as Nigeria was paying less than the total amount due) since reserves and savings had risen in Nigeria.[53] From this we conclude that Belgium was not ex-ante very much in favour of the debt cancellation deal.

In the meantime, Nigeria continued its campaign for debt relief. There was an informal lunch at the Paris Club where the matter was discussed, and the Nigerian Minister of Finance Ms. Okonjo-Iweala visited several donor countries to argue her case. When the G8 Finance Ministers met on June 10-11, 2005 in London they elaborated a debt reduction deal for Nigeria. As a small non-G8 country, Belgium had not been part of the negotiations, and could opt for two strategies: either remain 'against' the deal, which would single the country out especially in the Paris Club debates and render bilateral relations with Nigeria more tense, or agree on the cancellation and show political goodwill, and by doing this, keeping its credibility and bargaining power within the Paris Club. Furthermore, keeping its bargaining power was crucial for Belgium, as the country would eventually have to come back to the Paris Club to defend the achievement of the Completion point for the DRC in the following years. The G8 decision was undoubtedly the turning point for the Belgian decision makers in the Paris Club, as the country then realised it had no other choice but to accommodate with the debt relief.

52 There are two main reasons that explain why 'Development Cooperation' stopped paying: (i) Even though the government agreed on increasing the budget for the 1991 agreement compensations (as explained in the *Internal compensations* section above), it did not agree on the increase of the budget to account for the HIPC cancellation compensations, and (ii) 'Development Cooperation' was asking for a more detailed breakdown of the figures. For further information see Cassimon et al. (2010).

53 Because of the high oil prices at the time. For further information, see section 3.2.

From the information we have gathered in our interviews, it seems clear that the decision making process by the Ministry of Finance and the ONDD was mainly (if not entirely) influenced by the financial aspects of the deal (i.e. the losses it would generate for the ONDD). At the same time, the Belgian ambassador in Abuja was trying to influence both institutions cited above to agree on the deal, by stressing the key role Nigeria was playing in the region: the country plays a role of mediator in the region, it has set up peace and security initiatives in surrounding countries, and was president of the African Union, and the necessity for the donors to support the ongoing reforms (the set up of the NEEDS programme, the fight against corruption through the Extrractive Industries Transparency Initiative, etc.), but we consider these arguments of secondary importance compared to the financial issue.

It also has to be highlighted that there was no real public debate preceding the debt deal in Belgium. NGO's (the counterparts of Jubilee in the Netherlands, for example) did not enter in the debate, and from the senate questions it seems that the debate happened ex-post, and the focus was mainly on the reasons why this cancellation was granted to Nigeria (being a country with a relatively low pre-cancellation debt level, experiencing high revenues through oil extraction, and with important governance issues), and the way it was impacting the ODA figures for Belgium. There was also no attempt to influence the conditions of the deal (especially on the PSI programme to be set up by the IMF or on the Virtual Poverty Fund, VPF).

3.7.4 The amounts involved in the debt relief agreement

The total bilateral debt owed by Nigeria to Belgium at the moment of the Paris Club agreements was about € 470 million, being composed exclusively of export credits issued by the ONDD for its own account. This amount corresponds to bilateral credits to Nigeria, but also included credits granted by Belgium to Benin.[54] The first defaults on those export credits occurred in the early 1980s, but the ONDD still agreed to cover medium and long run (MLR) export risks until 1985, when it changed the status of Nigeria to 'off cover' country (status it kept until January 2006).[55] As the risk (1 to 7) classification started in 1990, Nigeria was considered risk 7 from the beginning of this new classification, and this rating lasted until January 2006, when the country was upgraded to risk 5.[56]

For many European countries, the bilateral debt level in 2005 was much higher than the original loans; but this was much less the case for Belgium (Wiertsema, undated). This might be explained by the fact that Belgium received a 'special treatment' when Nigeria was discriminating between creditors in paying debt service after the 2000 Paris Club agreement and possibly also before that, and so received a higher share of the total repayments. It could also be the case that a large share of export credits were given to companies that were paying back relatively well (we could think of oil companies, for example). The fact that

54 Nigeria and Benin had jointly set up a project, a sugar plant, for which they had borrowed from Paris Club members. Nigeria was the first to go to Paris Club after defaults on this loan. Then, according to Paris Club rules, it had to take on the full debt on this project. Source: interview at DMO, Nigeria.

55 During that period (1985-2006), no MLR credits could be signed with Nigeria, but occasionally short run credits (12 months) were granted by the ONDD.

56 It was the first time in the ONDD's history that it upgraded a country by two points in a single readjustment (from 7 to 5).

Belgium was paid more also explains why Belgium received relatively less than other creditors under the 'levelling-up' agreements of the 2005 Paris Club deal.

As stated in the Paris Club agreement, the debt cancellation (with the Naples terms) and buy-back happened in different steps. First Nigeria had to pay back its arrears, which then triggered a first cancellation of 33 per cent of the remaining debt stock (this was € 113.1 million in the Belgian case) in 2005. The second step happened in 2006, where Belgium cancelled another 34 per cent of the debt stock (i.e. € 116.5 million) on the one hand, and on the other hand granted a discount on the buy-back of the remaining debt stock (i.e. € 40.1 million). As shown in Table 3.4, the total amount cancelled was about € 270 million, the total paid by Nigeria was about € 200 million, which means that the cancellation on the total amount of debt (including arrears) was about 57 per cent.[57]

Table 3.4 Composition of the total amount of debt and debt cancellation, the case of Belgium[58], in € million

Amount involved in the Paris Club (bilateral debt in 2005)		470	Received	Cancelled
Arrears paid and buy-back			200	
Cancellation				270
ONDD figures				
2005	Stock			50.9
	Capitalised interests			62.2
2006	Stock			72.1
	Capitalised interests			84
			Total	269.2
Aggregate figures				
2005	Cancellation (33%)			113.1
2006	Cancellation (34%)			116.5
	Discount on buy-back			40.1
			Total	**269.7**

Source: ONDD, Belgian Senate, (November 23rd 2005).

The ONDD could in practice have used at least three other methods to receive repayments on the export credits:[59] (1) it could have taken legal action in Nigeria to force repayments (the ONDD expressed some doubts on how likely it was for such an action to succeed); (2) it could have sold the claims on the secondary market (like other European export credit companies did); (3) it could have organised debt-for-equity or debt-for-aid swaps (which ONDD had already done in the past with Nigeria). Once the deal was agreed upon at the Paris Club, and as the internal compensation agreements of 2001 and 2005 only apply to

57 The first payment of € 113 million was 33 per cent of remaining debt after payment of arrears. This implies that remaining debt must have been around € 340 million, and the payment of arrears must then have been € 470 minus € 340 million, or € 130 million. The second payment then involved €200 minus € 130 million, so € 70 million. The discount on the buy-back was around 35 per cent (40/110).

58 The breakdown of the debt stock, including the ONDD calculations (with differentiation between interest and capital cancellation) is also represented in Table 3.3.

59 This information was given during the interviews carried out at the ONDD.

HIPC countries, the ONDD did not receive any internal compensations for the debt cancellation part of the Nigerian deal. The advantage for the Belgian state was to significantly increase the ODA to GNP ratio: between 2004 and 2005, aid grew from 0.41 per cent to 0.53 per cent of GNP, bringing the country closer to the 0.7 per cent UN target. Out of the € 270 million cancelled by Belgium, around € 230 million were part of the Naples terms cancellation (the 67 per cent), and the remaining € 40 million was the reduction on the buy-back. For the latter there was a debate in Belgium (and in Europe) on whether it should be accounted for as ODA. The Belgian Development Cooperation was initially planning to follow the Dutch view and to not account for it as ODA, but it eventually had to give in to the will of the Ministry of Finance. So in the end, the entire € 270 million were accounted for as ODA, and the ODA impact was spread over two years (2005 and 2006).[60] As shown in table 3.5, the debt cancellation to Nigeria accounted for around 7 per cent of total ODA in 2005 and around 10 per cent of total ODA in 2006.

Table 3.5 Belgian ODA and debt relief in 2005 and 2006

	2005	2006
Total Belgian ODA (€ million)	1,572	1,574
Total Belgian ODA (% of GNP)	0.53%	0.50%
Share of debt relief (% of Total ODA)	24.09%	20.68%
Debt cancellation Nigeria (€ million)	113.1	156.6
Debt cancellation Nigeria (% total ODA)	7.2%	9.95%

Source: Development Cooperation, ONDD.

The reason why the share of total debt relief is so high for 2005 (24 per cent) is because Belgium also cancelled a substantial amount for Iraq (about € 200 million). The case of Iraq is very similar to the Nigerian case; it is also a non-HIPC country, the amounts involved are similar, the compensations and discussions between public instances worked in the same way, with the only notable difference being the share cancelled (80 per cent in the Iraqi case).

3.7.5 Assessment of the Belgian case

The views on whether the deal was beneficial or not for Belgium differ according to the institutions interviewed. The Ministry of Finance and the ONDD agreed on the fact that the deal translated into an economic loss, following the idea that Belgium was being repaid relatively well compared to other creditors. According to them, the ONDD could have earned more by continuing the fight to be paid back (especially with the high oil prices at the time). But according to the – then – Belgian ambassador in Abuja, the deal was rather positive, as it improved the image of the country in Nigeria, and it also meant a very large repayment of the debt (which would have been complicated to achieve by other means).

As ‘Development Cooperation’ was only truly involved in the debate concerning the ODA accounting, they still think some of the cancellation should not have been accounted for as ODA. What is striking, in comparison with other European countries (and especially the Netherlands), is that the Nigerian case was not a major concern for the Belgian NGO’s (the

[60] Under the DAC regulations, ODA is supposed to be accounted for the year of cancellation, and for the entire amount. But here, as the cancellation was planned at the Paris Club in two different shifts, Belgium accounted for the first share in 2005 and the second in 2006.

counterparts of organisations like Jubilee) or the senate. The former did not intervene at all in the debate, and the questions from the latter are only ex-post questions, mainly concerning the reasons explaining the large share of debt relief in ODA for 2005 and 2006.

3.7.6 Conclusions

This section began with the analysis of the Belgian debt relief policy and the public agencies involved in the process. After explaining the functioning of State to State (bilateral) loans and export credits, we underlined the major role of the Ministry of Finance and the ONDD in the Belgian debt relief (and for Nigeria in particular). Our analysis of the reasons why Belgium agreed on the debt relief deal showed how the country essentially followed the decision taken at the G8 Finance Ministers meeting, without truly participating in the prior negotiations. After the Paris Club meeting in 2005, the ONDD cancelled € 270 million (in total) out of the € 470 million of claims on Nigeria, which were then accounted for as ODA (in spite of some criticism from 'Development Cooperation'). The assessment section suggested that there was a debate on the positive aspects of the debt relief programme for Belgium.

3.8 Nigerian debt relief and the Dutch policy

3.8.1 Introduction

Prior to the debt deal the Nigerian debt to the Netherlands was approximately € 1.3 billion.[61] These debts consisted mainly of export credit insurance debts (approximately € 1.28 billion) and to a small extent aid loans (approximately € 28.3 million).

The aid loans consisted of 5 loans, all originated prior to 1990 (1967, 1971, 1972, 1988, 1990). Of the € 28.3 million debt on aid loans about € 8.9 million were arrears. The original amount of export credit debt, all occurred before 1990, was about US$ 438 million,[62] which accumulated over the years through unpaid interest payments to approximately € 1.3 billion. The export credit insurance debt occurred on approximately 129 transactions, of which the most important transactions were for construction (hotels), and harbor infrastructure.[63] A total of 7 transactions amounted up to 81 per cent of the outstanding debt, of which approximately 70 per cent related to hydraulic engineering, 20 per cent to general construction works, 2 per cent civil engineering, and approximately 3 per cent energy sector).[64]

The Netherlands was the 6th most important creditor to Nigeria, after the United Kingdom (27 per cent of total external debt), France (19 per cent), Germany (17 per cent), Japan (14 per cent), and Italy (7 per cent). The Netherlands was the largest non-G8 creditor to Nigeria, holding about 5 per cent of Nigeria's total external debt.

In 2003, Nigeria was the largest export credit insurance debtor for the Netherlands.

61 Tweede Kamer der Staten Generaal, 30 300 V, nr 10. Document stated that the debt relief arrangement involved a total of € 1.2 billion. The remaining debt was bought back by Nigeria for € 197 million with a reduction of 40 per cent. This implies that the total debt was approximately € 1.3 billion.
62 Afrodad (2007), Wiertsema (undated).
63 Tweede Kamer der Staten Generaal, 29 200 V, nr. 65
64 Tweede Kamer der Staten Generaal, 30 300 V, nr. 76.

3.8.2 Dutch debt relief policy

In the late 1990s, the Netherlands was one of the strong promoters and supporters of the HIPC initiative.[65] Once the HIPC initiative was established, the Netherlands enthousiastically contributed to the implementation of this Initiative, seeing it as an opportunity to alleviate poverty in the debt-ridden countries. The Netherlands' government was somewhat less in favour of the MDRI when it was launched in 2005. The Netherlands is an active member of the Paris Club and strongly favours these multilateral debt agreements. The objectives of the Netherlands in providing debt relief are the same as those of the Paris Club in general, namely, to achieve debt sustainability of the involved debtor countries.

In the updated development cooperation policy of 1997 ('Herijking ontwikkelingssamenwerking 1997') it was agreed that the Netherlands will spend 0.8 per cent of GDP on development cooperation (ODA). It was agreed to apply a net approach; ODA payments minus repayments. The updated development cooperation policy also provided clear guidelines on how debt relief should be reflected in the development cooperation budget, namely, in accordance with the DAC rules. This meant that debt relief on commercial debts from now on would be attributed 100 per cent to the Development Cooperation budget.

In 2003 the Netherlands increased its EKI reservations[66] (Export Kredietverzekering en Investeringsgaranties, Export Credit insurance and Investment guarantees) in the ODA budget. Up to 2002 the development budget on average included about € 50 million per year on debt relief on commercial export insurance. In 2003 the Ministry of Finance expected that, due to a more active HIPC policy, more debt deals would follow which would require budget reservations up to € 300 million per year for EKI debt relief.

Position on Nigeria

The Netherlands has been closely following Nigeria's debt position and its ability to pay over the years. The Netherlands held the view that Nigeria, as a (oil) resource rich country, is able to pay its debts. This position was repeated over the years up to the debt deal. The Netherlands did not consider or initiate any bilateral debt deal with Nigeria on a non-commercial basis.

From 2000 to April 2008 the Netherlands was not reinsuring exports to Nigeria.[67] Nigeria was labeled as a code 7 country (highest risk) from 2000 tot October 2007. Per April 2008 the Netherlands is applying a case-by-case approach on insuring export to Nigeria under some strict conditions and to a maximum of € 200 million per case. Investments in Nigeria could still be reinsured under the scheme for reinsurance of investments (for the political risks associated with investments abroad, including war, expropriation and transfer restrictions) throughout the whole period.

[65] IOB (2002) where a far more extensive historical overview of Dutch debt relief policies can be found.
[66] The reservations for the cancellation of debts resulting from export credit insurance.
[67] With one exception: liquid gas.

Institutional setting
Decisions on debt relief are taken in the Paris Club. The Ministry of Finance is the Netherlands' head of delegation in the Paris Club and signs the agreements. The delegation also includes a representative of the Dutch export credit agency and after the 'Herijking' in 1997, there was also a representative of the Ministry of Foreign Affairs. The latter Ministry would bear the financial cost of any concessional debt relief operation agreed in the Paris Club.

Bilateral debts owed to the Netherlands have their origin in bilateral aid loans and in export credit insurance. Until 1992 the Netherlands disbursed part of its aid budget in the form of concessional loans. The NIO (Nederlandse Investeringsbank voor Ontwikkelingslanden, Netherlands Investment bank for Developing countries), a state agency, attracted money on the capital market for the financing of these loans. The NIO was also responsible for the administration of the loans. Export credit insurance is implemented by Atradius (previously called NCM, Nederlandse Credietverzekering Maatschappij). Atradius DSB (Dutch State Business) is a private export credit insurance company and insures on behalf of the Netherlands export transactions (and the state reinsures the insurance). Atradius DSB can make most of its decisions itself, but exceptions include large amounts for a single transaction, and politically sensitive/new countries. The Ministry of Finance determines credit ceilings by country. Atradius DSB receives the premium but transfers them to the Ministry of Finance. When the importer does not pay, the Ministry of Finance pays Atradius DSB which in turn compensates the private company, subtracting 5-10 per cent of the total amount, which is the company's own risk. Unlike ONDD in Belgium, Atradius DSB does not incur any risks itself. Since 2010 the state of the Netherlands is the insurer and Atradius DSB executes the programme (Atradius, undated).

3.8.3 Why debt relief for Nigeria?
Both the Ministry of Finance and the Ministry of Foreign Affairs of the Netherlands were ex ante not in favour of the debt deal, mainly because they questioned the need for a cancellation. The Netherlands ultimately opted to agree - with the main argument that pressure from the G8 was too heavy and that deviating from a consensus in the Paris Club would carry too high costs for the Netherlands. The deal was defended in parliament with the following arguments:

- Nigeria has paid the Netherlands amounts that it would probably not have paid in the absence of the deal;[68]
- The IMF-supported programme that was a condition for the debt relief included a solid programme of combating corruption and improved public finance management, as well as guarantees that the resources not spent on debt service would be used for poverty reduction in the form of a Virtual Poverty Fund.[69]

[68] Tweede Kamer der Staten Generaal, 30 300 V, nr. 10.
[69] Handelingen Tweede Kamer, TK 26, p 1749 -1781, 24 November 2005.

3.8.4 The amounts involved in the debt relief agreement

With respect to the amounts involved, different documents present different figures. The figures in Table 3.6 are reconstructed on the basis of the following. Several documents consistently mention an amount of about € 622 million in cancellation (excluding the discount on the buy-back) and an amount of approximately € 574 million as Nigerian payments to the Netherlands.[70]

The agreement was implemented in phases. In the first phase a first payment (arrears plus levelling up) to the Netherlands was made of approximately € 377 million. After the first payment, the Netherlands cancelled 33 per cent of the remaining debt (remaining, i.e. after first payment), or € 306 million. In the second phase a second payment to the Netherlands was made of € 390,000 (or € 0.4 million, all on post cut off date debt, ODA loans) after approval of the first review under the PSI. The Netherlands cancelled another 34 per cent of this remaining debt. The then remaining debt of about € 306 million was bought back by Nigeria for € 197 million with a discount of about € 110 million, so 35 per cent. Although the opinions vary on whether the debt buy-back discount can be considered debt relief (see section 3.3.4), de facto the discount had a similar impact as debt cancellation.

Table 3.6 Total Nigerian debt to the Netherlands & Amounts received and Debt cancelled by the Netherlands, in € million

	Total debt	Amounts received by the Netherlands	Debt cancellation
	1,305		
Phase 1			
1st payment		377	
Remaining debt	928		
Cancellation (33%)			306
Phase 2			
2nd payment		0.4	
Cancellation (34%)			315
Remaining debt	306		
Debt buy-back			
Payment in debt buy-back		197	
Discount on debt buy-back			110
	1,305	574	731

Source: see text.

Table 3.6 reflects the amounts involved in the total debt, so including export credit debt and aid loans. The bilateral aid loans followed the general framework of the debt deal, following the same phases and per centage debt cancellation and buy-back. Table 3.7 presents the phasing, received payments and granted debt relief on aid loans in detail.

70 Tweede Kamer (2005), Vaststelling van de begrotingsstaten van het Ministerie van Buitenlandse Zaken (V) voor het jaar 2006; Brief van de Ministers voor ontwikkelingssamenwerking en van Financiën, 30 300 V, Nr.10; Brief aan de voorzitter van de Tweede Kamer, 21 oktober 2005;

Table 3.7 Bilateral aid loans - amounts involved in the 2005 debt relief agreement, the case of the Netherlands, in € million

	Received by the Netherlands	Debt relief granted to Nigeria
Prorata temporis Payment		
Payment to NIO	0.11	
First Phase		
Levelling up	0.68	
Payment and deferral of the arrears	7.18	
Debt cancellation by NIO		6.85
Second Phase		
Payment	1.99	
Third Phase		
Post cut off date debts payment	0.39	
Debt cancellation		7.06
Debt buy-back	4.41	
	14.75	**13.92**

Source: Agreement of debt reorganisation between the Netherlands and Nigeria.

3.8.5 Assessment of the Dutch case

Before 2005

In the period 1990-2000 Nigeria did not service its debt vis-à-vis the Netherlands. In December 2000, the Paris Club agreed a debt restructuring deal with Nigeria, which was subsequently translated in a draft bilateral agreement between Nigeria and the Netherlands in May 2001. In 2000 and 2001 Nigeria paid the Netherlands in accordance with the bilateral agreement. However, after 2001 payments became irregular or were absent. The first negotiations for complementing the multilateral deal with a bilateral agreement took place in March 2002 between the Dutch Ministry of Finance and a Nigerian delegation. During these negotiations the Netherlands tried to link debt restructuring to poverty reduction. The Netherlands was considering favourable interest rates[71] (lower consolidation interest rate and lower penalty interest rate),[72] under the condition that: a PRSP would be in place and an IMF/ PRGF programme was operational (IMF Stand-By programme was cancelled in 2001). However, Nigeria did not engage in an IMF programme. In October 2003, the bilateral agreement was finally signed.

In 2003, 2004 and 2005 Nigeria made partial payments to the Netherlands.[73] These partial payments could not prevent total debt vis-à-vis the Netherlands to increase.

71 Notitie Directie Export kredietverzekering en Investeringsgaranties, EKI 2002-99999, 21 februari 2002, CVP, onderwerp: Schuldovereenkomst Nigeria: bezoek president Obasanjo.

72 Memorandum Ministerie van Buitenlandse Zaken DVF/AS-30/2002, 21 februari 2002, betreft: Nigeria – Bezoek president Obasanjo en de schuldenkwijtschelding, opgesteld door Pauline Eizema.

73 Brief aan TK 2004, BFB/EKI 2004-0359, aan de voorzitter van de Tweede Kamer der Staten Generaal, onderwerp: Schulden overzicht Nigeria Kostendekkendheid Exportkrediet verzekering.

In December 2004 Minister Okonjo visited the Netherlands to investigate the willingness for debt relief. She informed the Dutch Minister of Finance that there was no political support in her country for debt repayments.[74] As oil prices were on the rise in 2004 and debt sustainability was not under immediate threat, the Netherlands did not see any reason to engage in any debt relief operation.[75] Debt relief to Nigeria was discussed in the Paris Club several times in the course of the years 2004 and 2005, but no conclusions were drawn.

Period 2005-2006

By the end of May, the World Bank decided to grant Nigeria the 'IDA-only' status[76] (which previously gave countries eligibility for 67 per cent debt relief). Although the Paris Club had just introduced the Evian Approach (with a flexible debt relief percentage, based on DSA), the 'IDA-only' status increased the likelihood of a concessional debt relief operation. The Dutch Executive Director discovered this change when the Country Partnership Strategy of the World Bank for Nigeria was discussed in the Board. He protested against the procedure resulting in the 'IDA-only' decision and against the DSA as prepared by the World Bank.[77] The Memo stated that:

1. 'The Process, followed by the Management resulting in a decision to downgrade Nigeria to IDA only status was incorrect. Arguments for the downgrading of Nigeria from blend to IDA only status are inconsistent with factual evidence.' It was complained that only France, the US and Japan were consulted in the procedure, not other countries;
2. 'The proposed Country Partnership Strategy of the World Bank and DFID contains a "Debt Analysis (annex 4), but is not following the recently agreed (by Fund and Bank Boards) joint framework for DSA.'

In June 2005 the IMF Debt Sustainability Analysis for Nigeria was also discussed. The Executive Director of the Netherlands constituency made some critical comments on the DSA and informed the Dutch Minister of Development Cooperation.[78] Two interviewees supported the critical comments of the Executive Director and hold the view that the DSA was somewhat biased as firm conclusions on Nigeria's debt sustainability were lacking.

On June 11, the G8 Finance Ministers agreed that a debt relief deal with Nigeria should be made. The draft outline of the debt deal was discussed in more detail in the Paris Club meetings of June 15 and June 29.

74 Memorandum Ministerie van Buitenlandse Zaken, DAF-1309-04, 15 december 2004, betreft: Nigeria, Verslag bezoek Minister van Financiën, opgesteld door Roel van der Veen.
75 Notitie Ministerie van Financiën, Directie Buitenlandse Financiele betrekkingen, BFB 2004/6655N, 9 december 2004, rubriek 1431.4, betreft: Bezoek minister Ngozi Okonjo van Nigeria. Auteurs: Nicole Bollen, Kim van den Berg, Jan Menno van der Beek.
76 Note from Vice President and Corporate Secretary IDA, '*Nigeria: Eligibility for IDA-Only Borrowing Status*', May 27, 2005, IDA/SecM2005-0307.
77 Letter from Foreign Financial Relations Directorate (MOF) to Ad Melkert, Executive Director World Bank, June 24, 2005, Subject: Country Partnership Strategy Nigeria, BFB 2005-1000, and Memo from Ad Melkert, Executive Director World Bank to All Capitals, June 28, 2005, subject: Nigeria Country Partnership Strategy (CPS).
78 IMF Office Memorandum, Office of Executive Director for the Netherlands Constituency, June 22 2005, Subject: Nigeria – Info van Ardenne. To Mr. Kremers, From: Elvira Eurlings.

During the Paris Club meeting the Netherlands held the view that debt relief per centage could be lower, and the debt buy-back share could be higher.[79] The Netherlands was highly critical of the envisioned debt relief deal, but also concluded that within the current political setting it could not reject the deal. The Netherlands took the position to refine the debt deal. It stressed, together with other members of the Paris Club, that (1) Nigeria should start with payments before debt relief was granted, (2) the debt deal should be phased out over two years, and (3) monitoring should be in place to see whether Nigeria complies to PSI.

As the UK was chairing the G8 and was an important initiator of the debt deal, the Netherlands contacted both the UK minister of Finance (Gordon Brown) and Hilary Benn (Minister of State at the Department of International Development) to underline its concerns with the drafted G8 debt deal. The UK representatives addressed some of these concerns by assuring that they were working on guarantees that the debt relief savings would be used for poverty reduction.

In the process of drafting the PSI the Netherlands especially stressed the conditions related to the VPF, the EITI, the public procurement bill, and an increase of activities of Economic and Financial Crimes Commission.[80] The PSI was approved by the IMF executive board on October 17, 2005.

The Netherlands concluded that the PSI provided sufficient links to poverty reduction. However, the Netherlands also identified that the PSI was not straightforward enough on PFM reforms and implementation of the VPF.[81] The Netherlands has sent several letters to the Nigerian Ministry of Finance requesting further elaboration of its plans on the VPF.[82] In September 2005, the Minister of Development Cooperation Ms. Van Aardenne spoke to Ms. Okonjo-Iweala personally on this issue. In November 2005 parliament discussed the Nigeria debt relief operation.[83] Some political parties where highly critical[84] and focused mostly on direct relations between debt relief and poverty reduction. Some political parties, such as the VVD, were against any form of debt relief to Nigeria, referring to the impact on the budget, the Nigerian oil revenues and the high level of corruption.[85] Other political parties, such as the PvdA, were underlining the link between the debt deal and poverty reduction.

79 Dossieraantekening, Consultaties met bewindvoerder WB, 27 juni 1500 uur, Ministerie van Financiën.
80 Memorandum Ministerie van Buitenlandse Zaken, 25 oktober 2005, DVF/IF-272/05, betreft: Verslag Club van Parijs 18-20 oktober/schuldenbehandeling Nigeria.
81 Memorandum Ministerie van Buitenlandse Zaken, 12 oktober 2005, DVF/IF-262/05, Betreft: Instructie Club van Parijs 18-21 Oktober.
82 Letter to Dr. Ngozi Okonjo-Iweala, Minister of Finance, 23 August 2005, from: Minister for Development Cooperation of the Kingdom of the Netherlands Agnes van Ardenne-van der Hoeven and Minister of Finance, G. Zalm.
83 Voortzetting algemene beschouwingen 30 300, Handeling Vergadering TK 8, 2005-2006, pagina 426-437.
84 Critical questions of LPF, GroenLinks and VVD. See also: Bijvoegsel Schriftelijke antwoorden van de bewindslieden van Financiën op de vragen gesteld in de eerste termijn van de algemene politieke beschouwingen.
85 Letter of drs. F.Z. Szabo (VVD) to the Prime Minister Jan Peter Balkenende and the Development Cooperation Minister, Mrs. Agnes van Ardenne, dated 29 September 2005 (R-nr. 3178).

On December 28 (2005) bilateral agreements on behalf of the Netherlands were signed between Atradius (export credit insurance debt), NIO (bilateral loans) and the Nigerian authorities.[86] [87]

Period 2006-2009

In 2006 the main focus was on the first review of the PSI, as part of the debt deal. The Netherlands took particular interest in this first review, as it should make more apparent the linkage between debt relief and poverty reduction. The first and the second review did not provide an overview of VPF expenditure. The Netherlands continued to monitor the following PSI reviews. However, interest started to decrease after the second review at the end of 2006 as the subsequent reviews did not have consequences for the debt relief operation anymore.

In 2006 and 2007 the international debate continued on whether the discount on debt buy-back, as part of the debt relief deal, could be qualified as ODA. The Netherlands argued that any buy-back is a market operation. The discount is determined on the basis of the actual market value of the debt and should therefore not qualify as ODA. This was the view of both the Ministry of Foreign Affairs and the Ministry of Finance. After a series of OECD/DAC meetings it was concluded in March 2007 that discounts on stand-alone debt buy-backs could not be attributed to the ODA budget. When debt buy-backs are part of a comprehensive debt deal, discounts can qualify as ODA. Each country was free to make is own choice. The Dutch Ministries of Foreign Affairs and of Finance had already agreed in autumn 2005 that the discount on the Nigerian debt buy-back would not qualify as ODA in the Dutch accounts. This 'saved' an amount of approximately € 110 million.

Budgetary consequences

The debt relief, except for the discount of the buy-back, was financed from the ODA budget. It was agreed between the Ministry of Foreign Affairs and Ministry of Finance that the financing would be phased out over a period of three years. In 2005 approximately € 150 million was included, in 2006 about € 200 million and in 2007 about € 250 million.

Some stakeholders stated that, from a budgetary perspective, the timing for this debt deal was relatively favourable. Incorporating Nigerian debt relief in the ODA budget (approximately € 4 billion in 2005) did not have any consequences for existing programmes. The upward GDP adjustment and the three year phasing were sufficient to phase in debt relief. No budgetary cuts were necessary to other programmes. However, fiscal space to initiate new policies was limited. Only some additional funds were available for the priorities such as education, and drinking water/sanitation programmes. Furthermore, the development cooperation budget had no buffer left for unforeseen circumstances.

[86] Memorandum 2 januari 2006, DVF/IF-001/-06, betreft: Bilaterale overeenkomst Nigeria schuldenregeling ondertekend, opgesteld door Hans de Voogd.

[87] Agreement of Debt reorganisation between The Government of the State of The Netherlands represented by De Nederlandse Investeringsbank voor Ontwikkelingslanden N.V. and the Government of the Federal Republic of Nigeria.

The Minister of Finance explained to parliament[88] that the Nigerian payments on the bilateral aid loans (€14 million) would benefit the development cooperation budget. In practice, it helped to compensate for the about € 622 million that were deduced from this budget as a result of the deal. Of the Nigerian payments done on the export insurance credits, about 15 to 18 per cent were paid to the insured companies and 82 to 85 per cent benefited the overall Dutch state budget.

The Minister of Finance stated[89] that the budget was credited with a total of € 433 million, divided over 2005 and 2006. When the budget was drafted it was expected that the Netherlands would receive € 509 million; 15 per cent of this amount, or € 76 million would return to private creditors (own risk part of the insurance), leaving a total of € 433 million.

3.8.6 Conclusions

The Dutch government was not in favour of debt forgiveness to Nigeria. However, the Netherlands could not but accept, in principle, the debt deal proposed by the G8 Ministers of Finance. When the deal was discussed and finalised in the Paris Club, the Netherlands chose to actively participate to improve the debt deal. It took a critical approach towards the design of the debt deal and successfully influenced the debt relief framework, such as payments prior to debt relief, a longer operation period, and a stronger link to poverty reduction. All interviewed stakeholders in the Netherlands hold the view that within the political margins to manoeuvre the results can be judged as positive. However, most of them stated that monitoring poverty reduction impact of debt relief in the context of VPF, one of the main focus points of Dutch interventions, has been weak.

Several Dutch stakeholders stated that the debt deal has been beneficial for Nigeria and the Netherlands, but some in retrospect hold the view that Nigeria could have paid back its debt in full, referring to the continued increase of the oil price after 2005 and the substantial build up of reserves in the country (see Section 4.3.2).

3.9 Conclusions

This section summarises the answers to the six evaluation questions related to the inputs of debt relief. The debt relief agreement between the Paris Club and Nigeria involved the full US$ 30.4 billion of Paris Club debt; Nigeria was expected to pay US$ 12.3 billion, while the creditors would cancel US$ 18 billion, implying an overall debt reduction of about 60 per cent. In the first phase, Nigeria paid all arrears to Paris Club members and the so-called levelling up. The creditors then cancelled 33 per cent of the remaining debt. In the second phase, the creditors cancelled 34 per cent of this debt after Nigeria had paid debt service on all post cut off date debts and an amount for the buy-back of the remaining debt at a discount of around 35 per cent.

88 Tweede Kamer der Staten Generaal (2005), 30 300 IXB, nr. 13, Vaststelling van de Begrotingsstaat van het Ministerie van Financiën (IXB) voor het jaar 2006, brief van de Minister van Financiën.

89 Tweede Kamer der Staten Generaal (2005), 30300 IXB nr 13, Vaststelling van de begrotingsstaat van het Ministerie van Financiën voor het jaar 2006, brief van de Minister van Financiën.

With respect to the conditions attached to the agreement, the creditors had made it clear that a debt reduction would only be considered if Nigeria had put its 'house in order'. This implied, among other things, reconciling the debt figures with all creditors, carrying out responsible macroeconomic policies, improving public finance management (PFM), and reducing corruption. These conditions had to be met before a debt relief agreement. The Paris Club agreement itself stipulates that the Nigerian government should continue and fully implement the reform programme as pointed out in the Policy Support Instrument (PSI) of the IMF. This implied setting up a Virtual Poverty Fund (VPF) with the annually expected debt relief savings. The second phase of the debt cancellation was contingent upon approval by the IMF of the first review of the PSI.

President Obasanjo, in office between 1999 and 2007, was the main actor on the Nigerian side, as achieving debt relief was one of his main objectives. After his re-election in 2003, he installed a new economic management team and debt relief was a primary aim for this team. Main agencies involved in the negotiations were the Ministry of Finance, the Debt Management Office and the Central Bank of Nigeria.

The Nigerian government wanted to achieve a comprehensive debt deal with the Paris Club because it considered the debt neither economically nor politically sustainable. Also it wished to free resources for the MDGs. Moreover, it wanted to maintain and improve relationships with the western world. Therefore, going along with the strong repudiation movement of the Nigerian civil society, parliament and the public at large was no option. The government preferred an orderly workout of the debt in cooperation with the creditors, but this workout needed to include a significant debt reduction. Especially from 2003 onwards, the government had carried out substantial policy reforms, including the oil price based fiscal rule which had led to substantial savings on the excess crude account. These savings, combined with the still rising oil price induced the government to consider a buy-back modality for the debt relief deal.

The conditions of the PSI were fully based on the government's own policy reform programme, labelled NEEDS, and were therefore owned to a large extent. The PSI gave more specific quantitative targets and more exact timelines to the policies the government intended to implement anyway.

The main motivations and objectives for the creditors included:

- Strategic interests: Nigeria is a large and important West African country that plays a role in the stabilisation of the region and in the fight against terrorism. This motivation held in particular for the US;
- Oil security: a favourable debt treatment would help secure the flow of oil to the US and other countries in the West;
- Financial interests: creditors received an immediate payment of 40 per cent of the debt outstanding which was probably more than they would have received in the immediate future in the absence of the deal;
- Long-term economic interests: by allowing this comprehensive exit strategy Nigeria would become creditworthy again, allowing for expansion of trade with and investment in the country in general;

- Humanitarian interests: the deal would help Nigeria to reduce poverty and achieve the MDGs;
- 'Reputational' interests: the deal inflated ODA figures without disbursing fresh money; this held in particular for donors with no fixed ODA budget such as the UK and Germany.

Both Belgium and the Netherlands were initially not in favour of a debt cancellation, because they considered the Nigerian external debt to be sustainable. Dutch and Belgian policymakers felt under pressure to agree with the G8-decision that already had been made; they had to agree because the Paris Club operates by consensus and the Club is considered to be an important institution for settling international debt positions. The Nigerian debt to the Netherlands amounted to about € 1.3 billion and to Belgium approximately about € 470 million. The Netherlands was more active in its protest in the Paris Club. In addition, the Netherlands tried to influence the conditions of the deal; in line with the earlier Dutch attempts to influence the contents of the HIPC initiative, Dutch policymakers underlined the importance of the PSI and of securing that freed resources would indeed be used for poverty reduction.

Financial interests were to some extent important for both countries and were used to defend the deal in Dutch parliament. The other official motivation for the Dutch government was humanitarian; the deal was expected to lead to higher social spending via the establishment of the Virtual Poverty Fund from the debt relief savings. For Belgium the reputational interests played a role as all money involved in the cancellation and buy-back was registered as ODA and led to an increase in its ODA performance and figures. For the Netherlands, with a fixed ODA budget in per cent of GDP, the deal reduced other aid flows to developing countries in the years 2005-2007. However, the consequences for existing programmes were limited due to a higher GDP growth than expected in this period and to the fact that the discount on the buy-back was not registered as ODA.

Unlike many other debt relief agreements, the Paris Club agreement with Nigeria eliminated the debt fully. Another special feature was that a buy-back was included as part of the overall agreement. Thirdly, the role of the IMF was different from other debt deals. The IMF did not need to assess the payment capacity of Nigeria in order to establish the degree of concessionality of the rescheduling or forgiveness. In addition, Nigeria was the first country for which a Paris Club agreement was accompanied by a PSI.

A difference with the HIPC initiative is that this deal only concerned the bilateral Paris Club debt while HIPC involves debt to all creditors. In addition, the overall debt reduction was not based on Nigeria's capacity to pay and was lower than in most HIPC cases. Furthermore, the deal with Nigeria was a full stock treatment. Nigeria had to pay a large amount up front but received an even larger immediate cancellation of the (full) debt stock with the Paris Club. Finally, the conditionality was different. There was extensive 'informal' conditionality before any debt reduction would be considered, but there was no requirement to elaborate and implement a Poverty Reduction Strategy Paper (PRSP). The requirements of having an IMF programme and being on track with that programme for at least six months (the first review) is a similar condition as the one for reaching the HIPC Completion Point.

4

Outputs

4.1 Introduction

This chapter assesses the outputs of the debt deal, both the monetary outputs and the outputs related to the conditionality attached to the deal. Section 4.2 examines the extent to which the debt stock and the debt service flow have been lowered as a result of the deal. In order to do this, first a counterfactual debt stock and a counterfactual debt service are established. In order to establish the full flow effect at output level, the consequences of the debt deal for aid flows are also analysed. In addition, it is examined whether there was a flow effect on the balance of payments and on federal and state budgets.

Section 4.3 examines the effect of the conditions on the implementation of policy reforms: first in general (4.3.1), then with respect to fiscal policy (4.3.2), debt management (4.3.3), and finally with respect to poverty reduction policies (4.3.4) and the Virtual Poverty Fund (4.3.5). Section 4.3.6 analyses whether the government spending for poverty reduction increased as a result of the debt deal, and to what extent the VPF spending has been additional. With respect to this conditionality channel, we examine the effect of the anticipation of a possible debt deal on policies, and the effect of the conditionality attached to the debt deal itself. The former implies an analysis of the pre-2005 period, and the latter implies an analysis of, in particular, the period 2005-2007 in which the country had the PSI programme with the IMF. Formally there was no conditionality from 2007 onwards. To the extent that policies continued to be executed or that reforms continued to be carried out, this can testify to the sustainability of the debt relief conditionality.

Nigeria has implemented many policy reforms in the period since 2000, and in particular since 2003. Obviously not all of these reforms can be attributed to the debt deal. The 'gross outputs', in other words the implemented main policy changes are described in the Annex to this chapter, Annex 4, in Part Two of this report. The discussion here compares the actual policy changes with a counterfactual: what policy changes would have occurred without the anticipation of a debt deal or without the conditions attached to the deal.

Section 4.4 assesses some intermediate outcomes of the policy changes induced by the debt deal. As will be explained in 4.3.5, the VPF not only aimed to secure additional spending for the MDGs, but also to enhance new ways of planning, budgeting, implementing and monitoring and evaluation in existing state agencies in all tiers of government. Section 4.4.1 examines whether these institutional changes have occurred. Section 4.4.2 assesses intermediate outcomes of other policy reforms (to the extent these reforms were the result of the debt deal), in particular at effects of anti-corruption policies on international indices. Section 4.5 concludes on the stock, flow and conditionality outputs of the deal and on the intermediate outcomes of policy changes.

4.2 Stock and flow outputs

4.2.1 Introduction

In order to know the effect of the debt deal on the debt stock and the debt service flow, we need to examine to what extent debt service to Paris Club creditors would have been paid in the absence of the deal: the counterfactual. In general it holds that with a higher counterfactual debt service, the flow effect of the debt deal would be larger (more debt relief savings), but the stock effect would be smaller as less arrears would have accumulated. The flow effect (the debt relief savings) also depends on the extent to which debt relief substituted for (other) aid flows. Section 4.2.2 establishes the most realistic counterfactual and section 4.2.3 examines whether the donors/creditors have substituted debt relief for other aid flows. Section 4.2.4 concludes on the size of the stock and flow outputs and examines the flow effect of the established debt relief savings on the balance of payments and the government accounts. Section 4.2.5 examines the flow effect at the state level.

4.2.2 The counterfactual debt stock and debt service flow

The question 'To what extent would Nigeria have paid debt service to the Paris Club in the absence of the debt deal?' has been asked to 13 interviewed stakeholders: seven Nigerian government or former government representatives, three representatives of donors/creditors and three representatives of civil society. Although many respondents said that there was a strong repudiation movement, 11 out of these 13 answered that Nigeria definitely would have continued to pay *some* debt service in order to maintain relationships with the creditor countries.[90] But, as in the years before the deal, Nigeria would most likely not have paid the full amount due.[91] Out of these eleven, four persons (three from government) expressed the view that payments would most likely have been linked to the oil price. However, between 2001 and 2004 this 'rule' was not followed. In 2003 and 2004 debt service payments were in line with an informal agreement with the Paris Club to only pay US$ 1 billion a year. A rising oil price did not lead to higher payments in 2004 (Table 4.1). In 2001, just after the Paris Club agreement, the debt service was higher than this informal agreement and in 2002, an election year, it was much lower.

Table 4.1 Oil price (Bonny light), in US$ per barrel, and debt service paid to Paris Club creditors, in US$ billion, 2001-2004

	2001	2002	2003	2004
Oil price (on spot price, Bonny light)	24.5	25.4	29.1	38.7
Debt service paid to Paris Club creditors	1.3	0.2	1.0	1.0

Source: : CBN, Statistical Bulletin 2004 for oil price and DMO, Annual Report 2005 for debt service.

90 These respondents included six high current or former government officers, three representatives of foreign embassies and two representatives of civil society.

91 One respondent, from civil society, said that Nigeria would have paid the full amount, and one from the (former) government group said that payments would have been unlikely.

Table 4.2 Debt service paid by type of creditor and counterfactual debt service, in US$ billion, 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Actual Paris Club	1.3	0.2	1.0	1.0	8.1	4.5	0.0	0.0	0.0
Bilateral Non-Paris Club	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3
Private	0.4	0.5	0.3	0.3	0.4	1.8	0.6	0.1	0.2
Total (actual)	**2.2**	**1.2**	**1.8**	**1.8**	**8.9**	**6.7**	**1.0**	**0.5**	**0.4**
Counterfactual Paris Club	1.3	0.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other debt service (actual)	0.9	1.0	0.8	0.8	0.9	2.2	1.0	0.5	0.4
Counterfactual Total	**2.2**	**1.2**	**1.8**	**1.8**	**1.9**	**3.2**	**2.0**	**1.5**	**1.4**
Difference counterfactual – actual = Flow output					-7.1	-3.5	1.0	1.0	1.0

Source: Own calculations (see text) based on DMO figures.

Table 4.3 PPG debt stock by type of creditor and counterfactual debt stock, in US$ billion, 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Actual Paris Club	22.1	25.4	27.5	30.8	15.4	0.0	0.0	0.0	0.0
Bilateral Non-Paris Club	0.1	0.1	0.1	0.0	0.5	0.3	0.2	0.2	0.2
Multilateral	2.8	3.0	3.0	2.8	2.5	2.6	3.1	3.2	3.5
Private	3.3	2.6	2.4	2.2	2.1	0.6	0.4	0.4	0.3
Actual Total	28.3	31.0	32.9	35.9	20.5	3.5	3.7	3.7	3.9
Counterfactual Paris Club debt	22.1	25.4	27.5	30.3	33.4	36.9	40.7	44.9	49.5
Other debt	0.0	5.6	5.4	5.1	5.1	3.5	3.7	3.7	3.9
Counterfactual total debt stock	28.3	31.0	32.9	35.9	38.5	40.4	44.4	48.6	53.5
Difference counterfactual – actual = stock output					18.0	36.9	40.7	44.9	49.5

Source: Own calculations (see text), based on DMO figures.

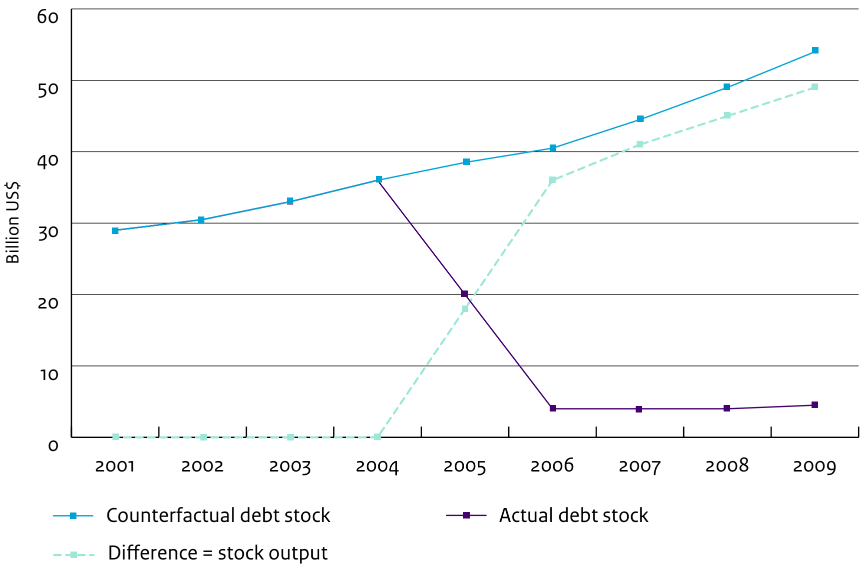
We conclude therefore that the most realistic counterfactual is that Nigeria would have continued the informal agreement to only pay US$ 1 billion annually. This is also in line with the assumption made when concluding the deal: the US$ 1 billion in (assumed) debt relief savings were supposed to go into the Virtual Poverty Fund.

The US$ 1 billion debt service paid to the Paris Club was about one-third of the annual debt service due in the years 2003 and 2004, and for this reason arrears accumulated and the Paris Club debt stock continued to increase between 2002 and 2004. Assuming that debt service *due* would remain at a level of US$ 3 billion during the years 2005-2009, the arrears would have continued to increase *at the same pace*[92] as during 2003-2004 and so would have

[92] The annual increase in arrears not only consists of the US$ 2 billion not paid, but also of interest payments and penalty interest payments on current and previous debt service not paid, resulting in an annually increasing arrears accumulation.

the Paris Club debt *stock*. Table 4.3 shows what would have happened to the Paris Club debt stock and total debt stock under these assumptions. Figure 4.1 shows the stock output of the debt relief graphically. Because it is likely that debt service *due* would also have increased as a result of the arrears accumulation, this is a conservative estimate of the counterfactual debt stock.[93]

Figure 4.1 *Actual total external debt, counterfactual external debt and stock output of debt deal, in US$ billion*



Source: Table 4.3.

4.2.3 Did debt relief reduce other aid?

Apart from the exceptional flows as a result of the 2005 debt deal, Nigeria has never received large amounts of aid (Table 4.4). Before 2004, ODA was at around 0.5 per cent of Gross National Income (GNI) and around US$ 2 per capita. In 2004, aid figures began to increase slightly, probably as a result of the reforms being started by the new economic team. Aid to Nigeria was still much lower than average aid per capita to Sub Sahara African countries, which was US$ 34 in 2004 (World Bank, WDI 2010). Aid figures for 2005, 2006 and 2007 are inflated by the debt deal: cancellations occurred in 2005 and 2006, but some DAC donors registered part of these cancellations in 2007 and 2008 (Table 4.5).

93 Table A4.1 in Annex 4 presents estimates for counterfactual flow and stock outputs in case that debt service paid would have been linked to the oil price. This would imply somewhat higher payments and thus a lower stock output. However, given that our estimate of counterfactual debt stock is on the lower side as it does not take into account that debt service due would increase annually as a result of arrears accumulation, we assume that our picture of the stock output is pretty accurate.

Table 4.4 ODA to Nigeria, in per cent of GNI and in US$ per capita, 2000-2008									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
% of GNI	0.4	0.4	0.6	0.5	0.7	6.5	8.1	1.3	0.7
Per capita	1.4	1.4	2.2	2.3	4.2	45.5	79.2	13.2	8.5

Source: World Bank, WDI-online 2010.

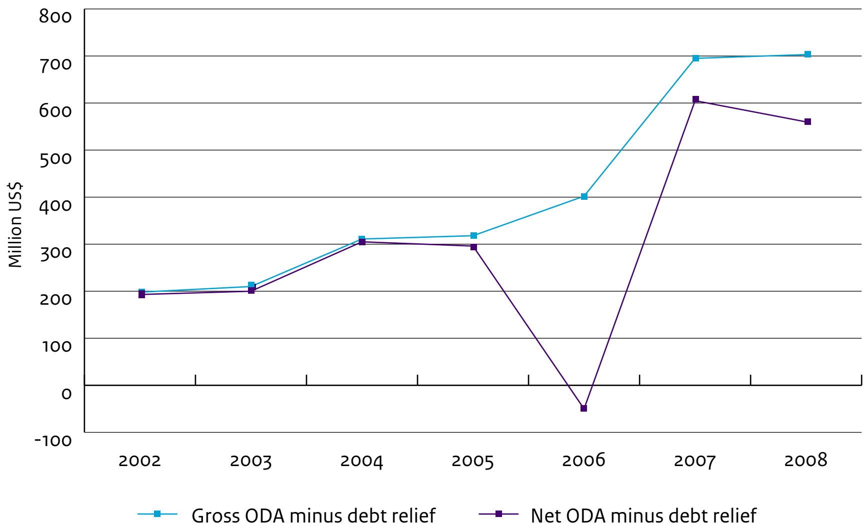
Table 4.5 shows that total *net ODA excluding debt relief* decreased after the debt deal; slightly so in 2005 and more in 2006. However, net ODA is gross ODA minus loan repayments. As loan repayments were part of the deal, this caused a somewhat lower net ODA by definition. For assessing whether there was substitution of ODA by debt relief, the relevant figure is *gross ODA excluding debt relief*. Table 4.5 shows that gross ODA was not negatively affected by the debt deal. To the contrary, it was stable in 2005 and then increased in the years 2006-2008 (see also Figure 4.2). If we subtract 'imputed multilateral ODA' (this is already computed by DAC) from net ODA minus debt relief, we get 'bilateral net ODA excluding debt relief'.[94] This net bilateral ODA excluding debt relief is negative in 2005 and 2006, showing that the lower net ODA (excluding debt relief) in those years can indeed be fully explained by the loan repayments to bilateral donors. This means that we can conclude that the debt relief deal did not lead to lower aid flows (excluding debt relief). The annex to this chapter provides more information on aid and debt relief by individual donor/creditor (Annex 4).

Table 4.5 ODA to Nigeria, by type, in US$ million, 2002-2008							
	2002	2003	2004	2005	2006	2007	2008
Gross ODA	224	220	328	5,958	11,524	1,455	790
ODA loan repayments	-10	-21	-14	-28	-463	-71	-153
Net ODA	213	199	314	5,931	10,820	1,385	637
Debt relief	33	0	0	5,635	10,873	763	81
Net ODA minus debt relief	180	199	313	295	-53	622	556
Gross ODA minus debt relief	191	220	327	323	410	692	709
Imputed multilateral net ODA	160	136	258	436	381	514	615
Bilateral ODA minus debt relief[1]	31	84	70	-113	29	178	94

[1] *Computed by the authors from 'Net ODA excluding debt relief' and 'Imputed multilateral ODA'.*
Source: DAC.

[94] The debt relief was only provided by bilateral donors, not by multilateral donors.

Figure 4.2 *Gross and net ODA minus debt relief, in US$ million, 2002-2008*



4.2.4 Stock and flow outputs at federal level

Under the most realistic counterfactual scenario, the continuation of payment of about US$ 1 billion in debt service, the debt stock would continue to grow at the same pace as during 2002-2004, and this would have resulted in a counterfactual debt stock of US$ 53.5 million in 2009 as shown in Table 4.3. This gives the considerable stock output of US$ 49.5 billion (Table 4.3 and Figure 4.1).

The debt relief resulted in a flow output, or the debt relief savings, of US$ 1 billion annually. However, this did not hold for the years 2005 and 2006, in which actual debt service was much higher than US$ 1 billion, as a result of the US$ 12 billion payments by Nigeria that formed part of the deal (see last line in Table 4.2). This means that the accumulated flow effect for the years 2005-2009 is still negative. It will only become positive in 2019.[95] All else equal, for the period 2005-2018, the country has been able to import less and to have lower government spending as a result of the debt relief agreement.

However, in practice 'all else' was not 'equal'. Both import capacity and the government capacity to spend very much depend on the oil price. We first examine the effect on the balance of payments. The payment of the US$ 12 billion coincided with a rising oil price and consequently a rapidly rising export income. The high export income led to an increase in savings on the excess crude account which is considered part of the gross official foreign

[95] This computation is based on nominal figures: it takes 12 years, or from 2007-2018, to break even. Discounting the future counterfactual payments would produce a later break even year; on the other hand it can be assumed that the creditors would have required higher debt service *paid* in future years, as a result of higher service *due*.

reserves. These reserves were already at US$ 17 billion in 2004, or six months of imports,[96] and they increased further in the following years as a result of the further rising oil price. This means that imports were not constrained by these payments. In 2007 and 2008 the oil price continued to rise and export revenues were buoyant. In these years, export income was so high that the US$ 1 billion in debt relief savings did not have any noticeable effect on import capacity. This changed in 2009, when exports declined from a high of US$ 84 billion in 2008 to US$ 46 billion and the overall balance became negative.[97] In 2009 we can conclude that a positive flow effect became noticeable.

With respect to the federal government accounts, the situation is similar. Although technically the flow effect is negative due to the high payments in 2005 and 2006, this is not how it is perceived in Nigeria. The US$ 12 billion is considered a sunk cost, or an investment, that was necessary to make the agreement possible. It was paid from the excess crude account, and the money saved on this account was *at the time* not directly available for spending (due to the oil price based fiscal rule). At the same time, the funds 'saved' from foregone annual debt service payments are seen as resources that can be used.

As will be shown below (4.3.1 and 4.3.2), in the absence of the anticipation of the debt relief, the balance on the excess crude account would have been much lower. In this most realistic counterfactual scenario, the US$ 12 billion would have been spent over the years 2003-2005. In comparison with this counterfactual scenario, spending has been reduced as a result of the debt agreement, but spending in those years could increase anyway as a result of rising revenues (see below), so the extra savings or reduced spending did not affect the economy. Some important stakeholders indicated that if the Nigerian government would have spent the US$ 12 billion within a short period, the beneficial effects would have been limited and perhaps even zero or negative: for the overall stability of the economy it was better to save this money than to spend it.

If we follow the reasoning of Nigerians and qualify the US$ 12 billion as a sunk cost or an investment, then there is a positive effect of the US$ 1 billion debt relief savings from 2007 onward. But in fact, in 2007 and 2008 spending was in no way constrained by revenues. Due to the rising oil price and also as a result of tax reforms, revenues rapidly increased and government expenditure rose with much more than US$ 1 billion annually. This changed in 2009, as with the balance of payments, when tax revenues decreased as a result of the global economic crisis. For the year 2009 it can be concluded that there was a noticeable positive flow effect on government accounts from the debt relief agreement.

4.2.5 The flow effect at state level

The flow effect at the state level depends on how much the states actually paid on debt service to the Paris Club creditors, but also on their share in the payments of the US$ 12 billion to the Paris Club. No Virtual Poverty Fund was established at the state level so the states are free to spend any debt relief savings they may have.

96 IMF data.

97 Figure Central Bank, for 2009 preliminary.

Collectively the states paid about 25-30 per cent of the total debt service but actual amounts varied by state. Debt relief savings therefore also vary by state. Through the compensation scheme (see above, 3.3.1) they also contributed to the payments of the US$ 12 billion in proportion to their share in the debt. From interviews held in the two states visited, it appears that the compensation payments *to* the states were added to the current transfers from federal to state level. Before 2005, debt service payments were subtracted from these transfers. For the states concerned, actual transfers became therefore higher after the debt relief agreement. But given that the total Nigerian payments (US$ 12 billion) by far exceed the total annual debt relief savings (US$ 1 billion), this will also hold for the states' share of these payments and savings, even if they are spread out over 5-10 years. This means that the overall flow effect for states with a higher debt share than their share in the excess crude account has been negative so far, while states having a lower share in the debt than in the excess crude account may have experienced a positive flow effect.

The two states visited have experienced this positive flow effect. Kano did not have bilateral external debt and Cross River State received 'refunds' within the compensation scheme.

4.3 The conditionality channel

4.3.1 Impact of the debt deal on government policies

Introduction
The impact of the debt deal on policies can be obtained through the question:
What policy reforms would have been implemented at federal and state level without the prospect of the debt deal or without the debt deal itself?

This section focuses on the impact of the debt deal on all government policies through the conditions related to the debt deal. As the fiscal impact of the debt deal is quite substantial we analyse the effect of the (anticipation of) the debt deal separately in section 4.3.2. The impact on debt management is treated separately in 4.3.3 and the changes in poverty reduction policies and the establishment of the Virtual Poverty Fund in 4.3.4 and 4.3.5, respectively.

Interviews with the key government stakeholders, IFIs, NGOs and donor organisations made clear that a distinction has to be made between the pre debt deal period (roughly 2003 to 2005) and the post debt deal period, and especially the 2-year PSI period (2005-2007). In the first period, policy reforms were perhaps due to the anticipation of the debt deal (which acted as a 'carrot') and in the second period the explicit conditions attached to the deal in the form of the PSI may have had an effect. In addition, a distinction has to be made between policies at federal level and at state level. The assessment focuses mainly at federal level. State level reforms will be addressed in text boxes. After 2007 the conditionality linked to the debt deal stopped. The question then becomes relevant to what extent the policy reforms were sustained.

Counterfactual

The table below summarises the results of the interviews with regard to the counterfactual on policy reforms: what would have happened if there would have been no prospect of a debt deal and if no debt deal would have taken place?

Table 4.6 Summary: impact of (the anticipation of) the debt deal for the period 2003-2005 and 2005-2007

	Numbers of interviewees in support *	Comments
Pre debt deal period		
Reforms in the period 2003-2005 were driven by a need for economic reform only and not in anticipation of a debt deal	4	Mainly non-key government stakeholders
Anticipation of the debt deal gave moderate political leverage on the reforms in the period 2000-2005	6	Mainly key government stakeholders
Anticipation of the debt deal gave strong political leverage on the reforms in the period 2000-2005	5	Government key stakeholders and NGO
Post debt deal period		
PSI had no impact. The reform drive was solely coming from the Nigerian government	3	IFI, non-key government stakeholders, and NGOs
PSI furthered strict implementation of reforms as it made the reforms more specific and provided a clearer timeline	5	Key government stakeholders and IFIs
PSI had a positive effect on aggregate fiscal discipline	3	Key government stakeholders, IFI and NGOs
PSI had a positive effect on strict implementation of the oil price based fiscal rule	3	Key government stakeholders, IFI and NGOs
PSI has positive effect on maintaining strict monetary policy	1	Key government stakeholder

**) out of 15 interviews which addressed the conditional channel.*
Key government stakeholders are defined as government stakeholders directly involved in the debt deal (mostly Ministry of Finance, members of economic management team). Non-key government stakeholders are defined as government stakeholders who were not directly involved in the debt deal, but were informed (Line ministries, other agencies).

Pre debt deal period

Obasanjo's administration started to lobby for debt relief at the start of the first term. But, as argued in 3.1, he was told by the international donor community (especially the IFIs) to be serious about reforms, first, before any debt relief would be considered. A key IFI stakeholder recalled that the discussions about reforms in the period 1999-2001 were part of early debt relief discussions. However, limited reforms were accomplished during Obasanjo's first term (see Annex 4).

This changed in 2003. Two members of the economic team installed in 2003, advisors to the President and high officials of the Ministry of Finance stated that NEEDS had to serve two objectives: 1) the reforms reflected in NEEDS should improve and stabilise macroeconomic development, 2) the NEEDS reform agenda should be in compliance with any possible debt deal. The second objective clearly marked the start of a period of anticipation of the debt deal.

Based on our interview results we conclude that the anticipation of the debt deal gave a moderate to strong leverage on the reforms in the pre debt deal period. Stakeholders in key positions, such as members of the economic team and advisors to the President as well as representatives of leading and highly influential NGO organisations identified a medium to strong impact on reform implementation. This conclusion is also in line with Gillies (2007) and Callaghy (2009). Callaghy (2009) states that the reforms done in the period 2003-2005 were strongly influenced by the anticipation of a debt deal. He concludes that '*the deal was tied to Nigeria's most comprehensive and important economic reform effort in its history*' (Callaghy, 2009: 1). His study supports more the 'strong' impact on the debt deal then the 'moderate' impact. Gillies (2007) also supports the 'strong' impact as she concludes '*First, international actors can increase incentives for reform. They can offer material gains, as demonstrated dramatically by the Paris Club debt relief. But they can also offer reputational gains….*' Gillies (2007) underlined also the importance of moral support the donor community gave to groundbreaking reforms prior to the debt relief, such as reforms focussing on transparency of the oil sector (EITI).

Most interviewees emphasised that the anticipation of possible debt reduction gave political leverage to the reform agenda. For example, the fact that a reform-minded team was appointed in 2003 can be ascribed to Obasanjo's administration overriding objective to achieve debt reduction, as is also stated by Callaghy (2009). Gillies (2007) underlined that most members of the reform team were Nigerians previously working for the IFIs. Their background also strengthened the ties with the donor community. Political leverage of the debt deal was especially important for the more politically sensitive reforms in the area of civil service reform, transparency in the oil sector and the oil price based fiscal rule which helped create the savings for the excess crude account (See Box text; Annex 4 gives details on all reforms carried out). In this latter area, support from the President was particularly important as it helped in silencing protests from the states against this rule. In these sectors less progress would have been made without the leverage of the debt deal. Two key interviewees stated that without the debt deal a possibly less prudent approach would have been taken with regard to setting a conservative oil price as a base for the budget. In addition, the savings in the excess crude account would have been lower by the end of 2005.

Box 4.1 *The oil price based fiscal rule and the Excess Crude Account (ECA)*

The oil price based fiscal rule, implemented from 2004, is a political agreement between all tiers of government that provides for an allocation of oil revenues based on a budget oil price and volume of production. Oil revenues in excess of the budget price and production are transferred into an 'excess crude account' at the central bank in the names of the various governments. As originally designed, the excess crude account is drawn upon only if actual oil receipts fall short of budgeted amounts.

Addressing corruption was one of the main 'reputational issues' that the government had to address in order to be considered for debt reduction. Tackling corruption was one of three main objective of Obasanjo's first administration, next to political stability, and strengthening democratic practices (Okonjo, 2007). The importance of addressing corruption and carrying out governance reforms was already signalled by the IMF in 1999 and in 2001 (IMF, 1999; IMF, 2001). In 1999, the government installed the Independent Corrupt Practices Commission (ICPC) to fight government fraud. The ICPC addressed corruption in the public sector. In addition, the Act provided provisions to protect anybody who would share information with the ICPC. The table below presents the number of completed ICPC cases, ongoing cases, and rejected cases. Unfortunately no information is available on the size of the finished, ongoing and reflected corruption cases and no information is available after 2005. Therefore, no conclusions can be drawn on whether anti-corruption activities have increased or decreased after 2005.

Table 4.7 Number of ICPC cases by category, 2001-2005

	2001-2002	2002-2003	2003-2004	2004-2005
Finished investigations	18	17	16	17
Under investigation	139	335	292	187
Rejected investigations	27	87	19	5

Source: Progress report September 2000-July 2005, ICPC.

'Nine-eleven', in 2001, provided another driving force for anti-corruption measures as it led to an emphasis on detecting money laundering. For this reason, the corruption focus was broadened to the financial sector, which resulted in the establishment of the EFCC in 2004 together with the Anti Money Laundering Act 2004. The EFCC dealt with, in particular, advanced fee fraud, terrorist financing, money laundering and all related matters. It was installed to also enforce existing legislation from the period 1991-1995, such as the Money Laundering Act 1995, the Advance fee Fraud and other Fraud related offences Act 1995, the Failed Banks and Financial Malpractices Act 1994, and the Banks and other Financial Institutions Act 1991.

The importance of anti-corruption measures and results became even more linked to a possible debt deal in the year prior to the debt deal. By the end of 2004 the WB was still withholding the 'IDA-only' status, thus maintaining an important hurdle for debt relief. One of the major objections against 'IDA-only' was Nigeria's corruption status (Callaghy, 2009). We conclude that in the absence of a possible debt deal, ICPC and EFCC would have come into existence but would have been less active.

Financial sector reform started already at the end of the 1990s when Nigerian banks were not complying with many international standards as a result of which they were unable to operate internationally ('blacklisted'). However, the more recent banking reform (2004-2007) can be considered part of the overall reform effort that was linked to the prospect of the debt deal. Political leverage was less needed for less controversial reforms such as some of the more technical PFM reforms (introducing an MTEF, for example).

Box 4.2 *Reforms on state level in anticipation of the debt deal*

The evaluation team focused on two states: Cross River state and Kano state. Although the two states cannot be seen as representing reforms in all states in Nigeria, the findings can be illustrative.

Although the state governors were aware of the upcoming debt deal, key stakeholders in both Cross River and Kano were only aware of the debt deal after the debt deal was announced. In Cross River the stakeholders only heard about the debt deal after the Conditional Grant Scheme[98] was introduced in 2007.

Some respondents did not hold the view that reform efforts were impacted by the possibility of an upcoming debt deal. They argued that the reforms would have taken place anyway, as key political stakeholders and government officials were highly committed to improve Nigeria's macroeconomic performance. It should be noted that the interviewees who shared this view were often not in a key position in government to fully assess possible linkages between the debt deal and the reform agenda.

Table 4.8	Counterfactual: most realistic scenario when no anticipation of a debt deal would have taken place
1	All reforms that were initiated in the period 2000-2005 would have been initiated. However, most reforms would have taken longer or would have been more moderately implemented: • Civil service reform: less reform progress; • Privatisation: would have taken longer to achieve; • Transparency in the oil sector: less reform progress; • Fight against corruption: somewhat less reform progress.
2	The oil price based fiscal rule would have been less strictly applied and the excess crude account would have been used more frequently so that fewer savings would have accumulated by the end of 2005.

Post debt deal period

The debt relief agreement itself could influence post-2005 policies through the conditions attached, and in particular through the PSI. Table 4.9 presents a summary of all benchmarks and assessment criteria reflected in subsequent letters of intent. The table groups the benchmarks and criteria per theme and states whether the benchmarks and criteria were finally met, as concluded during the fourth review. It shows that the largest number of conditions was in the area of PFM (17 criteria and benchmarks), followed by privatisation and market regulation (8), public sector reform (7), and financial sector reform (6). Based on the analysis made in Annex 4 the conclusion can be drawn that reform efforts in the third phase of the PSI were more complicated than in the other phases. In addition, the upcoming elections were also complicating the reform implementation.

98 For explanation of the Conditional Grant Scheme, see Section 4.3.5

Table 4.9 Overview of PSI benchmark and assessment criteria per period and their compliance

	PSI (1)	PSI (2)	PSI (3)	PSI (4)	Total	Of which: Observed	Of which: Observed with delay	Of which: Not met
Structural assessment criteria								
Financial sector reform	3	1	1	-	5	4		1
Trade	1	-	-	-	1	1		
Transparency oil sector	1	-		-	1	1		
Privatisation and market regulation	1	-	1	1	3	1		2
PFM	-	6	1	1	8	5	2	1
Public sector reform		1	2	-	3	2		1
Structural benchmarks								
PFM	3	6	-	-	9	5	1	3
Privatisation and market regulation	1	3	1	-	5	4	1	
Financial sector reform	1	-	-	-	1	1		
Public sector reform	-	-	4	-	4	3	1	
Anti-corruption	-	1	-	-	0			
	(11)	(18)	(10)	(2)				

As described above (3.3.2) there was a high degree of ownership of the targets and benchmarks included in the PSI. But the PSI formulated the intended policies in a sharper way and with clearer timelines. Gillies (2007) confirms this view. She states that '*These mechanisms cannot guarantee the safety of reforms; they do, however, concretize the reforms by setting specific benchmarks for future performance and increase the international surveillance on progress made.*'

Our interviews revealed that PSI had some leverage on policies, especially on the achievement of the included targets and benchmarks. Key stakeholders identified an effect on aggregate fiscal discipline and on monetary targets, in particular on net foreign reserves and on expenditure (via the target on non-oil balance on federal and on state/local level). In addition some stakeholders identified a continued pressure on implementing the oil price based fiscal rule, which had a restrictive effect on expenditure as well. On the whole, however, the debt agreement had a more limited impact on the reform efforts in the period after the debt deal.

The 3rd PSI review identified more reform slippages than the other PSIs in all reform areas, but especially noticeable in the area of civil service reform and PFM (see Annex 4). This can be explained by the more complex phase of reform implementation in that period, but also by the upcoming elections in 2007. The expenditure targets and the oil price based fiscal rule were less strictly maintained. Corruption seems to have increased. For example, Gillies (2007) stated that Obasanjo 'hijacked' the anti-corruption campaign by using the EFCC to serve his own political proposes. Furthermore, Obsanjo paid each member of the National Assembly N 50 million (about US$ 400,000) in an attempt to buy their votes for him standing a third term.[99] The fact that, in 2006, Ms Ngozi Okonjo-Iweala was removed as Minister of Finance and somewhat later also as head of the economic management team is also telling.

Box 4.3 *Reforms on state level and the debt deal*

Both in Kano and CRS no direct link could be established between the debt deal (and the PSI) and reform efforts on state level. Reform areas reflected in the PSI (privatisation, civil service reform, PFM, and corruption) were or are being addressed in both states, to some extent. However, no political leverage could be identified.

Table 4.10	Counterfactual: most realistic scenario for the period 2005-2007 without a debt deal
1	All reforms would have continued in the period 2005-2007, but on a slightly lower pace.
2	There would have been higher public expenditure in the period 2005-2007, as a result of: • The absence of a fiscal target (as reflected in the PSI); • A less prudent implementation of the oil price based fiscal rule.

The period after 2007

In 2007 the PSI ended and there was a government change (Mr. Obasanjo handed over the Presidency to the elected Northerner Mr. Yar'Adua). Some reforms continued, such as the approval of the Procurement Act and the Fiscal Responsibility Act and the attempts to have them approved by the states. But other reforms have been watered down, for example in the civil service. The oil price based fiscal rule still exists but there has been further slippage. Several stakeholders reported that outflows increased in the period before the elections and also after the change in government in 2007. Budina et al. (2007) also report that government expenditure was already less prudent. In 2007, a new political agreement was made on the excess crude account regime (see box text).

The ICPC and EFCC continue to operate and it is positive that the transfers from federal to state and local government level are still published, despite attempts from state governors to end this. On the whole, reform pace was judged as more incremental by nearly all key stakeholders.

99 This was openly said in the National Newspaper by one of the House members, 6 August 2010.

Box 4.4 *Change in the rules concerning the Excess Crude Account (ECA)*

A 2007 memorandum of understanding between the tiers of government sought to formalise extraordinary allocations (i.e., beyond those to cover shortfalls in budget oil revenue) through the establishment of the 80-20 rule: 80 per cent of oil savings accrued in a particular year would be available for additional spending the following year.

4.3.2 Impact of the debt deal on fiscal policy and fiscal accounts

Three impact channels of the conditions attached to the debt deal on fiscal policy could be identified:

1. The oil price based fiscal rule
2. The Excess Crude Account
3. Through compliance with the fiscal targets reflected in the PSI.

1. Oil price based fiscal rule

A less restrictive implementation of the oil price based fiscal rule would have resulted in higher levels of government expenditure.

Annex 4.3.2 (see Part Two) assesses the development of government expenditure (consolidated, as well as federal and state/local level) over the period 2000 to 2009. Government expenditure has increased up to 2008 on all government levels.

In the period prior to 2004 increase in federal expenditure was relatively modest. However, modest federal spending development was more than offset by expenditure on state and local level as a result of oil windfall by states and local governments. In the period 2008-2009 the opposite development can be observed, where expenditure on state and local government levels decreased and expenditure on federal level stabilised.

Table 4.11 presents the oil prices used for the budget formulation and the actual oil prices. It can be concluded that the Nigerian government pursued a conservative approach in setting the oil price fiscal rule over the period 2004 to 2008, with the largest differences between the set price and the actual price in the years 2005 to 2008. Fiscal prudence became less straightforward in 2009 and 2010.

Table 4.11 Oil prices and the budget: oil price based fiscal rule and the actual average oil price, in US$, 2004-2010

	2004	2005	2006	2007	2008	2009	2010*
Oil price based fiscal rule	25	30	35	40	55	45	67[100]
On spot average oil price (bonny light)	38.7	55.4	66.4	75.0	101.2	62.1	78.6
Difference	13.7	25.4	31.4	35	46.2	18.9	11.6
Difference as percentage of set oil price	54.8%	84.7%	89.7%	87.5%	84%	42%	17.3%
Volume set (million barrels per day)						2.29	2.35[101]
Annual average *	2.14	2.33	2.23	2.15	1.98	1.81	2.23
Difference						0.48	0.12
Difference as percentage of set volume						21%	51.1%

(*) 2010 average oil price and production volume is based on first half 2010 (CBN figures, CBN website).
Source: IMF various issues, CBN Annual report 2008 and 2009.

2. Excess crude account

Table 4.12 shows the ECA inflows and outflows.[102] ECA outflows other than debt relief financing have been fluctuating. ECA outflows peaked in 2005, decreased in 2006 and 2007 and started to increase again in 2008 and 2009. The ECA balance decreased from US$ 20.3 billion in 2008 to US$ 6.5 billion in 2009 (and decreased further to US$ 3.3 billion in June 2010). The global financial crisis led to a huge fall in revenues in 2009, and using the ECA allowed for a more accommodative fiscal policy. In addition, the government provided large amounts of money in order to rescue ailing banks. The increase in government expenditure was in part financed from the ECA.

[100] The budget speech November 2009 mentioned US$ 47. However, the first quarter budget implementation report stated a benchmark price of US$ 67.

[101] The budget speech November 2009 mentioned 2.088 million barrels per day. However, the first quarter budget implementation report stated a benchmark of 2.35 million barrels per day.

[102] There does not seem to be a consistent overview of inflows and outflows of the ECA. For 2004 and 2006 CBN did not report inflows. And it be noted that the End of Year balance of the ECA as reported by the IMF is substantially different from the balance as reported by the CBN. For example, IMF reports balances for 2004 to 2008 of, respectively US$ 5.9 billion, 9.8 billion, 13.2 billion, 14.2 billion and 18.3 billion.

Table 4.12 Overview of inflows, outflows and end of year balance of the Excess Crude Account, in billions of Naira and US$ billion, 2004-2010							
	2004	2005	2006	2007	2008	2009	First half 2010*
Inflow – CBN	806***	2455	2196***	965	2184	244	339
Outflow (calculated)	710	2418	1115	635	1240	2294	825
1st payment debt deal		1004					
2nd payment debt deal			579				
Other outflows	710	1414	536	635	1240	2294	825
Other outflows as percentage of inflows	88.%	56%	24%	66%	57%	939%	243%
Balance end of period (billions of US$)	1.1	1.38	9.78	12.40	20.34	6.54	3.3
GDP (billion US$)**	85.54	110.27	144.30	164.17	204.13	166.52	87.05
Balance ECA in % GDP	1.3%	1.3%	6.7%	7.6%	10.0%	3.9%	3.8%

(*) balance 30th of June 2010.

(**) Based on average annual exchange rate.

(***) These inflows were not supplied by CBN. Inflow figures have been constructed on the basis of CBN annual reports.

Source: CBN.

Although the figures show a small increase in outflows in 2007 relative to 2006 (excluding debt relief payment), in real terms there is probably no increase. The presented data does not indicate an increase of ECA outflows in the years just after the debt agreement. On the contrary, total outflow in the period 2004-2005 is in nominal terms approximately twice as high as the outflow in 2006-2007. Starting from 2008 after the end of the PSI, coinciding with the start of the Yar'Adua Government, ECA outflow increased substantially. However, it should be noted that by the end of 2008 the financial crisis started which required substantial fiscal support packages, especially in 2009. The balance in the account was US$ 5.6 billion as at January 2010. The excess crude account has further shrunk to US$ 3.3 billion in June 2010.

3. Fiscal targets in the PSI

As reflected in section 4.3.1, key stakeholders confirmed that the fiscal targets reflected in the PSI limited the growth in government expenditure. Table 4.13 presents the end of period targets and estimates on the federal government non-oil primary balance and the state/ local government non-oil primary balance.[103] The table indicates that the federal government kept its spending within the indicative targets. Key stakeholders explained that the targets had their restrictive effect already during the process of budget preparation. To illustrate, the IMF representative at that time stated that the government was preparing a 2005 budget well above the fiscal target (20 per cent higher). Budget proposals were adjusted through a dialogue in which the macroeconomic benefits of the maintaining strict targets were explained. The state and local governments performance were not in line with the indicative targets in 2005 and 2006, but as noted above, formally the IMF-programme does not include targets for these government layers.

Table 4.13 Quantitative assessment criteria and indicative targets on non-oil balances, in billions of Naira, 2005-2007

	End of period	Indicative target	Adjusted target	Estimate
Federal government non-oil primary balance (floor)				
First review	End of December 2005	-937	-937	-799
Third review	End of December 2006	-1316	-1316	-1228
Fourth review	End of June 2007	-728	-728	-725
State and local government non-oil primary balance	End December 2005	-1540		-1625
First review	End December 2005	-1540		-1625
Third review	End of December 2006	-1542		-1803
Fourth review	End of June 2007	-858		-817

It is clear that the Nigerian government has carried out prudent fiscal policies in the period of the PSI, maintaining the expenditure targets included in the PSI. Already from 2004 onward the government applied the oil price based fiscal rule which led to huge savings on the ECA, especially between 2004 and 2008. In 2005 and 2006 part of these savings were used for the debt relief agreement. Other outflows seem to have been higher in 2005-2006 than in 2007-2008 but it is difficult to draw conclusions from these numbers. In 2009, outflows from the ECA were large in an attempt to stimulate the economy during the crisis. Outflows continued at a high level in 2010, but with a less clear economic rationale, given that oil production and growth in general recovered in that year.[104]

103 The balances of state and local governments are a 'memorandum item' in the PSI, as an IMF arrangement cannot bind state and local governments.

104 The IMF stated on November 24, 2010 in its press release No. 10/459 on 'Statement at conclusion of an IMF Mission to Nigeria' that: '*Real Gross Domestic Product growth this year is expected to be exceptionally high on the back of a strong recovery in oil production and continued strong growth in other sectors.*'

4.3.3 Changes in debt management as a result of the debt deal

The overall debt problem and its subsequent debt relief have taught an important lesson that debt management should be considered a key function in managing the public finances. This responsibility should be undertaken in a determined and coordinated manner so that sound policies are formulated and implemented to ensure that the debt is sustainable. There are three main aspects of sound debt management in the long term; stringent adoption of public debt law, good recording and operations management, and a medium to long term debt strategy. These must take place both at the federal and states levels and be well coordinated with all relevant stakeholders.

Federal debt management

As discussed above, prior to the debt relief agreement debt was contracted without clear legal mandates, debt recording was poor with mostly inaccurate data and debt management functions were scattered among various agencies. This situation had to be rectified. The need for consolidation within a strong debt management agency led to setting up a quasi-independent Debt Management Office (DMO) in 1999. DMO was established within an institutional framework based upon a Front-Middle-Back Office arrangement, similar to that described in the IMF-WB Guidelines (IMF-WB publication 1999) and used in many debt offices worldwide.

As a consequence, there has been a noticeable improvement and strengthening of public debt management in Nigeria. The progress of Nigeria's debt management function over the past 10 years has been due to a clear commitment by the government to strengthen institutional capacity. However, it is fair to conclude that the high degree of commitment by the government may be attributable to the prospect of obtaining debt relief. Good debt management was one of the requirements to obtain the debt reduction. Nevertheless, the government's commitment to debt management has continued after the completion of the debt relief agreement. The creditors were not only requiring improved debt management as one of the conditions to consider debt reduction at all, some of them were also providing technical assistance. This technical assistance from, in particular DFID but also the World Bank also contributed to the observed improvements.

Since its formation, DMO has improved a number of important debt management functions:

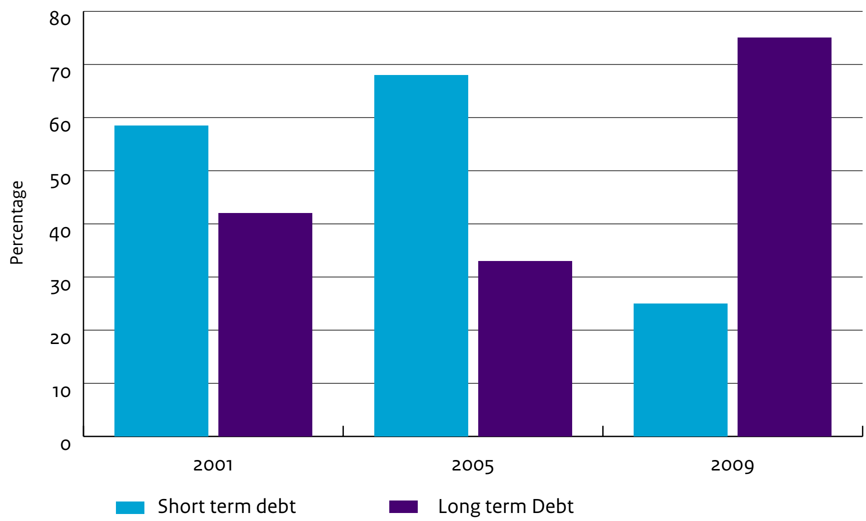
- First, it has brought together recording of all borrowing into a single agency, which previously was scattered across several other agencies resulting in poor coordination;
- Second, debt data has been verified and validated so that detailed accurate and up to date data is now available, allowing for payments and rescheduling calculations to be done effectively. Delays in data retrieval have been substantially reduced and accuracy improved with the recruitment of competent staff and a substantial training programme, especially in the application of the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS);
- Third, negotiating skills on external borrowing has improved and the capacity to analyse various borrowing options has strengthened. Each loan offer is evaluated in terms of its concessionality and other criteria to ensure it complies with the debt strategy;

- Fourth, DMO carries out debt sustainability analysis, which ensure that government borrowing remains at a level that does not lead to a debt burden or distress situation;
- Fifth, progress has also been made in the development of a legal framework for contracting debts. For example, states can no longer contract external debts directly but have to make a request to DMO and Federal Ministry of Finance (FMF). If approved, DMO will contract the loan and on-lend it to the state.

In the past few years, especially after obtaining the external debt relief, DMO has focused its attention on domestic debt management and related issues for domestic financial market development. The government has increased its domestic borrowing to fulfil its financing requirements. This has resulted in the increase of domestic debt from about Naira 1.2 trillion (US$ 1.2 billion) in 2001 to about Naira 3.2 trillion (US$ 21.7 billion) in 2009. The domestic debt management in DMO has been significantly strengthened gradually over time and its capacity to manage the debt has improved.

Domestic debt consists mainly of Treasury bills, Treasury bonds, Federal Government of Nigeria (FGN) bonds and Development stocks with maturities varying from 91 days to 20 years. Over time, the government has increased the average maturity of the domestic debt portfolio by gradually introducing longer term instruments thus reducing both interest rate risk and refinancing risk. Between 2003 and 2008, 3, 5 and 10 year FGN bonds were introduced and in November 2008, the 20 year bond was successfully launched.

Figure 4.3 *Short term and long term debt as percentage of total domestic debt by end 2001, 2005 and 2009*



Source: DMO annual reports.

In 2001, short term debt in the form of Treasury bills accounted for 58 per cent of total domestic debt stock while in 2009, this per centage had decreased to 20 per cent (Figure 4.3) . The increase in the maturity of securities has been due to successful efforts made in domestic market development both in the primary and secondary markets, improving relationships with market makers and investors, appropriate issuance techniques for longer term domestic securities, prudent risk management and developing a medium term debt strategy.

There has also been an improvement in efficient recording of debt, auction procedures in terms of on-line bidding and developing suitable trading platforms. The overall recording system CS-DRMS is used for consolidating the external and domestic debt, while other systems are being developed and improved for bidding, effective registration and settlement procedures that reduce credit risks.

Debt management of the states

The *prospect* of debt reduction did not have much leverage on the development of debt management capacities in the states. The states are lagging behind the federal government in terms of their debt management performance, and the rate of progress differs quite significantly among states. DMO has the responsibility for ensuring debt sustainability of all debt in Nigeria, but has limited legal mandate to intervene in the states' fiscal affairs, especially as far as domestic debts are concerned.

However, after the debt relief agreement, the state governments increased their interest in debt management capacity and donors began to provide money for technical assistance. The DMO and the donors have worked together to help the states to set up their own Debt Management Departments (DMDs). So far, the capacity of the DMDs vary significantly. This was confirmed in our visits to two states. Kano started its debt management reform in 2005 and an automated debt management recording system was introduced in 2007. In CRS, a law on state debt management was introduced in 2003, but it took until 2007 before a dedicated unit was established to address debt management. For CRS and Kano the anticipation of the debt deal did not affect debt management reform; serious improvements were only made after 2005.

To conclude, the anticipation of the debt deal did not have any leverage on reforms on state level, but may have resulted in increased interest by both state government and donors after the debt deal. Annex 4 provides more information on the progress in debt management at federal and state level.

4.3.4 Changes in poverty reduction policies as a result of the debt deal

Annex 4 outlines the changes in poverty policies during Obasanjo's terms in office. These policies and programmes were part and parcel of Obasanjo's reform package as reflected in NEEDS that appeared in 2004. To the extent that the debt relief was central to his reform agenda, these poverty policies were also partly initiated in anticipation of a debt deal. Most of these were put in place even as Obasanjo canvassed widely for debt forgiveness. Debt relief was also seen as important for the implementation of these policies. It is important to note that in response to other global developments, the government at both federal and state level had emphasised greater spending commitment to the achievement of the MDGs. The creation of a virtual poverty fund came in a timely manner to reinforce this spending pattern and which came into full effect alongside its institutional framework.

4.3.5 The Virtual Poverty Fund (VPF)

The creation of a Virtual Poverty Fund in Nigeria was a condition of the debt relief agreement and it would not have been established in its absence. Therefore it can be attributed fully to the debt relief agreement, and in particular to the conditions attached to that agreement.[105] In fact, debt relief conditionality comprised two things: first, the tracking of MDG expenditure at federal level within the capital budget of the different MDAs. This was indicated as MDG-spending in the budget. Second, the establishment of the VPF for the US$ 1 billion of debt relief savings. Via the VPF, the debt relief savings would be used for additional MDG spending. These spending lines are indicated as DRG-MDG (Debt Relief Gains) spending, meant to be additional to the mainline MDG spending in annual budgets. In the years 2006 to 2009, both MDG spending and DRG-MDG spending were separately identified in the budget and in expenditure. However, in the 2010 budget, this distinction was not made. The reason given is that a new Chart of Accounts (COA) has been developed which includes MDG and DRG coding and is expected to be used in the 2011 budget.

In practice, only US$ 750 million (equivalent to roughly N 100 billion) is annually available to be allocated, representing the debt service actually paid at federal level. About US$ 250 million in debt relief savings of the states has not been converted in the VPF.

The VPF was meant to accelerate achievement of MDGs in 10 critical sectors/MDA namely Health, Education, Water Resources, Transport, Environment, Agriculture, Housing, Power, Works/ Roads and Women Affairs. The spending so secured is tagged as debt relief gains (DRG)-funded expenditures within the line budgets and specially coded to ensure follow-through. The government set up of a special office - Office of the Senior Special Assistant to the President on MDGs (OSSAP-MDG) - charged with the sole responsibility to ensure, not only that DRG expenditures were tagged to MDGs spending but also to address the second and third objectives of the Nigerian debt relief intents:

- Monitoring of outputs of debt relief expenditure to ensure compliance with quantity and quality specifications. This ensures that the receipts truly reflect the realities on the ground in terms of both financial and non-financial inputs, such as policy objectives, beneficiary needs assessment and so on;
- Evaluation of the outcomes of these outputs to identify what debt relief has achieved. In other words, making it possible to link specific poverty reduction outcomes to the debt relief gains.

The Presidential Committee on MDGs guides the work of OSSAP/MDG. The ringfencing of the DRG funds has allowed the OSSAP-MDG to introduce a string of institutional reforms. Heading the Office is Hajiya Amina Az-Zubair who was part of the Economic Management Team that designed NEEDS. Thus a carry-over of the doctrine of pro-poor spending,

[105] The extent to which it can also be seen as a result of the flow effect will be analysed below, section 4.3.6.

enshrined in Nigerian IPRSP and NEEDS underlies the strategies of OSSAP-MDG. The mandate is however only for the federal component of the DRG because the federal government does not have the constitutional right to influence budgetary management at the state and local government levels. In order to address this, from 2007 onwards, part of the DRG was created as grants to states, the Conditional Grants Scheme.

The Conditional Grants Scheme (CGS)

Although the federal government is well positioned to coordinate national programmes, policy and quality assurance at federal level, states and local governments have better knowledge of the needs of local environment and therefore better equipped to implement state MDG projects. In order to address the challenges of reaching lower levels of government, from 2007 onwards, part of the DRG was packaged as grants to states. This is expected to foster intergovernmental coordination and leverage more funds for MDG spending from the lower tiers of government. While in 2007 the federal government provided the grants and states and Local Government Agencies (LGAs) were the grant recipients[106], since 2008, the CGS works based on the recipient states contributing a compulsory counterpart fund, equivalent to 50 per cent of the FGN (Federal Government of Nigeria) grant. In this way, the CGS should serve to increase commitment of the states to poverty reduction, and share the burden of responsibility for achieving the MDGs.

Other objectives of the CGS are to (i) maximise the use of information and expertise, (ii) foster genuine consultation and commitment among the three tiers of government, (iii) foster sustainability of budget management whereby states harmonise their budgets with the Medium Term Sector Strategy (MTSS) at the national level, and (iv) build capacity for better governance, service delivery, financial management, transparency and accountability and collectively expand space for achievement of MDGs.

Procedure for Project Selection and Spending Justification

Conditions for drawing on the DRG at both federal and state levels have been defined based on certain expected outcomes: These expected outcomes are as follows: expenditures must be used as *incremental* resources that assist the MDGs; projects funded must have links with overall policy thrusts of the sector, MDGs related to the sector as well as national development priorities for the sector; must not be used to augment overheads, salaries and allowances or previous debts; mainstream HIV/AIDS (Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome) into all sector programmes; evidence of sustainability to be provided; projects must be quick impact ones in the shortest possible period, and must be consistent with MTSS specified within NEEDS; must be implemented in coordination with relevant state ministries' expenditure pattern and lastly, the existence of a work-plan is mandatory. Other mechanisms of checks and balances are also noted. For states to access grants, they are required to provide evidence of implementation structure, to deposit of counterpart fund into a dedicated account, to provide a bank guarantee to secure the federal components and finally to sign a memorandum of understanding with the federal government. This competitive element is expected to encourage high quality applications and ensure that only sustainable

[106] Although the states could add voluntary contributions.

projects are funded. The institutional framework defined to back these conditions were designed by the National Committee on Conditional Grants Scheme (NCCGS) chaired by the Minister of Finance. The spending justification must be based on MDG assessment reports as approved by the Presidential Committee on the Assessment and Monitoring of MDGs (PCAM-MDGs), chaired by Mr President, with members drawn from the public, private sectors and the civil society. The Federal Executive Council approves the final annual spending pattern.

Just like a federal structure exists for spending justification, state structures also exist to ensure optimal allocation of projects spending. The State Committee on the Implementation of the CGS is chaired by the Commissioner for Economic Planning and Budget and has other members drawn from MDG-implementing Ministries at both state and local government levels. In each state, the office of the State Focal Person (SFP/PSU) based within the State Planning Commission, serves as the CGS secretariat.

Assessment of VPF Output – The CGS

The response of the states to this initiative is tracked through the level of application and approval as shown in Table 4.12. The former shows that the annual application has been on the rise. The yearly funds approved differed for different states between 2007 and 2009 and are detailed in Annex Table A4.18 on the basis of data provided by OSSAP-MDG office. In the period 2007-2009, all states have had projects approved at least once. In 2007 states sometimes provided voluntary contributions but from 2008 onwards compliance with the matching scheme was virtually 100 per cent. Over the years 2007-2009 the federal grant totalled about N 69 billion, while the total fund mobilised by states (in 2008 and 2009) mounted to about N 51 billion. This is almost US$ 200 million annually. The increased ratio of approved projects versus applications (Table 4.12) indicates that the institutional framework is workable, in spite of a set of fairly rigid conditions for participation.

The states were not always quick in implementing the approved projects and programmes. In response to the observed poor completion rate, the CGS for the states has been temporarily suspended in the 2010 budget as all on-going projects must be finished, first.[107] In the same period, applications for the CGS have been opened up for 113 local governments in the areas of health and education. It is thus expected that the additional fund to lower levels will still be sustained but at the LGA level. Expanding the VPF to this local level is an important step in increasing the outreach of the VPF. However, it also implies a challenge. While the state performance has been plagued by many challenges, mainly poor implementation capacity, the prospect for better performance at the LGA level is minimal, given even poorer governance capacity at this third tier of government.

Table 4.14 indicates that all states have applied for the scheme in 2009 and that proposals of 34 states were approved. Amounts approved yearly have also gradually increased to 53.2 per cent in 2009, with total approval being 55.7 per cent over the 3-year period. The trend implies that the states are undergoing a necessary learning process which could augur well for

[107] Interview OSSAP-MDG office.

sustainability of the scheme. Suspension of the scheme may truncate this learning process unless the Monitoring & Evaluation (M&E) process remains vigorously on track. The 2008 M&E report is yet to be finalised. Slow release of the M&E reports is a challenge that needs to be addressed if the lessons of experience are to be shared extensively and in a timely manner.

Table 4.14 Applications and approvals for CGS by states, 2007-2009

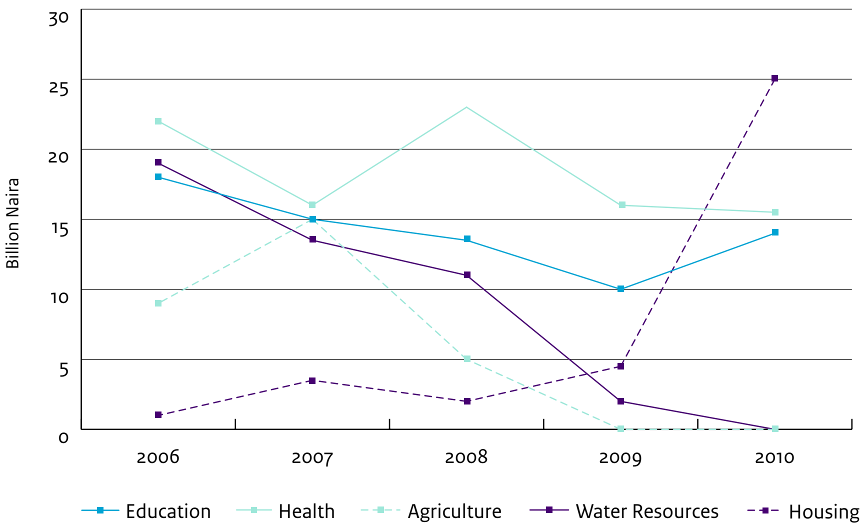
	2007	2008	2009	Total
No. of states applying	28	35	36	-
No. of states approved	19	34	34	-
Amount requested (Nbillion)	74	72	71	217
Amounts approved (Nbillion)	18	49	54	121
Relation approved/requested (%)	25	68	75	56

Source: OSSAP-MDG 2010: Partnering to achieve the MDGs; The Story of Nigeria's Conditional Grants Scheme.

Assessment of VPF Output: Allocation to MDAs and Other Poverty Alleviation Programmes

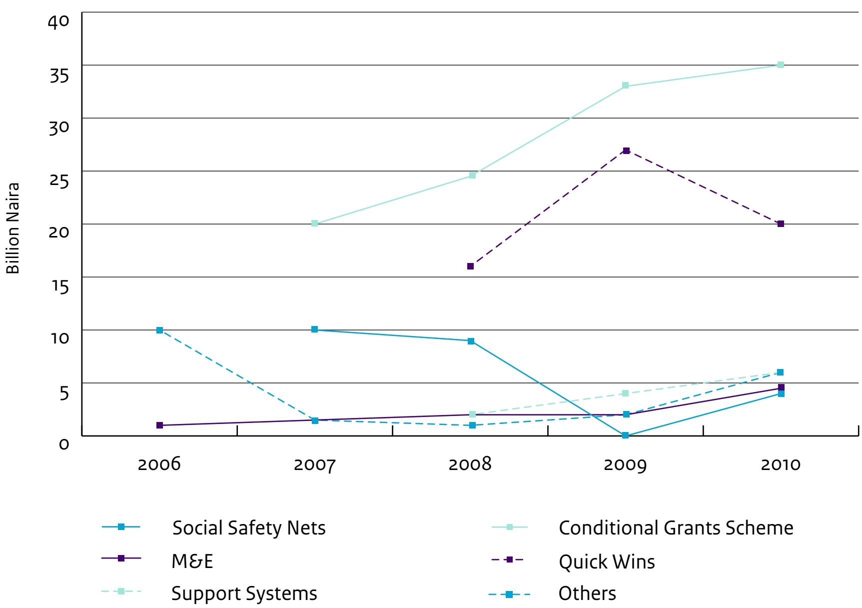
Analysis here is in terms of the effective fund releases or disbursement to different sectors among the 10 designated MDG sectors or MDAs. In the sense that each VPF intervention in each sector has particular focus to enhance the related MDG goals, the assessment measures to what extent the sectors' objectives are likely to be realised through the spread of fund releases for the appropriate interventions within the sector's MTSS. The pattern of VPF allocation to different components of the VPF from 2006 to 2010 is as shown in Figures 4.4 to 4.7 and Annex Tables A4.13 to A4.18. Figure 4.4 indicates that allocation to education and health MDAs have been about 22 per cent and 27 per cent of total DRG allocation respectively; water resources and housing sector have appropriated 8 per cent and 6 per cent over the years; the trend shows increasing allocation to housing sector from below N 5 billion up to 2009, to N 25 billion in the current budget period (2010) and a notable decline in allocation to water resources and agriculture spending over time. Health and education continue to receive some of the largest shares ranging from about N 10 billion to about N 25 billion yearly.

Figure 4.4 *VPF allocation to federal MDAs, in billions of Naira, 2006-2010*



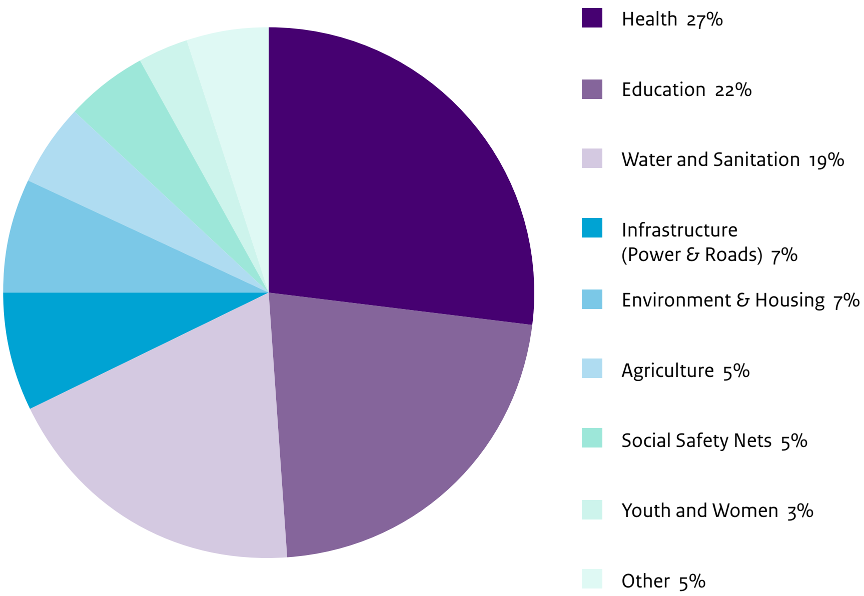
Source: OSSAP/MDG

Figure 4.5 *VPF allocation to other component programmes, in billions of Naira, 2006-2010*



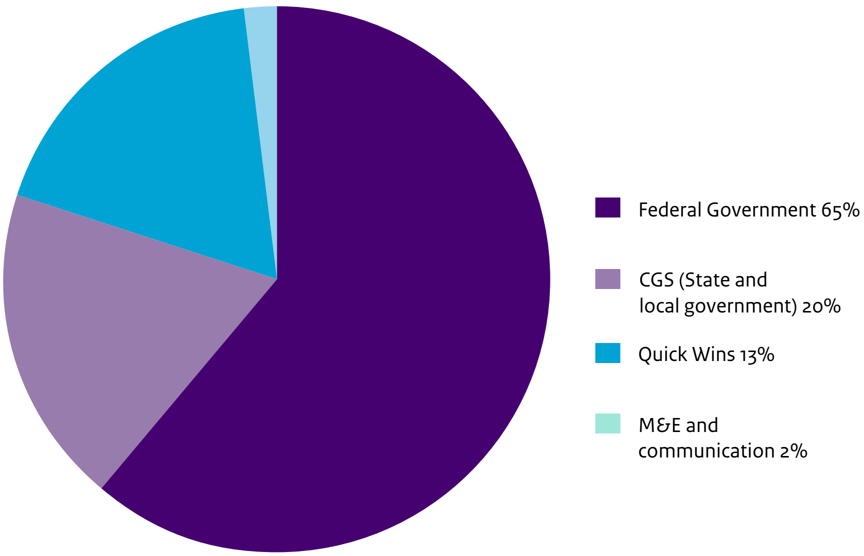
Source: OSSAP/MDG

Figure 4.6 *VPF allocation to federal MDAs, in %, 2006-2010*



Source: OSSAP/MDG

Figure 4.7 *VPF allocation to component programmes, in %, 2006-2010*



Source: OSSAP/MDG

The figures also show significant rise in allocation to CGS since its inception in 2007, followed by Quick Wins.[108] Allocation to Social Safety Nets (see also Box 4.5) has been relatively low over the years and falling, from N 10 billion in 2007 to just over N 2 billion in 2009. It is worth mentioning that while at federal level the allocations cover all ten sectors, the allocations of the CGS are mainly focused on primary health care and water and sanitation. A small flow, amounting to 10 per cent of the total over the years 2007-2009, is going to economic interventions, including youth empowerment, conditional cash transfers and agriculture. The reason why primary education is not included in the CGS is that there is already a statutory federal grant to all states for promoting Universal Basic Education.[109]

Box 4.5 *Assessment VPF Output - The Social Safety Nets (NAPEP) Schemes*

The Social Safety Net component of the VPF is to directly address the vulnerable poor in every state of the federation by reinforcing the efforts of the National Poverty Eradication Programme (NAPEP) in coordinating and harmonising a social protection strategy for the country. The fund is applied to three programmes of NAPEP – The Youth Empowerment Project – Keke NAPEP; the Conditional Cash Transfers (CCT) Schemes and the Village Economic Development Solutions Scheme.

Keke NAPEP – works through a soft loan scheme for acquisition of a specially designed affordable public transport vehicles called Keke NAPEP. The Conditional Cash Transfer otherwise tagged Care of The People (COPE) has been set up with funds from the VPF, and it is in particular promoted and expanded through the CGS. NAPEP works in collaboration with MDG Office and Small and Medium Enterprise Development Agency of Nigeria (SMEDAN). Cash transfers are made to qualified identified core poor persons or households in the participating communities on condition that they adhere to common good practices such as 80 per cent primary school attendance of all children of school age, utilisation of public basic healthcare facilities and participation of all children under 5 years in all government free basic health programmes such as immunisation, Vitamin A supplementation etc. While the welfare component provides emergency monthly assistance for up to 12 months, the amount ranging from US$ 10 to US$ 33, depending on the number of children in household, the conditionality promotes longer term investment in human capital investment. With a compulsory savings component (up to US$ 50 at the end of 12 months out of the welfare package, the head of household receives the Poverty Reduction Acceleratory Investment fund of up to US$ 560.

The guided savings qualify for the exit lumpsum payment for enterprise development (NAPEP-COPE, undated). This CCT programme is promoted through the CGS; many states are expanding : Village Solutions is a community-driven programme designed by the Economic Growth and Development Centre (EGDC) and adopted by NAPEP. Local communities are guided in economic development efforts to promote employment and income generation. Mostly of agro-processing projects, loan scheme targeted at unemployed graduates through a MESO (middle sized) credit scheme; MESO credit means that loan sizes are larger and can finance small agri-business ventures expected to contribute to employment generation and scaling up of its impact beyond the immediate beneficiaries. A village matching fund scheme

108 Quick Wins are relatively small projects identified at political constituency level and specifically targeted to be implemented and completed over a relatively short period of time, with clear goals for impacting on a focused population. As these projects are often tied to political constituencies, Quick Wins allow the citizens to engage with their political representatives in identifying these projects.

109 OSSAP-MDG, '*The story of Nigeria's Conditional Grant Scheme 2007-2010*'. www.mdgs.gov.ng

is inherent which may be up to 10 per cent of the cost of the Anchor Project, depending on the size, but usually not more than N 50,000 for a project of N 10 million and above. It encourages mass participation through the Village Community Development Association. NAPEP has introduced the Multi-partner Matching Schemes at each of the states, which has helped to scale up the available funds. An example is 10 per cent village matching grant of the Village Solutions.

Apart from relieving transportation challenges for the urban poor, Keke NAPEP has provided employment for large sections of the teeming unemployed youths. It has also been very sustainable as repayment rate is considered good and allows turn-around. Although COPE has worked very well in many countries, the target population in Nigeria is still too small to make a palpable impact – only 22,000 households have been reached so far (as at 2009). The Village Solutions also require better institutional grounding especially in its linkage with SMEDAN and for greater access to small quick win enterprises and appropriate technologies for higher impact. In general, this Social Safety Net (SSN) component of the VPF only received 5 per cent of the total funds (figure 4.5) and would well qualify for scaling up, especially in view of the huge income poverty in Nigeria (see section 5.5).

In terms of expenditure performance, the data shows that in all years, actual spending of the VPF fell below the allocation, such that moneys were always returned at the end of the year. This fact underscores the accountability embedded in the VPF as funds that would not be used for the intended purposes during the year, had to be returned. Overall spending performance has ranged between 72 per cent and 78 per cent, with exception of 56 per cent performance in 2007 (Table 4.15).[110] There has been incremental total allocation yearly starting from N 100 billion in 2006 up to N 135 billion in 2010. Budget performance has been better for the CGS than for other components. Average spending performance over the three years was 79 per cent (Table 4.16).

Table 4.15 Overall VPF allocation and spending, in billions of Naira, 2006-2010

Year	Allocation (N billion)	Expended (N billion)	Returned (N billion)	Performance (% of allocation)
2006	100	71.8	28.2	72
2007	110	61.6	48.4	56
2008	111	86.2	24.7	78
2009	112	85.0	27.2	76
2010	135			
Total	**433**	**304.6**	**128.4**	**70**

Source: OSSAP-MDG, 'What did we achieve?' (2010)[111].

110 The reason for the lower releases in 2007 was the late approval of the budget in that year.
111 The figures presented here deviate slightly from those presented in Table 4.6. For this table, another OSSAP-MDG source has been used and the two sources are not fully compatible.

Table 4.16 CGS allocation and actual spending, in billions of Naira, 2007-2010[1]				
	Allocation (N billion)	Expended (N billion)	Returned (N billion)	Performance (% of allocation)
2007	20	18.4	1.6	92
2008	29.8 (59.3)	19.3 (38.6)	10.5	65
2009	32.6 (65.2)	27.0 (54)	5.4	83
2010	35.03	-	-	-
Total	82.4[2]	64.8	17.5	79

[1] *In brackets: Including counterpart funds by states.*

[2] *Excludes the 2010 fund.*

Source: OSSAP-MDG, 'A. Conditional grants scheme, Update for National Assembly Public Hearing, 12 July 2010'.

Monitoring and Evaluation of the DRG: The OPEN Tracking system

According to the OSSAP-MDG, an effective VPF depends on the quality of its monitoring and evaluation framework. Thus, an M&E framework was introduced as a core component of the VPF which has multiple objectives: ensuring that resources voted for DRG projects were fully channelled to their intended purpose and provide verifiable details of such to the Nigerian citizens; to help in restructuring the M&E processes at the federal MDAs and to institutionalise new processes in public sector agencies. This is against the background of achieving the core principles of NEEDS mentioned earlier. Nigeria therefore called her VPF the Overview of Public Expenditure in NEEDS (OPEN).

The debt relief provided an opportunity to improve on the federal M&E systems which were, in the view of OSSAP-MDG underfunded, incoherent and under-utilised, but with a specific focus on monitoring the VPF projects. The OPEN Initiative for M&E of the VPF consists of (OSSAP-MDG, 2008):

1. The tracking of the receipts of expenditure of the debt relief savings;
2. The monitoring of the outputs of this expenditure: the quantity and quality of the activities and works financed with the expenditure;
3. The monitoring of the outcomes of these outputs in order to assess what the debt relief savings had achieved.

For the tracking of expenditure, an integrated accounting system for the Federal Government was established which provides for the classification, tagging and tracking of DRG line items in the Chart of Accounts (COA). In this respect the Office of the Accountant-General of the Federation (OAGF) has adapted the COA to accommodate the classification of DRG line items and has reflected the amendment in the templates used for the budget although with considerable challenges. However, the 2010 budget Chart of Accounts codes no longer differentiate between MDG and DRG-MDG expenditures. This makes further assessment of performance more difficult, especially as efforts to institutionalise the M&E process within the MDAs is still faced with considerable challenges.
For the components 2 and 3, the assessment of outputs and outcomes, a new framework for M&E was established within the OPEN for which initially one per cent of the DRG has been voted. It is noteworthy that the actual amount disbursed for this has increased gradually from N 1 billion in 2006 to N 2 billion annually from 2007 to 2009, approximating 2 per cent of the VPF.

Institutional Structure of M&E component of OPEN

The M&E framework is structured in line with the geo-political structure of the country into an independent but pyramidal format consisting of the National M&E Team (NMET), six zonal M&E Teams (ZMET) and 37 State M&E Teams (SMET). In meeting the challenges of transparency and accountability, OSSAP-MDG has outsourced the field visits of M&E to private sector experts and civil society organisations to work independently of the executing ministries. While Civil Society Organisations (CSOs) focus on community participation issues and outcomes, private sector consultants focus on technical aspects of service delivery. Each Team consists of multidisciplinary consultants drawn from the private sector, civil society organizations and the MDA Team from the public sector line ministries who use different assessment and reporting templates that are meant to cross-check one another to provide a balanced report of the quantity and quality of services delivered on the DRG funded activities. Some of the indicators embedded included quality and timeliness using the Chart of Accounts Code, Title of Project as well as its Objective, Output, Outcome and Completion status of each line item in the DRG delineated projects. The involvement of partners for the M&E is expected to follow Due Process and the Call for Expression of Interest to be advertised in the Federal Tenders Journal. About 1000 CSO expressed interest out of which 51 were selected to operate at the three levels made up of 1 CSO per state, 2 lead CSOs per zone and 2 CSOs at the national level.

A presidential committee on M&E was also constituted which oversees the flow of information between the planning, accounting and M&E actors through a system of monthly and annual reporting, during which disparity in figures presented by OSSAP and different M&E Teams are to be resolved. The M&E framework has been placed on a www portal which started in 2009 and has now been applied to the 2006 to 2008 projects. There are currently 20,043 projects, each of which has a code for interrogating the details by any of the M&E partners. This is expected to improve the transparency of the process.
This process would serve to achieve the second objective of the VPF – ascertain the extent to which DRG goals have been achieved. The impact assessment of DRG spending has not yet been addressed in the OPEN framework although it will be required to address the third objective of the Nigerian VPF. It is worth mentioning that this monitoring system, like all components of the VPF, would not have been established in the absence of the debt relief agreement and its conditions.

Conclusion and some remarks on sustainability

The establishment of the VPF has so far meant that an amount of about US$ 750 million annually has been allocated (and to an increasing extent also spent) for the MDGs. The extent to which these resources have been additional to regular spending on the MDGs will be addressed in the next section. Through the CGS, the VPF has generated matching funds at the level of the states (and in 2010 also with local governments). The CGS increased the involvement of state governments with attempts to achieve the MDGs.

The OSSAP-MDG office requires that VPF project proposals reflect an orientation on results, and the new forms of monitoring and evaluation, in which private sector and civil society are involved should address the accountability issues in mainline development projects. The

OSSAP-MDG office hopes that these innovative practices in the areas of planning, budgeting, implementation, and M&E will extend to other MDG spending of the MDAs and the state and local governments. The initiative during the current year to involve 113 LGAs will further strengthen the partnerships being built at all levels of government. To what extent these institutional effects have occurred already will be explored in section 4.4.1 below.

To what extent will the VPF be sustained? It is our impression that the achievements of the VPF (the maintenance of value of the funds involved and the institutional innovations introduced) so far are greatly due to the remarkable efforts of the small OSSAP-MDG office itself as well as the support of the Presidency. The OSSAP-MDG office is small, however, and so far it has not been formally recognised as government organ. For these reasons the sustainability of the VPF may be fragile.

At the same time, there are some factors that enhance sustainability. First, the states and local government have an interest in maintaining the VPF as they benefit from an increased resource flow from the federal level. Second, the engagement of, in particular, civil society in the OPEN M &E process has greatly increased their interest in the VPF and in government policies in general. While many civil society organisations initially were not in favour of the debt relief agreement (because of the payment of US$ 12 billion as part of the debt relief agreement), they often changed views after seeing the VPF potential for poverty reduction.[112] Third, the interest of parliamentarians in the VPF has also increased. While the inclusion of the 'quick wins' on the one hand may imply projects with a lower urgency from the viewpoint of achieving the MDGs, on the other hand it has enhanced involvement of parliamentarians as well as fostered the links between parliamentarians and the grassroots.

4.3.6 Pro-poor spending and the additionality of the VPF

This section analyses whether pro-poor spending and MDG spending increased as a result of the debt relief agreement and to what extent the spending via the VPF was additional to other MDG expenditure. This analysis is complex as it requires an assessment of what would have happened to MDG spending in the absence of the debt relief and its conditionality. All else equal, the conditionality of the debt deal would imply that MDG-spending would be (at least) US$ 1 billion higher from 2006 onwards than in the absence of the debt relief. But, as analysed before, total government expenditure increased strongly, also in real terms. For this reason, we not only examine the absolute amounts of pro-poor or MDG spending and the amounts spent in the VPF, but we also have to look at MDG spending relative to total (capital) spending and to GDP. This gives a better idea of the relative priority for MDG spending in general and for the VPF, in particular.

We analyse first the composition of the government budget by sector in order to analyse the priority for MDG-related sectors and the trends in that priority; we do this for both total spending and for capital spending. But these sectoral figures are a rough measure of MDG spending, as a lot of spending within, for example, the education sector, may be for tertiary education which is not advancing the MDGs. For this reason, the second part of this section

112 Interviews with civil society stakeholders.

examines the share of MDG spending within the total budget and within specific sectors, in particular health and education. The establishment of the VPF can be expected to improve the targeting of sector spending, and lead to a higher share of MDG-related spending within sectors. Third, we focus on the amounts budgeted and released for the VPF itself and examine the trends in absolute and relative amounts budgeted and released (spent).

In order to analyse what happened with expenditure by sector we examine data provided by the OAGF on budgeted and actual spending by sector, focusing on sectors. Table 4.17 shows that the shares for the different sectors in total actual expenditure are highly fluctuating. While the share of education expenditure decreased in 2006, that for health increased. No clear trends can be observed. The federal government began to give a grant to all states for 'universal basic education', in particular infrastructure, in 2005. In share of total spending, this flow decreased slightly over time.

Table 4.17 Share of selected MDG-related sectors in total federal expenditures (capital plus recurrent), in %[1], 2004-2008

	2004	2005	2006	2007	2008
Agriculture	1.2	1.2	1.1	2.4	4.9
Water resources[2]	2.5	5.4	4.7	3.9	
Power and Steel	4.8	0.7	4.4	2.5	1.1
Education	9.4	17.6	8.1	8.2	7.0
Universal basic education	0.0	2.4	1.8	2.0	1.6
Health	4.2	1.4	5.2	5.7	4.3
NAPEP	0.2	0.1	0.2	0.1	0.1
Women affairs	1.4	0.1	0.2	0.1	0.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] The sum of these shares is not 100 because not all sectors are presented.

[2] In 2008, expenditure for Water is included in that for Agriculture.

Source: Own calculations on the basis of data from OAGF.

The share of education within total *capital* expenditure has increased enormously after 2004 and for health especially between 2005 and 2006, with the establishment of the VPF (Table 4.18). The share for power and steel, although highly fluctuating, has decreased while that for agriculture increased. A respondent from one of the social sector ministries was of the view that in the absence of the VPF, the priority within capital spending would have been more with infrastructure, power and steel, and much less with health and education.

Table 4.18 Share of selected MDG-related sectors in total federal capital expenditures, in %[1], 2004-2008					
	2004	2005	2006	2007	2008
Agriculture	1.1	0.7	0.8	4.4	11.1
Water resources[2]	9.4	18.7	14.6	8.4	
Power and Steel	18.8	1.8	14.4	6.5	2.7
Education	2.2	0.5	1.7	3.6	5.0
Universal basic education	0.0	8.8	6.1	5.5	4.3
Health	0.1	1.9	4.1	6.4	4.1
NAPEP	0.1	0.0	0.3	0.0	0.0
Women affairs	0.0	0.1	0.3	0.2	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] *The sum of these shares is not 100 because not all sectors are presented.*

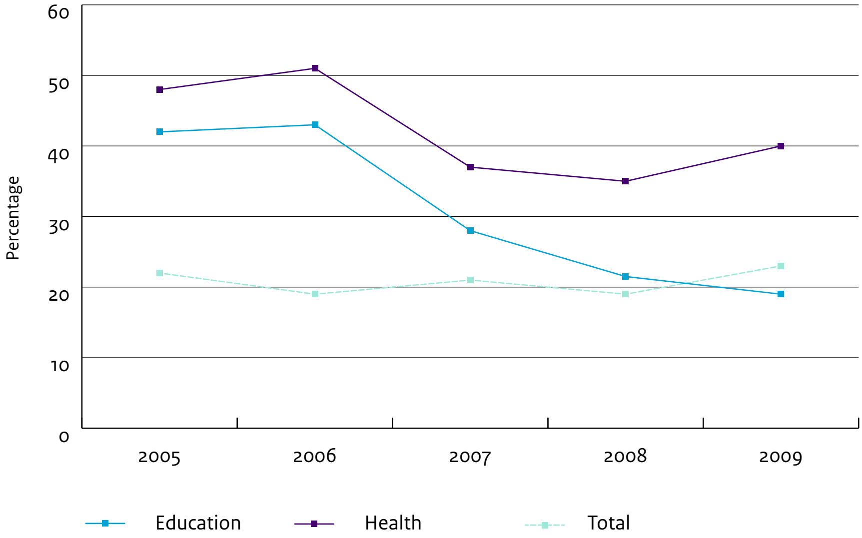
[2] *In 2008, expenditure for Water is included in that for Agriculture.*

Source: own calculations on the basis of OAGF figures.

For the analysis of the trends in MDG spending we rely on a study commissioned by OSSAP-MDG in 2010. This study reports the amounts of MDG expenditure within total *budgeted* expenditure over the years 2005-2009. This was done at federal, state and local level, but for the latter two tiers of government for the year 2009 only. Figure 4.7 shows that the share of MDG expenditure (capital plus recurrent) within total budgeted expenditure remained about constant between 2005 and 2009, fluctuating between 19 and 23 per cent. Given the rise in total expenditure over these years, also in real terms, the amounts budgeted for MDG spending have of course increased over these years. But they have not increased more than for other spending.

It can be expected that the establishment of the VPF will have led to an increase in MDG-related spending as compared to other spending in the sectors that received a lot of VPF resources, such as health and education. However, Figure 4.8 shows that this has not been the case. Although the share of MDG spending within health and education was higher than for the overall budget, this share only slightly increased in 2006 and then decreased. The MDG-component in the overall budget became even higher than the MDG component in the education budget in 2009.

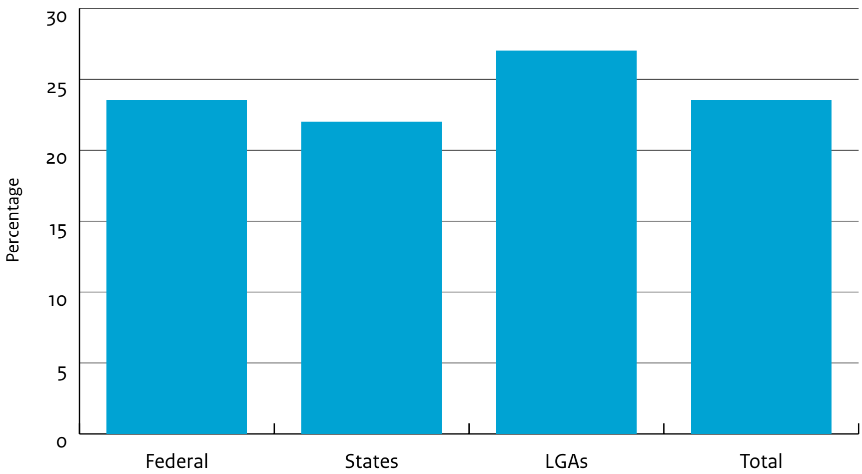
Figure 4.8 *Share of MDG spending in budgeted expenditures (capital plus recurrent) for total spending and for spending in health and education, federal level, in %, 2005-2009*



Source: Elaboration of data from OSSAP/MDG 2010.

The same study (OSSAP-MDG 2010) examined the budgets of 23 states plus FCT and those of 23 local governments, and, based on some reasonable assumptions, estimated the share of MDG spending in the budgets of all states and all LGAs, for 2009 only. The share of budgeted spending for MDGs in 2009 was highest for local governments and lowest for the states (Figure 4.9). The combined share for the federation was 23.0 per cent, which was almost the same as for the federal government (23.1 per cent in 2009).

Figure 4.9 *Share of MDG spending in total budgeted spending by tier of government, in %, 2009*



Source: Elaboration of data from OSSAP/MDG 2010.

The VPF was meant to lead to additional spending for the MDGs, over and above spending that MDAs and state and local governments intended already. According to the annual budget call circular for the VPF, the MDAs had to prove that their proposals to be funded from the VPF were additional. But this is of course no guarantee for additionality; substitution of already planned activities is also possible. Officers of the OSSAP-MDG office estimate that for the smaller agencies, such as Women Affairs, the VPF was fully additional, while in some larger federal ministries, such as Education and Health, some substitution may have taken place. These agencies may have deliberately moved some capital spending to the VPF, with a view to secure that funds would be made available. The requirement of additional spending also holds for states and LGAs within the CGS. According to officers from OSSAP/MDG, VPF spending through the CGS is mostly additional and even more so than with federal spending. Unfortunately, no figures are available to verify these statements.

When looking at the amounts spent in the VPF it can be concluded that the budgeted amount has indeed been at least US$ 750 million or N 100 billion annually[113], and the nominal amount budgeted has increased in the years 2007-2010 (Table 4.19). The actual spending was a bit lower (see also Table 4.15) and has fluctuated between US$ 490 million and US$ 725 million in the years 2006-2009. Over the years 2006-2010, the budgeted VPF amount slightly decreased as per centage of GDP as did the actual spending. The share of the VPF in total budgeted investment expenditure of the government has also decreased over time, in actual spending there was an increase between 2007 and 2008.[114] As shown above, total capital expenditure increased, both in nominal and in real terms, along with rising total government expenditure. Within this total, the importance of the VPF apparently has decreased.

Table 4.19 Budgeted and actual capital expenditures and VPF expenditures, in billions of Naira and US$ million, 2006-2010

	2006		2007		2008		2009		2010
	budget	actual	budget	actual	budget	actual	budget	actual	budget
Capital expenditure in N billion	595	503	813	798	1273	1022			
VPF in N billion	100	72	110	62	111	86	112	85	135
VPF in US$ million	777	558	878	490	933	725	754	571	900
VPF in % of total capital expenditure	16.8	14.3	13.6	7.7	8.7	8.4			
VPF in % of GDP	0.5	0.4	0.5	0.3	0.4	0.3	0.4	0.3	

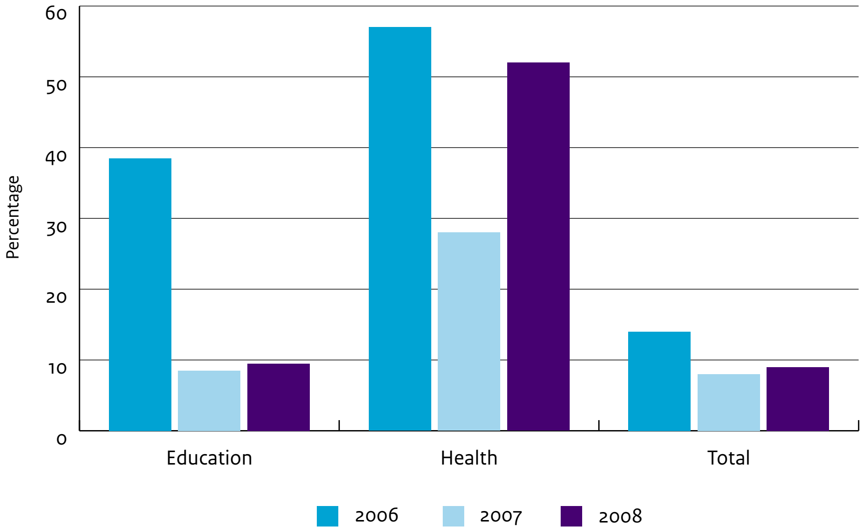
Source for figures on VPF: OSSAP-MDG, 'What did we achieve?', 2010; for capital expenditure: OAGF, and for GDP and exchange rates: NBS.

113 As explained above, the VPF was established at the federal level only and given that the federal government paid about 75 per cent of the annual debt service to the Paris Club and the states paid the other 25 per cent, only 75 per cent of the US$ 1 billion was allocated to the VPF, or US$ 750 million.

114 Investment expenditure is the relevant category to compare with, as VPF expenditure is considered investment or capital expenditure, although it includes items like teacher training.

The VPF constituted between 16.8 per cent and 8.7 per cent of total budgeted capital expenditure in the years 2006-2008 and between 14.3 per cent and 7.7 per cent of actual capital expenditure. This does not seem to be very high. However, for particular sectors such as health (all three years) and education (especially in 2006), the share of the VPF was considerable, as shown in Figure 4.10.

Figure 4.10 *Share of VPF actual spending in total capital spending, for total expenditures and for health and education, in %, 2006-2008*



Source: Own calculations based on data from OSSAP-MDG and from OAGF.

Conclusion

We can conclude that the Nigerian government has increased real expenditure for the MDGs after 2005. In this sense the government complied with the debt relief conditionality. However, the share of the spending for MDGs in total budgeted spending remained constant between 2005 and 2009. It should be noted that MDG expenditure may have increased already before 2005 as a result of the new poverty reduction policies as expressed in NEEDS, but there are no figures available to support this view.

The share for education and health in total capital spending increased after 2004, which can be at least partly be attributed to the existence of the VPF debt relief conditionality. For the health sector, in particular, the share of the VPF in the total capital budget has been high. The VPF budget has in nominal terms increased over time over and above the initially budgeted US$ 750 million and from 2007 onwards, some additional spending has come about at state level through the CGS. Actual spending has been somewhat lower at about three quarters of the budgeted amounts. However, relative to rising GDP and rising government capital expenditure, VPF spending has declined somewhat. According to relevant stakeholders, most of the VPF spending has been additional to other spending for the MDGs; additionality is higher for the states and smaller federal MDAs than for the larger federal MDAs.

4.4 Intermediate outcomes of policy changes

4.4.1 Institutional effects of the VPF on MDAs and states

Introduction

The VPF money is spent through MDAs and since 2007 also partly through the states. As implementing agencies are subject to strict rules for budgeting, planning, implementation and monitoring & evaluation, the VPF can be expected to have an institutional effect on federal and state government. In this section we examine whether the VPF has had these institutional effects: *Did the VPF have an effect on planning, budgeting, implementation and monitoring practices at federal and state level?*

It should be noted that the VPF had a developing period of 2 to 3 years in which it fully evolved into the scheme it now is. The scheme started in 2006, and in 2007 and 2008 the scheme underwent important changes. In 2007, the CGS was introduced and in 2008 compulsory CGS co-financing was introduced.

Without debt relief deal there would not have been a VPF. Therefore all institutional effects that can be contributed to the VPF can be seen as the impact of the VPF.

On federal level a positive institutional effect of the VPF seems possible in the area of M&E. Both the Federal Ministry of Health and the Ministry of Education indicated that the VPF and its M&E institutional framework demonstrating 'good practice'. However, key stakeholders of both ministries confirmed that it did not (yet) change the M&E system for other spending (than VPF).

The VPF has also changed the ways in which MDAs are planning and budgeting for poverty reduction. In order to apply for funds from the VPF, MDAs has to apply costing exercises for MDG achievement (See Box text). The Ministry of Health, in particular, emphasised the positive effect of the VPF on sector planning. In order to apply for VPF money, the ministry had to apply the VPF framework, which implied the thinking in targets, inputs, outputs and outcomes. This has positively influenced how the Health sector now formulates its policies and activities.

Box 4.6 *Mainstreaming of MDGs in MTSS Policy Planning and Budgeting: MDG Costing*

The costing of MDG exercise is a major shift in planning and budgeting for poverty reduction. The costing exercise was initiated to build the capacity of MDAs receiving debt relief, in view of limited understanding of the financial resources needed to achieve the MDGs. Debt relief therefore provided the platform for incorporating comprehensive costing within the Medium Term Sector Strategy (MTSS). The MTSS is the sectoral component of Nigeria's Medium term Expenditure Framework (MTEF) which started in 2005 to define budgets within a three year expenditure framework rather than only annual budgets. The MTSS ties the annual budget to the sector's overarching strategic planning framework and identifies resources needed over the medium term. The MDG Costing exercise covered basic costing modules for health, education and other key MDG sectors. The OSSAP-MDG became an integral member of the MTSS Team and its staff was the first to build capacity for MDG costing. Thereafter, the capacity was transferred to the MDG Desk officers and Sector Costing Teams in the concerned ministries. This exercise represented a major shift in poverty reduction policies and aligned MDG planning more closely with the MTEF of NEEDS. Having coasted MDG needs, the yawning gap between the resource needs and available government revenue was unsustainable without additional fund leverage. With the VPF some of this gap is being filled. In addition, the VPF mobilised greater technical support and donor funding for assistance with the planning and budgeting for MDGs in the relevant MDAs.

On state level the VPF only began to influence practices in 2008, when the co-financing for the Conditional Grant Scheme (CGS) was introduced.[115]

In 2010 a study was undertaken which addressed the linkage between the CGS and state reform efforts (SPARC, 2010). Thirty-one stakeholders were interviewed at federal level, and 110 stakeholders at state level, in six states. In addition, the study employed questionnaires. The study concludes that CGS had a direct effect on policy development and planning processes and on M&E systems in the six states. 95 per cent of the questionnaire respondents were of the opinion that the CGS has influenced/'strongly influenced' the states' M&E systems. Unfortunately the study does not illustrate in what way state M&E systems were influenced.

The impact of the CGS operational guidelines on state PFM systems was also assessed. The results are less conclusive. Whereas most interviewees identified an institutional impact on the budgeting process (more structured), accounting (more on time) and on procurement (due process), the questionnaires did not support these findings.

The evaluation team also visited two states and addressed the evaluation question whether the VPF / CGS has had an effect on reforms. Findings are reflected in the box text below.

[115] This was confirmed by key stakeholders at both federal and state level.

Box 4.7 *Evidence of CGS impact on reform in Kano and Cross River state*

Interviewees in both states confirmed that the CGS is now considered as the best practice in various areas: 1) procurement, 2) M&E, 3) civil society/state partnership and co-ordination, 4) accountability, 5) addressing MDGs. CGS represents a 'role model' in both states. In Kano state two interviewees gave an example of an institutional change. They reported that CGS procurement procedures had influenced procurement procedures of other state expenditure. Unfortunately no other illustrations could be provided of the 'role model' effect of CGS. It should be noted that CGS only started in 2007 and the co-financing only in 2008. Both states had only profited from CGS expenditure in two budget years. This can be seen as a too short period to actually expect institutional impact.

In conclusion, the VPF is widely seen as good practice at both federal and state level. At federal level it has influenced policy formulation and planning, at least at the Ministry of Health. It has the potential to also improve regular M& E systems. On state level a possible institutional impact of the VPF was mainly driven by implementation conditions reflected in the Conditional Grant Scheme (CGS). Recent research indicates that a link can be established between improved procurement practice and CGS, which is confirmed by our visit to Kano state.

4.4.2 Intermediate outcomes of policy changes

This section focuses on the question:
Did the anticipation of the debt deal or the debt deal itself, through the changes in anti-corruption and other policies, have an impact on corruption and governance indicators?

The counterfactual

We concluded in 4.3.2 that improving governance and fighting corruption were important aspects of the 'reputational issues' that the government of Nigeria had to address, and significant progress was made. At least part of this progress, for example the introduction of the 'due process law' (procurement), the NEITI, the transparency of transfers from federal to state and local level, and more active suing of culprits of fraud and corruption can therefore be ascribed to the anticipation of a debt deal. Therefore, we can attribute the improvement in corruption and governance indicators at least partly to the anticipation of debt reduction. In the post deal period, the period of the PSI, 2005-2007, we concluded that some of these reforms continued but there was also some slippage. Improvements in this period can still be ascribed to the pre-2005 efforts but also to the (partial) continuation of these efforts after 2005.

Outcomes

Corruption has been, and to a large extent still is, a major bottleneck for development. Table 4.20 presents the Transparency International Corruption Index for Nigeria over the years 2001 to 2008. Based on the index we can conclude that corruption was reduced gradually over this period. If we take a closer look at the ranking, we see that Nigeria was all but last up to 2004. In 2005 Nigeria's relative position on the world ranking list started to improve up to 2008. But in 2009, Nigeria moved from the 121st place back to the 130th position. According to interviewees the decline in 2009 reflects two opposite effects. First, the 2008 ranking, based on performance in 2007, was reflecting 'over performance' of the EFCC. In 2007 some court cases were successfully concluded against high profile Nigerians. Second, the EFCC started to focus on middle level managers in its fight against corruption which the TI index does recognise, according to the EFCC.

Table 4.20 Transparency International Corruption Index for Nigeria, 2001-2009

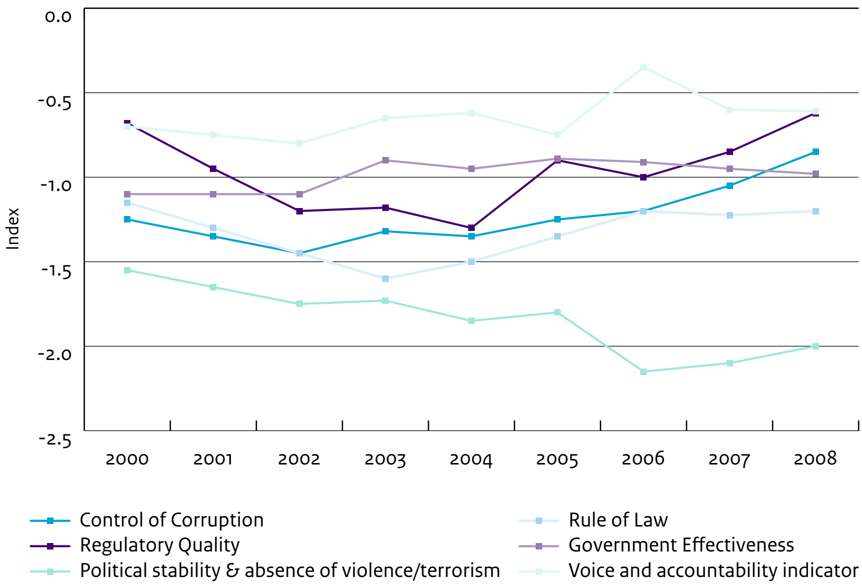
Year	Index	Ranking
2001	1	90/91 (0.99)
2002	1.6	101/102 (0.99)
2003	1.4	132/133 (0.99)
2004	1.6	144/145 (0.99)
2005	1.9	152/158 (0.96)
2006	2.2	142/163 (0.87)
2007	2.2	147/179 (0.82)
2008	2.7	121/180 (0.67)
2009	2.5	130/180 (0.72)

Source: Transparency International (various reports).

The corruption indicator of the World Governance Indicators (WGI)[116] registers a more gradual improvement between 2002 and 2008 (see Figure 4.11). Other governance indicators within the WGI, such as the 'rule of law' and 'government effectiveness' show similar improvements. The rule of law indicator and the government effectiveness indicator started to improve from 2003. The Voice and accountability indicator improved from 2002, however, it started to deteriorate again in 2007. The political stability indicator gradually worsened between 2002 and 2006 and then stabilised. The index for 'regulatory quality' deteriorated between 2000 and 2004 but improved after 2004.

[116] These aggregate indicators are based on hundreds of specific and disaggregated individual variables measuring various dimensions of governance, taken from 35 data sources provided by 33 different organisations. The data reflect the views on governance of public sector, private sector and NGO experts, as well as thousands of citizen and firm survey respondents worldwide. The indicators can be of assistance to analyse developments over time.

Figure 4.11 *Kaufmann Governance indicators for Nigeria, 2000-2008*



Source: Kaufmann et al. (2009).

Note: No indicators were constructed for 2001. In the figure we have averaged the 2000 and 2002 value for illustrative purposes.

Other sources of corruption and governance information

A survey of Nigerian firms in 2002 revealed widespread bribery across various public institutions. About 70 per cent of firms surveyed reported the need for bribes to obtain trade permits, about 83 per cent paid bribes to obtain utility services, about 65 per cent paid bribes when paying taxes, an estimated 90 per cent paid bribes during procurement, and 70 per cent of firms acknowledged the need for bribes to obtain favourable judicial decisions (Okonjo, 2007).

In 2007, 75 per cent of the businessmen in Nigeria see crime as a major hurdle for doing business and 71 per cent indicated corruption as a very serious obstacle to doing business (NBS/EFCC, 2007). On average, one out of three enterprises had to pay a bribe to public officials when carrying out certain administrative procedures. Interviewed businesses also reported that, when dealing with police investigations or traffic offences, they were requested the payment of extra money in more than 40 per cent of cases. Although these numbers are still high, they seem to be lower than in 2002, when between 65 and 90 per cent of interviewees reported to pay bribes (varying by government sector).

Businessmen give the lowest ratings of trust to the Environment Agency, political parties and the Nigerian Telecommunications Ltd. Police forces also receive very low scores, both on their efficiency and honesty, which is not a positive sign when trying to strengthen the fight against crime and corruption. Businesses have better opinions on the capacity of courts, NGO's, the media and especially on EFCC.

On the whole, there is certainly evidence of improvements in governance and corruption indicators, roughly between 2004 and 2007/8, and given our conclusions on the counterfactual these improvements can partly be attributed to the (anticipation of the) debt deal. However, despite the positive trends on corruption and governance reflected in the TI index and Kaufmann indices, and from a comparison of the business surveys, corruption and bad governance are still an important bottleneck for economic development.

4.5 Conclusions

In the absence of the 2005 debt deal, Nigeria would have paid some debt service but not all the debt service that was due. Under the most likely counterfactual scenario Nigeria's external debt stock would have increased from US$ 36 billion in 2004 to around US$ 54 billion in 2009. Compared to an actual external debt stock of US$ 4 billion, the counterfactual stock output by end 2009 is therefore around US$ 50 billion. The debt relief agreement cleared all arrears and from 2006 onwards, Nigeria has been paying all debt service due. This means that the debt relief clearly eliminated Nigeria's debt overhang.

Under the assumption of a counterfactual debt service payment of about US$ 1 billion a year, the cumulative flow effect is technically still negative up to 2019, as Nigeria had to pay US$ 12 billion as part of the agreement. We concluded that aid flows were not reduced as a result of the debt deal, so the flow effect was not further reduced by reduced aid flows. But in practice we did not find a negative flow effect. The US$ 12 billion was paid from the excess crude account in 2005 and 2006, the balance of which was already large enough to carry this burden - due to the oil price based fiscal rule applied since 2004. For the economy as a whole, it was better to save than to spend this money during 2003-2005. Although the US$ 12 billion payment was a cost for Nigeria, at the time it did not constrain imports or government expenditure, nor were the savings on the ECA needed in the years after the debt deal as the oil price continued to rise and export income and government revenues continued to increase. In the years after the deal, the US$ 12 billion payment began to be perceived in Nigeria as a sunk cost, or even an investment, that created a positive flow effect in the form of the US$ 1 billion debt relief savings from 2007 onward. But in 2007 and 2008 the debt relief savings were not having an effect on imports or expenditure given the surpluses on balance of payments and government accounts anyway. This changed in 2009, when export income and tax revenues were a lot lower and the positive flow effect of the US$ 1 billion debt relief savings was noticeable. At state level, however, the flow effect has been negative for those states that had a higher share in the Paris Club debt than their share in the excess crude account. This is due to the agreed compensation scheme.

On the basis of interviews with many stakeholders we concluded that the anticipation of the debt deal has had a moderate to strong effect on policy reforms carried out before 2005, and especially from 2003 onwards. After the change in government in 1999 some reforms would have been implemented anyway, but the prospect of possible debt reduction gave political leverage to the reforms, and made it easier to implement controversial reforms in a more thorough way than otherwise would have been the case. This holds for macroeconomic management and in particular the application of the oil price based fiscal rule, but also for civil service reforms, privatisations, the participation in EITI, and the fight against corruption.

Although debt management and debt recording would have advanced anyway, the prospect of possible debt reduction provided a strong motivation to implement improvements faster and more thoroughly. The anticipation of a debt deal also helped for achieving a stronger focus on spending for the MDGs and on poverty reduction policies (social safety net, human development) in general.

After the debt deal the 'carrot' of the prospect of debt relief was replaced by the conditions attached to it, the PSI. This IMF programme included many of the policies that were part of the reform package initiated in 2003 and documented in NEEDS. The PSI helped to maintain prudent macroeconomic policies by setting specific quantitative targets with a clear timeline for foreign reserves and government expenditure. The PSI also helped to continue many of the other reforms. However, towards the end of the 2005-2007 period and especially before the 2007 elections, reform implementation became weaker and the oil price based fiscal rule and its accompanying excess crude account were not followed as strictly as before. After 2007, some reforms continued in place but in other areas there is some backsliding.

The MDG-expenditure tracking was implemented in the budget from 2006 onward and a VPF of about three-quarters[117] of US$ 1 billion was established. This VPF can be fully attributed to the debt deal. The (budgeted) VPF has increased in nominal terms over the years 2006-2010, but it decreased relative to total capital expenditure of the government over the years 2006-2008, from 17 to 9 per cent. Most VPF funds have been spent in the areas of primary health care, primary education, and water and sanitation, and in the health and education sectors VPF funds were a substantial part of total capital expenditure. The VPF also made funds available for a conditional cash transfer programme and for other social safety net programmes. From 2007 onwards the VPF has included a conditional grant scheme to which state governments can apply and this has increased involvement of the other tiers of government in MDG achievement. Actual spending has been somewhat below budgeted allocations, as money not spent on the intended purpose within a year, had to be returned. From 2005 onward, the share of budgeted government spending for the MDGs in (rising) total government spending has remained constant, so MDG spending has risen in nominal and real terms. The VPF spending has been mostly additional to what otherwise would have been spent for the MDGs; there has been some substitution in the larger federal sector ministries.

Apart from its financial contribution the VPF can be expected to have an important institutional effect on poverty reduction. The VPF has designed innovative practices for, in particular, the

117 In line with the share of the federal government in debt service payments to the Paris Club. The states paid the other 25 per cent but the federal government cannot decide on state spending.

planning and costing of projects, and for monitoring and evaluation. VPF projects are not only tracked in budgets and in charts of accounts, but their outputs and outcomes are monitored via a decentralised framework (OPEN) in which the private sector and civil society are involved. As VPF projects are implemented though MDAs, states (since 2007) and local governments (since 2010), the VPF aims to institutionalise these practices more broadly.

The final section of this chapter assesses these institutional effects. It remains too soon to expect broad institutional changes. The M&E system of the VPF is widely seen as good practice, but MDAs and states are not (yet) applying the VPF framework themselves. Yet there seems to be some influence on project formulation and planning, as MDG costing exercises are becoming more common and these exercises are integrated in Medium Term Sector Strategies. In Kano, we observed the application of due process with respect to procurement.

The anti-corruption policies carried out since 2000 and especially since 2003 (not just the work of the ICPC and the EFCC but also the new procurement regulations and the participation in EITI) seem to have had some impact on the governance and corruption indicators. These indicators in general improved between 2002/2004 and 2007/2008, after which most indicators deteriorated slightly but they remained at a somewhat better level than before 2003. Yet, undoubtedly corruption was and is still a serious problem in Nigeria.

5

Outcomes

5.1 Introduction

We concluded in chapter 4 that the debt deal had a substantial stock effect at the output level, a technically negative flow effect but in practice a positive flow effect in the year 2009, and a moderate to strong conditionality effect. The conditionality channel was most effective before the debt deal, but there was also some influence in the years after the deal on policies in general and on the VPF in particular. This chapter examines the extent to which these outputs have led to outcomes.

Section 5.2 examines the effect of the debt stock reduction for Nigeria's debt sustainability. It compares actual with counterfactual debt sustainability ratios for the years after the deal, looking at the sustainability of external debt but also examining sustainability of total public debt, thus including the domestic debt stock.

Section 5.3 focuses on a possible effect of the debt deal and its conditions on macroeconomic stability. It assesses the effects of the improved macroeconomic policies, in particular between 2003 and 2007, and of the positive flow effect in 2009 on inflation and on the resilience of the economy during the 2009-10 global crisis. As shown in chapter 4, improved macroeconomic policies were to a substantial extent due to, first, the 'carrot' of a potential debt reduction, and second, the influence of the PSI.

Section 5.4 examines the stock effects at outcome level. Did the debt stock reduction lead to improved creditworthiness and reduced interest rates, and did this improved creditworthiness lead to higher inflows of foreign capital to the public and private sectors? Furthermore, was there any effect of the debt stock reduction and possibly lower interest rates on private investment? A complicating factor in these assessments is that eventual positive outcomes may not only be related to the observed strong reduction in the debt overhang, but also and perhaps even more to improved policies and outcomes of these policies (e.g. improved macroeconomic stability, lower corruption). To the extent possible, these two factors will be disentangled.

Section 5.5 examines the intermediate outcomes of the debt deal on poverty reduction, and in particular the outputs and intermediate outcomes of the VPF. This means we examine to what extent the allocated resources of the VPF have resulted in concrete outputs and then to what extent these outputs have brought about better access to services such as education, health care and water. Of course there are also other factors that influence these access indicators, for example the improved poverty alleviation policies from the beginning of the decade but also other factors. This holds even more for the final impact indicators which will be examined in chapter 6. Section 5.6 concludes this chapter.

5.2 Debt sustainability

5.2.1 Introduction

The IMF and the World Bank have a standard set of ratios, introduced in 2004, for assessing sustainability of external public and publicly guaranteed debt of low income countries. These ratios are:

- Net Present Value (NPV) of debt to GDP
- Net Present Value of debt to exports of goods and non factor services
- Net Present Value of debt to government budget revenue
- Debt service to exports of goods and non factor services
- Debt service to government budget revenue

All ratios refer to external debt. In terms of categories, the first is a burden indicator, the next two are solvency indicators and the last two are liquidity indicators. Given a Country's Policy and Institutional Assessment (CPIA), which is based on performance, a set of critical thresholds for that country are defined. The results of the debt sustainability analysis (DSA) can be checked against these ratios to see whether a country's debt is sustainable or not.

It is worth mentioning that prior to 2004, for a low income 'IDA only' country, HIPC debt relief was granted after carrying out a DSA. The indicators on which debt relief were offered included NPV of debt to exports of goods and non factor services, NPV of debt to government budget revenue and debt service to exports of goods and non factor services. If any of the 3 indicators exceeded the critical thresholds the countries were qualified to receive debt relief. Countries could not qualify for debt relief based on NPV of debt to GDP or on debt service to government budget revenue. Before 2004, the CPIA classification was not yet used for assessing critical thresholds.

In Nigeria, these indicators were initially not applicable due to the fact that Nigeria was not an 'IDA only' country, but after being reclassified as an 'IDA only' low income country in mid-2005, the ratios have become relevant. However, as opposed to most other 'IDA-only' countries Nigeria's accumulated debt was largely commercial and its NPV of debt was nearly 95 per cent of its actual debt. Therefore the NPV value is close to the actual value. This happens when the interest on debt is almost equal to the discount factor that is used to calculate the present value. For this reason, Nigerian debt can be converted to NPV debt by multiplying by 95 per cent and then calculate the two solvency ratios.

According to the DSAs carried out by the IMF in 2007, 2009 and recently in 2010 the sustainability of Nigeria's external debt is assured in the long term. We analyse below to what extent this debt sustainability can be ascribed to the 2005 debt relief agreement. We also analyse the sustainability of total public debt and the sustainability of the debts of the states after 2005. At the end of this section we draw a conclusion on debt sustainability which includes an assessment of whether the improvements in debt management (4.3.3) are sufficient to secure this sustainability.

5.2.2 Developments in other public debt components

The sustainability of Nigeria's public debt is also influenced by the trends in other external debt components, in particular multilateral, private and other non Paris Club debt, and by the trend in domestic public debt. This paragraph deals with these issues.

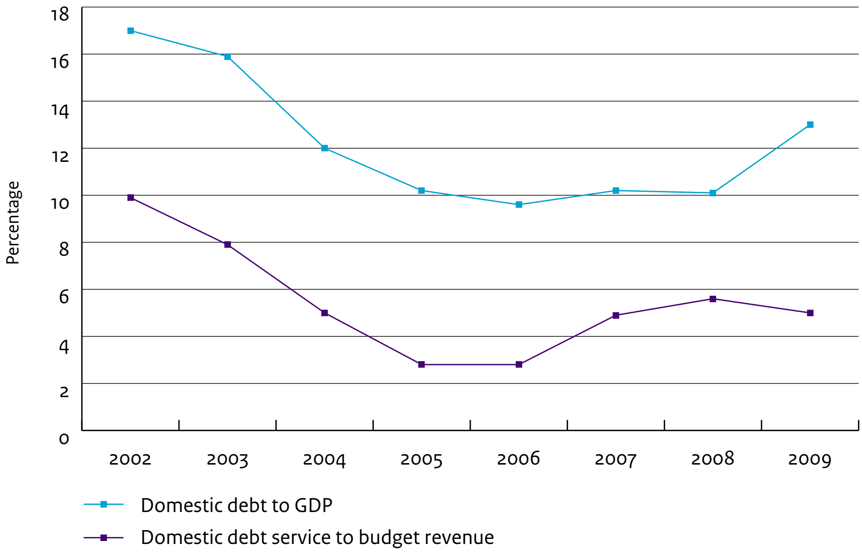
As mentioned above (section 2.3.2), Nigeria had restructured its debt to private creditors in 1992. From then on, the commercial debt consisted of promissory notes, 'par bonds' or Brady bonds, and oil warrants, which were bonds whose interest rates were tied to the oil price. In 2002, DMO had already carried out a buy-back of the par bonds, leading to a reduction in the stock from US$ 2.0 billion to US$ 1.4 billion (DMO Annual Report 2005). After the Paris Club relief, and in view of the high interest rates on these claims, the authorities also wished to get rid of the remaining private debt stock. At the end of 2006 they succeeded to a large extent. The government paid off the par bonds worth US$ 1.4 billion that were due to be redeemed in 2020, and the promissory notes worth about US$ 0.5 billion. In addition, the government retired 31.4 per cent of the oil warrants at a price of US$ 82 million. The other holders of oil warrants did not want to sell.[118] This left a debt to the London club of only US$ 0.1 billion by the end of 2006 (DMO, 2008).

During the period 2005-2009 the stock of multilateral debt increased from about US$ 2.5 billion to about US$ 3.5 billion. As the new disbursements are all concessional and the amounts are still low, there is no reason for concern. There was also a slight increase in bilateral non Paris Club debt, especially from China but also from Korea (see below, section 5.4). But the total bilateral debt stock by end 2009 is still below US$ 0.5 billion.

The domestic debt increased much more than the external debt after 2005, from Naira 1.5 trillion (US$ 11.5 billion) in 2005 to about Naira 3.2 trillion (US $ 21.7 billion) in 2009. As Figure 5.1 shows, the ratio of domestic debt to GDP and budget revenue has begun to increase from 2006 and significantly from 2008. In 2009, domestic debt to GDP had risen to 13 per cent and domestic debt service to budget revenue to over 5 per cent.

[118] Oluyinka Akintunde, '*London Club refunds $ 747m to Nigeria*', http://nigeriavillagesquare.com/forum/main-square/9594-london-club-refunds-747m-nigeria.html, accessed 30 June 2010.

Figure 5.1 *Domestic debt to GDP ratio and domestic debt service to budget revenue ratio, in %, 2002-2009*



Source: DMO annual reports, DMO Debt Sustainability Analysis report 2010.

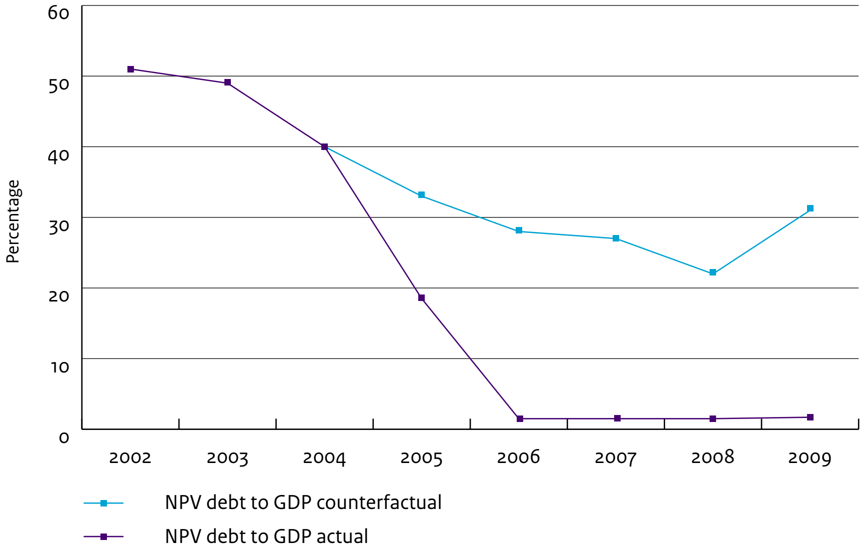
5.2.3 Debt sustainability ratios at federal level

In the counterfactual scenario, it is assumed that the government would have continued to pay US$ 1 billion in debt service annually, out of a total amount due of around US$ 3 billion. This accords with the actual payments made during 2003-2004. By not paying the full debt service, the debt stock continues to increase (Figure 4.2). The question is, however, would this have led to an unsustainable debt position?

Figure 5.2 shows the ratios of NPV of external debt to GDP for the actual and counterfactual scenario. As Nigeria is deemed to be a poor performer (CPIA is less than 3.25) the critical threshold for this is 40 per cent. If this CPIA-related threshold would be applied to 2003 and 2004,[119] Nigeria's debt would be unsustainable. But from 2004 onward, both counterfactual and actual ratios are below 40 per cent. The main reason for the counterfactual external debt being in a sustainable position between 2005 and 2008 is the huge increase in GDP (Figure 5.3).

119 But as explained above, it did not exist yet before 2004.

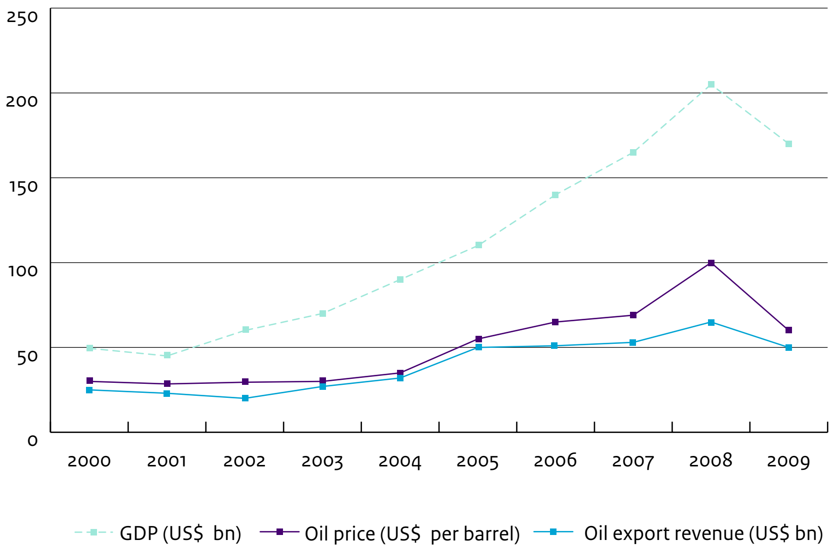
Figure 5.2 *Net Present Value of debt[1] to GDP ratios, in %, 2002-2009*



[1] *NPV computed as 95 per cent of actual or counterfactual debt, as explained in 5.2.1*

Source: Own calculations, data obtained from DMO reports and NBS.

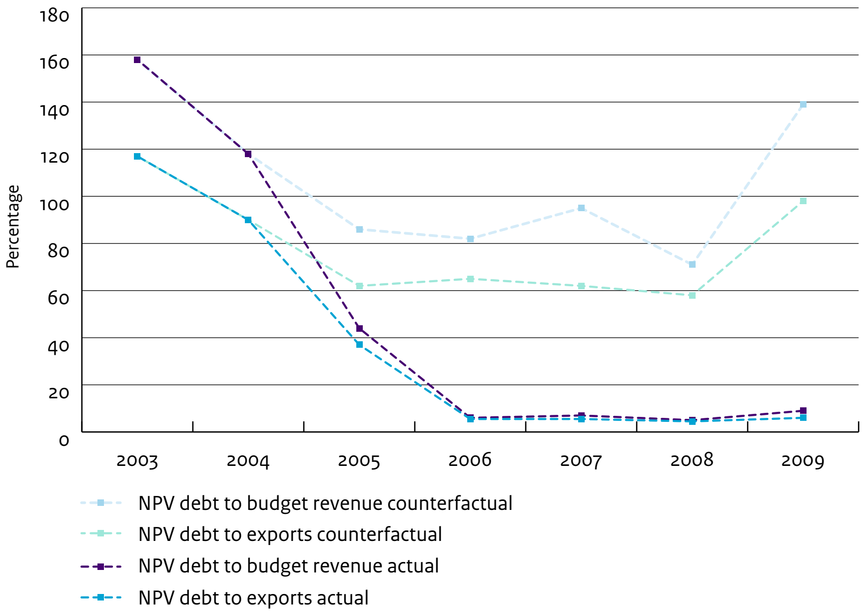
Figure 5.3 *GDP, Oil exports and Oil price, 2000-2009*



Source: CBN reports, NBS statistics.

Figure 5.4 shows the trend in two solvency ratios, NPV of external debt to exports and NPV of external debt to budget revenue for both actual and counterfactual scenarios. Although the counterfactual ratios are much higher than the actuals, both are well below the HIPC thresholds of 150 per cent for the NPV debt to exports ratio and 250 per cent for the debt to revenue ratio.

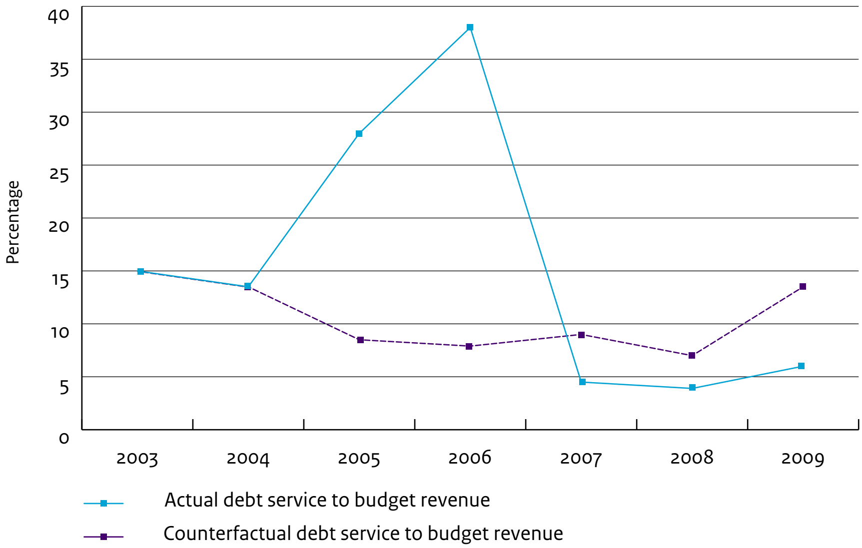
Figure 5.4 *Actual and counterfactual NPV external debt[1] to exports ratio and NPV external debt to revenue ratios, in %, 2003-2009*



[1] *NPV computed as 95 per cent of actual or counterfactual debt, as explained in 5.2.1*
Source: Own calculations on the basis of DMO reports, IMF Article 4 reports (2005, 2008, 2009), CBN reports.

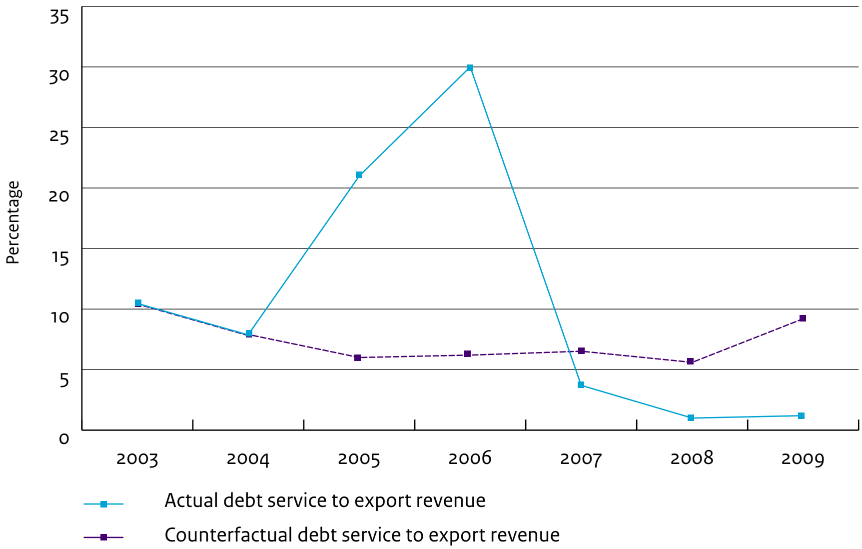
Figure 5.5 and Figure 5.6 show two critical liquidity indicators for debt sustainability; external debt service to exports and external debt service to budget revenue. The counterfactual external debt service payments are based on the assumption that debt service is maintained at US$ 1 billion annually. In both indicators, debt service ratios are high during 2005 and 2006, as a result of payments made to the Paris Club and, in 2006, also the buy-back of private debt. After 2006, the actual service ratios become small (0.9 per cent for the export ratio and 6.2 per cent for the revenue ratio in 2009). The counterfactual ratio is higher but within sustainable level (DSA thresholds are 15 per cent for export and 25 per cent for revenue ratios).

Figure 5.5 *Counterfactual and actual external debt service to budget revenues ratios, in %, 2003-2009*



Source: Own calculations, DMO reports, IMF Article 4 reports (2005, 2008, 2009) CBN reports.

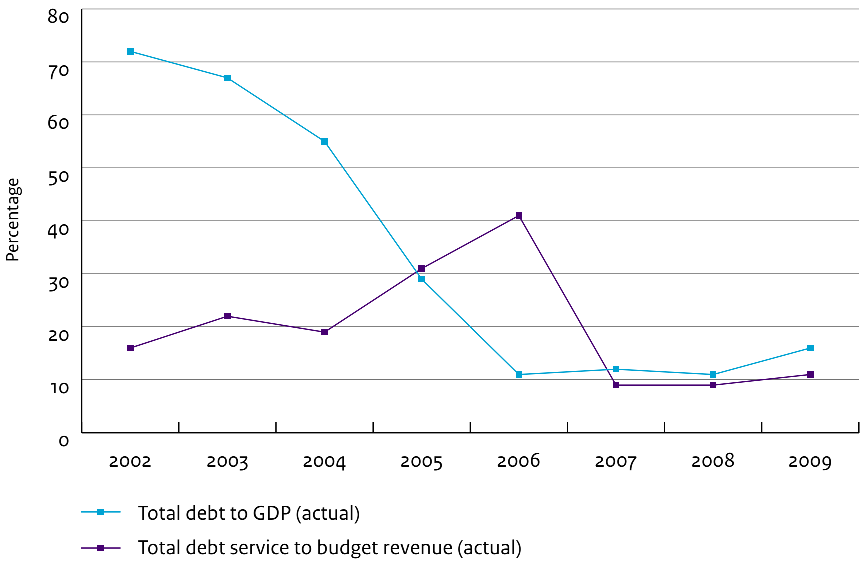
Figure 5.6 *Counterfactual and actual external debt service to export revenue ratios, in %, 2003-2009*



Source: Own calculations, DMO reports, IMF Article 4 reports (2005, 2008, 2009) CBN reports.

Fig 5.7 shows total debt to GDP which measures the overall burden indicator and total debt service to budget revenue which measures an overall liquidity and the impact on the government revenue. Total debt to GDP fell significantly from 2002 until 2005 and started to increase gradually from 2006. However, the rise in the domestic debt stock does not lead yet to an unsustainable public debt, as total debt to GDP is still much lower than 60 per cent and also lower than 40 per cent.[120] Total public debt service to budget revenue has also fallen (after 2006) but increased from 9 per cent in 2008 to 11 per cent in 2009. Although this is still below the 25 per cent threshold, the rapid increase could give some reason for concern.

Figure 5.7 *Actual total debt to GDP and total debt service to budget revenue ratios, in %, 2002-2009*



Source: DMO reports, CBN Annual Reports, NBS.

5.2.4 Debts and debt sustainability of the states

According to the legislative framework, the states cannot directly borrow external debt. Loans are externally borrowed by the federal government on behalf of the states and then on-lent to them. All states have engaged in this borrowing (see section 2.3.3). Total debt of the states was US$ 7.7 billion by end 2004, so the states' debt constituted about 25 per cent of the total external debt of Nigeria. In 2005, the states' total debt was reduced to US$ 4.3 billion and further to US$ 1.4 billion in 2006.

After 2005, states have only incurred multilateral debt. The total, including Federal Capital Territory (FCT), increased from US$ 1.4 billion to US$ 1.8 billion between 2006 and 2009. This means that the share of the states' debts in total sovereign external debt increased from

[120] The threshold of the total debt to GDP ratio of 60 per cent is based on the norms of the Euro area; however, it is claimed that debt/GDP ratios for low and middle income countries should remain within 40 per cent, and DMO Nigeria accepts this.

38 per cent in 2006 to 47 per cent in 2008. See Annex 5 for an overview of external debts of the states 2006-2009. For the states we cannot compute debt solvency indicators as we do not know GDP or exports by state. There is, however, one liquidity indicator available, which is the debt service to revenue ratio; in this case, revenues are the allocations from the federal government to the states. These allocations from federal tax revenues constitute an important income source for the states; some also have their own (additional) tax revenues, but not all.

Table 5.1 Debt service of states as per cent of Revenue Allocation for 2005 and 2008

	State	2005	2008
1	Abia	20.2	0.8
2	Adamawa	9.6	0.9
3	Akwa Ibom	6.3	4
4	Anambra	6.7	1.8
5	Bauchi	1.5	2.7
6	Bayelsa	7.3	0.5
7	Benue	8.4	0.4
8	Borno	6.7	0.4
9	Cross River	3.7	6.4
10	Delta	6.6	2.6
11	Ebonyi	8.7	1.2
12	Edo	10.1	2.9
13	Ekiti	1.6	0.6
14	Enugu	11.7	1.5
15	Gombe	2.4	0.9
16	Imo	16	0.8
17	Jigawa	2.9	0.8
18	Kaduna	0.9	1.4
19	Kano	2	1.7
20	Katsina	0.8	1.5
21	Kebbi	1.2	1.2
22	Kogi	6.2	1.6
23	Kwara	11.6	1.6
24	Lagos	11.5	6
25	Nassarawa	4.1	2.2
26	Niger	3	4.2
27	Ogun	4.9	0.9
28	Ondo	5.5	1.3
29	Osun	3.7	1.5
30	Oyo	2.2	6.1
31	Plateau	2.1	3.7
32	Rivers	7	1
33	Sokoto	4.5	0.8
34	Taraba	6.9	0.8
35	Yobe	1.1	0.5
36	Zamfara	0.9	0.4

Source: Debt Management Office, Annual Reports 2005, 2008.

Table 5.1 show that states such as Abia, Edo, Enugu, Kwara and Lagos had ratios greater than 10 per cent in 2005. After debt relief, these ratios were significantly reduced and in 2008, the maximum was around 6 per cent for Cross River, Lagos and Oyo states. These are well below the critical threshold of 25 per cent.

5.2.5 Conclusion

At the time of considering debt relief, all ratios on which debt relief was then offered in the context of the HIPC initiative (NPV debt to exports, NPV debt to budget revenue and debt service to budget revenue) show that Nigeria's debt was sustainable. The only ratios that were marginally not sustainable are the total public debt to GDP ratio which was higher than 60 per cent in 2003, and the NPV external debt to GDP ratio, which was higher than 40 per cent in 2003 and 2004.[121] In the counterfactual scenario, all ratios are sustainable but this is influenced by the huge increases in the denominators, GDP, exports and government revenues. After obtaining debt relief, the external debt sustainability ratios have declined substantially and have placed Nigeria in a very comfortable position.

The prospects for debt sustainability in the future are good, and the strongly improved debt management will also contribute to this. However, if Nigeria resorts to large borrowings and adopts non prudent borrowing policies by obtaining expensive loans - at federal or state level - the current position can change into an unsustainable position very quickly. Domestic debt has been rising and the rate of growth in debt between 2001 and 2009 is significant and is reason for concern, though the ratio of domestic debt to GDP is currently still low. Monitoring the total overall debt with prudent policies will be a continuous challenge to the DMO and the future debt management departments at the state level.

5.3 Macroeconomic stability

Nigeria's macroeconomic stability may have been affected by the flow effect and by the conditionality effect. As shown in chapter 4, although the cumulated flow effect technically was negative up to 2019, there was a small noticeable positive flow effect in 2009, when both government accounts and the balance of payments registered a deficit as a result of a lower oil price and the global economic crisis. The conditionality channel was effective both before and after the debt relief agreement. The prospect of debt reduction helped establishing the oil price based fiscal rule and the related accumulation of savings on the excess crude account. The PSI helped to continue this rule and to maintain expenditure caps and specific targets with a clear timeline for foreign reserves. As a result, the balance on the excess crude account was higher than it would have been in the absence of the (prospect of) the debt agreement. The expenditure caps that were maintained probably had some influence on the containment of inflation as well (Table 5.2, see also Annex 5 for a more elaborate analysis of the debt deal and inflation).

[121] The NPV debt to exports ratio is only unsustainable if the CPIA-related threshold is applied, which was in fact only applied from 2004 onward.

Table 5.2 Consumer Price Index (CPI) inflation Nigeria, 2003-2009							
	2003	2004	2005	2006	2007	2008	2009
CPI end of year (annualised)	23.8	10	11.6	8.5	6.6	15.1	13.9

Source: CBN, internet.

5.3.1 The 2009-2010 global economic crisis

The implementation of the oil price based fiscal rule and the resulting balance on the excess crude account played a crucial role during the 2009 crisis. The IMF concluded in September 2009 that '*Nigeria entered the crisis from a position of strength because of reforms initiated earlier this decade.*' (IMF, 2009).

The economic crisis hit the fiscal balance substantially. The overall balance of the consolidated government swung from a surplus of 3.7 per cent of GDP in 2008 to a deficit of 9 per cent of GDP in 2009. In addition, the ECA was used to cushion the impact with an outflow of US$ 15.4 billion to compensate the budget for lower then expected revenues and some additional spending. The balance decreased from US$ 20.3 billion in 2008 to US$ 6.5 billion in 2009 and US$ 3.3 billion in mid-2010. In the absence of this positive balance on the ECA, the government would not have been able to cushion the fiscal impact of the crisis and carry out a stimulating policy that easily. The crisis would either have led to increased borrowing with risks for future debt sustainability and possibly growth, or (in case of no additional spending) it would have affected growth directly. In sum, the resources in the excess crude account (to a large extent built up as a result of - the prospect of - the debt deal) provided room for fiscal stimulation which helped cushioning the effects of the crisis in 2009. To this can be added the positive flow effect of the US$ 1 billion in debt relief savings, which became noticeable in 2009.

5.3.2 Possible future impact

We concluded above that the debt relief agreement eliminated Nigeria's debt overhang completely. On the basis of econometric evidence of Budina et al. (2007) we conclude that this factor can generate a positive effect on future macroeconomic stability. Budina et al. (2007) found that in the past, fiscal and exchange rate policy in Nigeria had exacerbated macroeconomic instability which was already high due to volatile oil prices. Fiscal policy played a particularly negative role. Fiscal expenditure proved to be even more volatile than the oil price itself, and this affected growth in the non-oil sectors negatively. They investigated econometrically whether this pro-cyclical fiscal policy was due to a 'voracity effect' (higher spending when the oil price was high and under adjustment when it was low) or to a 'debt overhang effect' (the lack of access to new borrowing, even for profitable projects, when oil prices were low). They found that before 1984, the voracity effect was dominant, but after 1984 it was the debt overhang effect. This means that the elimination of the debt overhang may enhance macroeconomic stability.

However, future fiscal sustainability (and thus macroeconomic stability) is under threat through a less prudent fiscal approach. First, the oil price based fiscal rule is less vigorously applied in the period 2009-2010, leading to increased government spending. Increased spending in 2009 might have been beneficial to prevent a further economic slowdown, although some key interviewees doubt whether fiscal stimulus actually impacted economic development in 2009.

The first results of 2010 present positive economic results of respectively 7.4 per cent GDP growth in the first quarter of 2010 and 7.7 per cent GDP growth in the second quarter (CBN, 2010). The planned additional spending as a result of a less prudent oil price underpinning the 2010 budget does not seem to have an economic rationale. The ECA balance decreased in 2009 and first half of 2010 leading to additional government spending (see Table 4.10). During our analysis we were not able to obtain a complete overview on what the ECA outflows are used for to assess the quality of ECA financed spending. If these policies continue in the coming years, macroeconomic stability will weaken. On a more positive note, the authorities are currently redesigning the excess crude account into a Sovereign Wealth Fund, which would mean that they continue the principle of the oil price based fiscal rule.

5.4 Creditworthiness

This section assesses the stock effects of the debt deal at outcome level. The reduction of the debt stock is expected to have an impact on the country's creditworthiness in general, and on the government's creditworthiness in particular. This can be evident from an improvement in Nigeria's sovereign credit ratings and in reductions in relevant interest rates. Furthermore, a higher creditworthiness and more confidence in the Nigerian economy will have a positive effect on the inflows of foreign capital and on private investment. Given that there was no flow effect on government investment (the conditionality effect leading to expenditure caps dominated the flow effect), there cannot be any 'crowding in' of private investment by increased public investment as a result of the debt deal.

Chapter 4 shows that there is indeed a large stock output of the debt deal. In the Nigerian case, it is clear that the debt overhang (a large debt that to a large extent was not paid) was removed. But it is not easy to establish a relationship between this fact and trends in any of the indicators mentioned above, as these indicators will also be influenced by many other factors and not just by the removal of the debt overhang. One of these factors is the good economic policies implemented, in particular, between 2003 and 2006, which also had an influence on investor confidence. However, to the extent that these reforms were also influenced by the (anticipation of the) debt deal, it can be concluded that some of the improvements in the indicators can be attributed to the debt deal. The role of the debt stock reduction is different for the different indicators, and will be analysed below.

5.4.1 Credit ratings

Nigeria obtained a BB- rating from Fitch Ratings in January 2006 and gained the same rating from Standard & Poor in February 2006 (Callaghy, 2009: 83). This was a few months after the debt deal was concluded. Although BB- is not a very high rating, it was the first time the country was rated by these agencies at all and it clearly marked an improvement. But how much of this is due to the debt deal?

Empirical studies assessing the factors that influence the determinants of sovereign risk ratings reveal that several factors are important (Afonso, 2003; Mellios and Paget-Blanc, 2006; Minescu, 2010):
GDP per capita and sometimes also level of development, which is an indicator for capacity *and* willingness to pay;

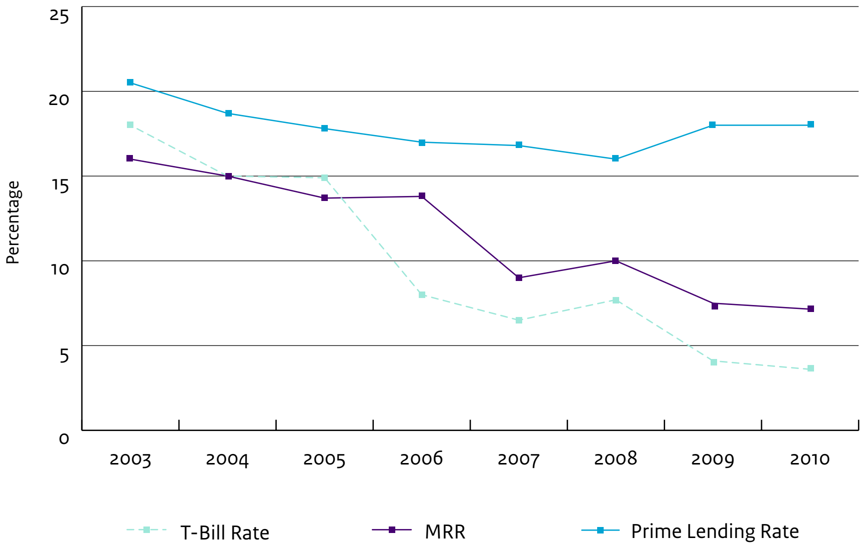
- Government revenue/GDP and economic growth as indicators of capacity to pay;
- Inflation and sometimes also real exchange rate changes as indicator for macroeconomic stability and for the quality of macroeconomic management;
- Indicators related to the debt, e.g. debt/GDP or debt/exports and, very important in all studies, the history of default;
- Some (Mellios and Paget-Blanc, 2006; Minescu 2010) have also found a significant influence of corruption.

In the Nigerian case, improved macroeconomic policies led to a reduction in inflation and, as shown above, there was also some impact on the reduction of corruption. Part of these policy improvements can be ascribed to the prospect of the debt deal and to the debt deal itself. Next to this, the removal of the debt overhang will also have influenced the rating: the external debt has been shown to be much lower than in the counterfactual situation, which led to much lower debt/GDP and debt/exports ratios. Although Nigeria continued to have a 'history' of default, defaults to external creditors became much less likely. In addition, the debt deal itself can be perceived as a signal of improved policies.

5.4.2 Interest rates

With respect to interest rates, all nominal interest rates have fallen since 2003, which is an obvious consequence of the reduction in inflation. The most relevant interest rate for the government's creditworthiness is the 3-months T-bill rate. Despite an increasing domestic debt over the years 2005-2009, this rate has declined (Figure 5.8). However, during this period T-bills were only supplied for reasons of monetary policy, so the interest rate does not say much on government creditworthiness. In 2008, there was a temporary situation of excess liquidity which led to an increase in the discount rate (the Mininum Rate of Return, MRR). Towards the end of 2008 the situation was reversed as the global economic crisis induced capital outflows from Nigeria (see below). This prompted a less contractionary monetary policy and thus a lower MRR from end-2008 onward (CBN, 2010: 54).

Figure 5.8 *Interest rates, in %, annual averages 2003-2010[1, 2]*



[1] For 2010, average over January-June.
[2] T-Bill rate is 3-months T-bill rate, MRR = Minimum Discount Rate later called Monetary Policy Rate is the Central Bank of Nigeria discount rate, Prime Lending Rate is the average commercial bank lending rate for the private sector.

Source: Central Bank of Nigeria.

5.4.3 Capital inflows and investment

Public sector inflows
As Table 5.3 shows, the multilateral institutions were the government's main source of *external* funding, and within that the World Bank (IDA) was most important. The volume of multilateral loans increased between 2004 and 2006 and then again in 2009. The 2009 increase in multilateral loans was a response to the economic crisis, and the overall increase can be seen as a response to Nigeria's improved policies.

In addition to multilateral inflows there were 'bilateral' and 'private' inflows. The private inflows consist of commercial loans from Chinese companies guaranteed by the China Export-Import Bank (EXIM Bank), while the 'bilateral' inflows are concessional loans from non-Paris Club creditors, in particular Korea and China. The Chinese commercial loans have been used for telecommunications, road construction and a gas plant. These commercial and concessional bilateral disbursements must have been higher than presented here, as the outstanding debt stock in these categories increased by about US$ 420 million in 2005 and increased again by some US$ 150 million in 2007 (DMO Annual Report 2008: 49). The total new inflow is therefore around US$ 570 million. These inflows have little to do with improved creditworthiness of the government, as non-Paris Club debts were always serviced. These loans are in general motivated by profit opportunities, and there can be some link with improved policies in Nigeria that enhanced these opportunities.

Table 5.3 Disbursements to the federal government, by creditor category, in US$ million, 2004-2009

	2004	2005	2006	2007	2008	2009
IDA	156	245	337	331	331	513
IFAD	2	2	5	7	6	3
ADB	26	10	6	2	0	0
ADF	0	7	10	47	23	17
Subtotal Multilateral	184	264	358	387	360	533
Bilateral	0	0	120	38	0	0
Private	0	0	23	0	0	0
Total	**184**	**264**	**501**	**425**	**360**	**533**

Source: DMO, Annual Reports.

Private sector capital inflows

In theory, the private sector response to the reduction in the debt stock and improved policies consists of more capital inflows from abroad, both portfolio flows and foreign direct investment, and in higher investment rates. But many other factors also influence the private sector response. A recent study concludes that the business climate in Nigeria is still weak and in several aspects weaker than in other comparable countries (Iarossi et al., 2009). The most frequently mentioned problem is the frequent power cuts, but firms are also hindered by a lack of access to finance and by the weak transport infrastructure. In addition, those firms that need to import or export suffer from very long and costly customs procedures, and all firms face problems of crime and corruption - but in these latter areas, Nigeria was not doing worse than other countries.

In the period under study, roughly 2004-2009, the power situation did not improve, but the improved government policies had some impact on corruption, and the strengthening of the financial sector probably had some effect on the private sector's access to credit. In addition, the overall macroeconomic climate improved and the debt overhang was eliminated. In addition, the 2005 debt agreement itself was seen as a signal to the private sector that policies had improved.

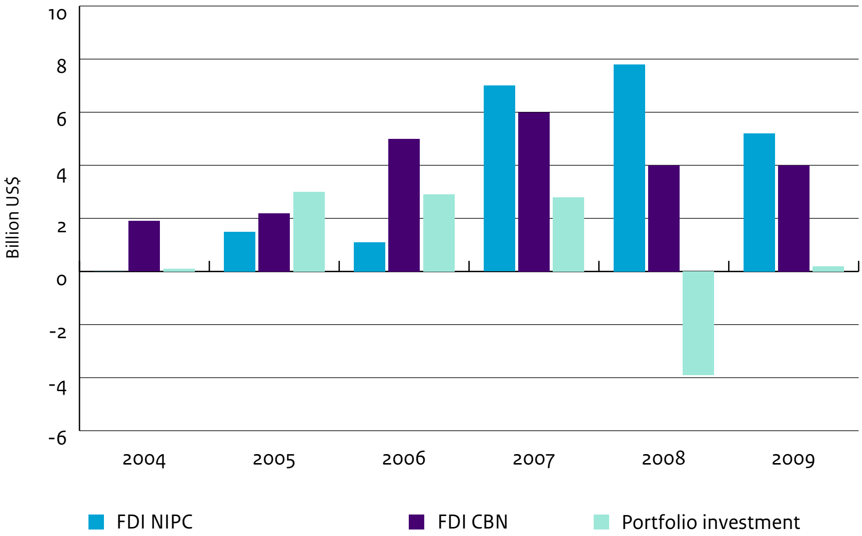
The years 2005-2007 have seen a substantially higher inflow of portfolio capital flows than the preceding years (Figure 5.9). According to the Central Bank of Nigeria, this was mainly due to the bank consolidation programme.[122] However, these flows are usually highly volatile. At the end of 2008, when the global credit crisis hit, there was a large outflow from Nigeria.

Foreign Direct Investment increased in this period, most in 2007-2008 according to figures from the Nigerian Investment Promotion Commission (NIPC) and most in 2006-2007

[122] Central Bank of Nigeria, Annual Report 2005.

according to the balance of payments figures of the Central Bank of Nigeria (Figure 5.6).[123] In the high years, Foreign Direct Investment (FDI) constituted 3 to 4 per cent of GDP (Table 5.4). Privatisation proceeds constitute only a small part of FDI: over the years 2004-2008 the total amount of FDI involved in privatisation was US$ 1.2 billion.[124] According to the Central Bank of Nigeria, most FDI was concentrated in oil and gas, in telecommunications and in the banking sector (Central Bank of Nigeria, Annual Report 2009). The breakdown of FDI according to the NIPC shows that most FDI in the years 2005-2009 has been in the services sector, which includes telecommunications but also, for example, banking (Table 5.5). FDI in oil and gas only constituted 5.4 per cent of the total over these years.

Figure 5.9 *Foreign Direct Investment (FDI) and Portfolio capital inflows, in US$ billion, 2004-2009*



Source: Nigeria Investment Promotion Commission for FDI (as indicated), and Central Bank of Nigeria, Annual Reports for FDI (as indicated) and for Portfolio investment.

Table 5.4 Foreign Direct Investment (FDI) and Portfolio capital inflows, in % of GDP, 2004-2009

	2004	2005	2006	2007	2008	2009
FDI NIPC		1.2	0.7	4.2	3.6	2.7
FDI CBN	2.1	2.1	3.3	3.6	1.8	2.0
Portfolio investment	0.2	2.6	1.9	1.6	-1.8	-0.1

Source: See Figure 5.6.

[123] The data do not match. Strangely enough, the NIPC figures are said to be produced jointly with CBN.
[124] Data from Central Bank of Nigeria Annual Reports.

Table 5.5 Foreign Direct Investment (FDI) by sector, in %, 2005-2009

	2005	2006	2007	2008	2009	Total 2005-09
Agriculture	0.5	0.0	0.5	0.0	0.2	0.2
Services	57.2	1.7	83.2	82.1	85.4	78.1
Engineering	9.2	94.0	1.3	1.9	0.6	6.0
Manufacturing	24.5	1.3	10.3	6.5	4.1	8.0
Commerce	5.0	2.1	1.8	1.2	3.1	2.1
Tourism/hospitality	0.0	0.0	0.7	0.0	0.0	0.2
Oil & gas	3.6	0.9	2.2	8.3	6.8	5.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: NIPC.

Given that Nigeria has always had FDI inflows to the oil and gas sectors, the fact that there have been large and increasing inflows to other sectors in recent years also points to an effect of the debt deal via improved policies and improved investor confidence. All of this was strongly induced by the anticipation of the debt deal. To a limited extent the FDI increase can also be ascribed to the debt stock reduction itself. Out of the six stakeholders whom we asked this question, two maintained that the debt stock reduction was an important variable in investment decisions. The debt stock reduction itself also served as a *signal* of improved policies and improved creditworthiness, and in that sense also contributed to higher FDI inflows.

Investment

A similar conclusion will hold for private investment in general, including foreign and domestic investment decisions.[125] However, the figures for investment that are included in the national accounts of the NBS and are also presented in the CBN Annual Reports are estimates and appear to be too low. According to these figures total investment (public plus private) has been at a level of between 6 and 8 per cent of GDP since 1995. It jumped to 10 per cent in 2003 but then decreased to 5.5 per cent in 2005. In later years it hoovered around 8 or 9 per cent.

[125] Private investment is a totally different concept from foreign direct investment (FDI). FDI is a balance of payments inflows. Private investment may be larger than that as it includes investment by nationals, but it may also be smaller when FDI just implies the purchasing of existing assets and does not involve any greenfield investment.

5.5 Poverty outcomes

5.5.1 Introduction

What has the VPF spending achieved in terms of outputs and to what extent did this lead to improved service delivery outcomes in terms of quality and quantity? This section attempts to answer these questions. We first analyse the quantity and quality of the implementation of the projects and programmes financed by the VPF, based on the M&E reports. Second, we report on the outputs of the VPF and examine their immediate outcomes in terms of improved access to services. Section 6.3 examines the final outcomes of changed poverty reduction policies and the VPF.

5.5.2 Implementation and challenges in implementation

According to the M&E reports, completion rates of projects across the various states for the three years assessed were not impressive. Table 5.6 however shows high variability in performance (completion rates) in education projects across the states with south east and north central having the lowest rates and north east having the highest number of projects (in 2007) and the highest completion rate. The good news is that completion rates were seen to have improved significantly between the three years and this is attributed to the M&E field visits which gingered many contractors to go back to previously abandoned sites. Overall completion rate of education sector projects increased from 24 per cent to 73 per cent between 2006 and 2008 (Table 5.7). In 2008, completion rates for education, health, and water projects, the quantitatively most important sectors, were between 66 and 80 per cent, and a lot higher than for many other sectors (Table 5.7).

Table 5.6 Completion rates of Education sector projects, by region, 2006 and 2007

	2006 no of projects	Completion (%)	2007 no of projects	Completion (%)
South East	n.a.	23.31	65	21.5
South South	n.a.	18	65	35
South West	n.a.	32.05	66	51.5
North West	n.a.	26.32	n.a.	68
North East	n.a.	n.a.	125	90.4
North Central	n.a.	80 unreported	29	21.58
National	-	24	-	48

n.a. : not available
Source: Compiled from OSSAP-MDG M&E Reports for 2006 and 2007.

Table 5.7 Summary of project status for all sectors, 2008

	Total	Monitored	Completed	Completion rate (%)
Agriculture	117	59	26	44.07
CGS	10,639	10,521	6,205	59.0
Defence	102	47	35	74.5
Education	745	383	280	73.1
Health	1,315	315	208	66.0
Quick Wins	6,313	4,334	2,035	47.0
Water	475	250	201	80.4
Women and youth	131	50	38	76.0
Capacity Building	96	49	38	77.0
Housing	177	98	49	50.0
Environment	64	32	17	53.1
NAPEP	5,635	5,635	-	-
Total	**25,809**	**21,773**	**9,132**	**56.6**

Source: CDD (2010): Synopsis Report of the 2008 M&E process.

The M&E reports also reveal that on average, completion rates are better for the CGS projects than for projects executed under federal responsibility. Federal project performance was greatly hampered by lack of planning, implementation capacity of MDAs, especially to administer the procurement processes and manage the rigorous process for the award and performance of contracts under the projects. Slow procedures of the Budget Monitoring and Price Intelligence Units (BMPIU), the government organ implementing the public procurement process was also a barrier to success as awards were delayed. It is noteworthy that while capacity at MDA and even state levels remain below expectation, series of capacity building programmes are on-going to redress this. Of particular significance is the Capacity Building programme on the MDGs organised by OSSAP-MDG in collaboration with the Office of the Head of Service to the Federation. This is a nationwide programme and is expected to greatly improve the situation. Some more specific factors that hampered project implementation are listed below.

Issues in the implementation process according to M&E reports

Costing of projects

Due to inadequate capacity, planning officers have often used a uniform costing approach in the MTSS for many programmes across different states or terrains, whereas in reality, contextual differences in location, local needs and challenges dictate differential costing. This affected quantity and quality as well as timeliness of implementation.

Stakeholder participation and involvement of lower government tiers

Reports showed that in a great number of communities, beneficiaries were totally unaware of or did not participate in the selection of projects to be implemented in their domain. For instance the power sector reports (OSSAP-MDG M&E 2007:166) indicated that some communities actually preferred water and health clinics to the electrification projects executed. This resulted in reluctance to play the expected role in service delivery. In other cases where communities were expected to donate land for citing of facilities, this low consultation led to reluctance and sometimes inability of projects to take off at all.

Some selections were also reportedly made without the knowledge of the Local Government Authorities (LGA) and State Government Agencies (SGA). Some Primary Health Care (PHC) facilities have been completed but still lack power or water supply that the LGA and state authorities should have provided. In instances requiring additional recruitment of personnel by the state or LGA, (teachers, health personnel) where this increased the recurrent expenditure burden of the state or LGA, such recruitment could not be carried out.

Apart from lack of communication and failure of buy-ins at lower levels of government, some programmes were structured to be implemented in only one budget cycle whereby maintenance requirements in subsequent years were not factored in. A good example was the Tree Planting Programme in semi-arid regions. This requires continuous maintenance but it failed because this was not factored into subsequent years (OSSAP-MDG M&E 2006:90). Many of such projects did not survive to deliver the expected outcomes.

Delineation of funding sources

In many programmes, there was no clear delineation between VPF support and support from other sources. For example, a rural electrification project had been on-going under the Ministry of Power and Steel before intervention, making it difficult to delineate information for the DRG (VPF) line budget and the funding from regular line budgets. The same holds for programmes that have been supported by donor agencies before they were delineated as VPF target, e.g. the Roll Back Malaria Programme under heavy support of WHO and the Global Fund for AIDS, Tuberculosis and Malaria.

Quality

According to CSO reports, the quality of work on most of the projects was unsatisfactory. In spite of these shortcomings, there was unanimous agreement among beneficiaries that the projects had great potentials in addressing their development challenges even though they were not consulted in their selection and implementation mode.

Summary

A summary of the challenges being faced in different sectors is shown in Table 5.8. It must be noted that in subsequent years, many of these challenges have been addressed although some still persist. For instance, a branding strategy has been developed to delineate DRG funded projects from other MDG focused projects and those funded by donors. States and LGAs have been mandated to widely publicise the VPF activities through billboards, sensitisation/advocacy campaigns, and inscriptions on projects, posters handbills, stickers and the mass media. A *Praise and Shame* chart has also been developed as a means of benchmarking states on their performance and to encourage better implementation. The very fact of the M&E visits to project sites has resulted in many contractors returning to formally abandoned sites. Sanctions have also been introduced into the selection process. In 2008, the non-performing sectors identified in earlier reports no longer benefited from the allocations while alternative better performing sectors obtained more funding.

Table 5.8 Challenges of effectiveness of the VPF – M&E reporting on selected sectors, 2006 and 2007

Sector	Challenges and Opportunities
Education	Inconsistency of student data; inability of states to sustain the staffing of new federally supplied facilities; need for decentralisation of logistics from federal officers to state and LGA officers.
Health	Significant proportion of funds returned unspent due to poor alignment of budget and project cycles; poor information on DRG contracts and implementation available to M&E Teams; poor quality assurance and expiry information on drugs in 2006; supply of water and electricity was a challenge on many facilities; low participation of local communities.
Agriculture	Low performance in 2006 greatly improved in 2007; overall performance was over 70 per cent.
Power and Steel	Multiplicity of funders and poor branding of DRG component; low quality of supplies (poles), increasing awareness and participation of local communities; past high rate of abandonment likely to reduce.
Water Supply	Slow progress on many projects; low completion rates; poor information on location of projects at local level; poor information flow on projects.
General	Delays caused by Due-Process certification; poor information about project location and type; M&E site visits elicited positive response among contractors; improved branding in 2007; low consultation among beneficiaries.

The 2008 synopsis indicates that the CGS has brought about improved inter-governmental relations and performance, but that this improved coordination was not always transferred to other projects. The same report highlights some persistent challenges, such as late release of funds and insufficient articulation between the budget and project cycles, and persistent difficulties in obtaining information in a timely manner from some MDAs, an indication that the battle for transparency and accountability has still not been completely won. In addition, it indicates persistence of poor project quality in certain areas and recommends increased efforts in sanctioning poor project delivery.

Box 5.1 *Summary of VPF outputs and outcomes in Kano and Cross River State (CRS)*

M&E reports for Kano indicate that most of the MDG-DRG projects in Kano state were satisfactorily executed and completed. CGS projects were the best carried out and executed, with 94 per cent completion. Projects under the Quick-Wins Sector, were generally poorly executed, especially those located in the remote parts of the state where completion rate was only 55 per cent. Interventions of NAPEP through the Keke-NAPEP, VEDS and CCT programmes recorded impressive performance with 63.5 per cent completion rate. Performances of projects by federal MDAs, however, varied, with education recording 81.5 per cent, the health sector recording 95 per cent completion and agricultural recording about 80 per cent.

Several shortcomings were reported, of particular note being the poor funding of the Social Safety Net (SSNs) which are critical to poverty reduction. Like in other states, the amount earmarked for NAPEP in the state is too small to make any measurable impact. In spite of these shortcomings which are not different from those outlines in the overall context (poor information flow and poor database and implementation bottlenecks), the programmes have had a positive impact on the lives of the beneficiaries. Water projects in particular have contributed in bringing down the prevalence of waterborne diseases in communities where they were sited.

In Cross River state, the education sector has the highest number of completed project (school supplies) and has impacted positively on the benefiting communities, followed by the health sector. In the water resources sector, most of the projects were not completed, therefore the impact has not been deeply felt by the communities.

The major challenges are similar to those in Kano state. However, peculiar to CRS was that award of contracts was highly politicised; beneficiaries were uninformed, therefore many projects did not have the buy-in of the benefiting communities. Stakeholders interviewed revealed that infrastructure development has vividly improved in the state. However, most of the projects were imposed on the communities by the government. Regardless of this, there were gains from these projects. The process of selection of Conditional Grant Scheme Projects has largely involved the communities. State funds have been freed to finance other infrastructure which included more health care centres and renovation of primary and secondary schools.

In sum, the fact that the VPF, via OPEN, provides such a clear picture of what has happened to these projects and programmes is an achievement in itself. However, the picture from the M&E reports is one in which many challenges remain. The reports, based on M&E records for 2008 indicate that although the implementation of VPF projects still face a number of challenges, there are palpable indications of a positive outcome especially in three sectors – education, health and water supply.

5.5.3 Outputs and intermediate outcomes of the VPF

In Annex 5, Table A5.6 gives a full overview of the activities financed from the VPF, ordered by MDG 1-7, and Table A5.7 does the same for the activities financed from the CGS.
Some of the quantitatively more important outputs of the VPF, including the CGS, include:

- 22,000 households benefited from Conditional Cash Transfer Programme COPE
- 900 rural electrification projects completed
- 5,200 microcredit cooperatives funded
- 300,000 teachers trained
- 74,000 new teachers recruited and trained
- 1,453 classroom constructed
- 126 million vaccines procured

- more than 3,000 PHC centers constructed
- 6,673 health workers trained
- 2.5 million malaria nets distributed
- 2,500 midwives engaged and deployed
- more than 36,000 water schemes built
- 1,423 toilets constructed

From these outputs and also from the data on allocation, it is clear that there has been a strong focus on improving primary health care and primary education, as well as on enlarging access to water and sanitation. All this can be expected to have had an impact on the relevant indicators. The outputs in the area of infrastructure development such as rural roads, electrification, agricultural storage facilities as well as the microcredit and social safety nets programmes (with the National Poverty Eradication Programme (NAPEP) - see Box 5.2 - can be expected to have an effect on income poverty, so MDG 1. But total allocations to these destinations (infrastructure + Social Safety Net, SSN) have been lower than to education, health and water and sanitation.

Box 5.2 *Success stories from NAPEP*

In spite of the observed low funding, NAPEP, the flagship SSN has also recorded some tangible outcomes of its 3 flagship project (KEKE NAPEP, COPE and VILLAGE SOLUTIONS (VS). Many community-based projects were designed and implemented in all states. Between 2008 and 2009, the ANCHOR projects of the VS has recorded 5,289 projects and capacity widening activities, creating over 5,000 jobs nationwide. The COPE has helped to retain over 100,000 children who would have dropped out of school due to poverty, and the micro-credit programme has mobilised over N13 billion through savings of the participants.

An effect on all MDG-outcomes can also be expected from the institutional changes induced by the VPF (supported by technical assistance from donors) on planning, budgeting, implementation, monitoring & evaluation systems of MDAs and of states and local governments. The VPF demonstrated ‘good practice’ in these areas impacted the way how MDAs and states plan, budget, and implement. The effect on the M&E systems of the MDAs and states has not yet been identified, but there may be an effect in the future. However, it is too early to expect these institutional changes to already have effects at outcome level.

We focus in this section on indicators for *access* to services as the more direct outcomes of possible increased and improved service delivery. The ultimate outcome indicators will be discussed in chapter 6. The trend in all available MDG indicators is listed in Annex 5, Table A5.8. However, even for the intermediate outcomes analysed here it is not always possible to establish a link with the VPF. The VPF itself has only been implemented since 2006, while indicators are only available up to 2008 and sometimes 2009, but the more recent ones are ‘preliminary’. It is even more difficult to show an effect of the VPF on income poverty (MDG 1), as the most recent income poverty data are from 2004.The Annex Table A5.8 includes some indicators for income poverty, but since the most recent income poverty data are from 2004 it is impossible (yet) to examine an eventual effect from social safety net, microcredit and rural infrastructure projects related to the VPF on income poverty.

Table 5.9 gives some indicators from the MDG 2010 report that can possibly be linked to the activities of the VPF, while Table 5.10 presents selected indicators from the Core Welfare Indicator Questionnaire (CWIQ) based on comparable surveys held in 2006 and 2008. Most indicators show an improvement. Primary enrolment increased between 2004 and 2008, and so did the ratio of girls to boys in primary education also increased (Table 5.9). This is probably mainly due to the Universal Basic Education promoted since the beginning of the decade and the accompanying grants from federal to state governments for this aim, but there will also have been some influence from the VPF.

The proportion of the population that has visited a health facility dramatically increased between 2006 and 2008. The proportion of children immunised also increased (both tables), as did the proportion of children sleeping under insecticides-treated bednets although the number is still low. However, access to pre-natal care decreased between 2006 and 2008 and the trend in the proportion of births attended by skilled health staff is erratic. It appears that the effects of the increased number of midwives trained and deployed are not yet visible in the 2008 figures. In the area of water and sanitation, the results are mixed. Access to water increased between 2006 and 2008, but access to a modern toilet facilities appears to have decreased. The latter also holds for access to electricity.

Table 5.9 Selected indicators for access to social services, in %, 2003-2009

	2003	2004	2005	2006	2007	2008	2009[1]
Primary enrolment		81	85	88	901	891	
Pupils starting grade 1 who reach grade 5	84	74	74	74	741	721	
Children under 1 fully immunised against measles	31	50	60			41	74
Births attended by skilled health staff	36	35	44	44	44	39	
Children under 5 sleeping under insecticides-treated bednet	2					6	11

[1] *Preliminary figures.*

Source: Government of the Federal Republic of Nigeria (2010), Nigeria MDG Report 2010.

Table 5.10 Change in some access indicators, in %, 2006-2008

CWIQ Indicators	2006	2008[1]	Comments
Access to potable water	51	54	Improvement
Use of modern toilet facility	58	40	Worsening
Access to electricity	55	46	Worsening
Pre-natal care	72	43	Worsening
Child immunisation	24	42	Improvement
Visited health facility in 2 weeks	55	80	Improvement

[1] *Preliminary figures.*

Source: NBS CWIQ Survey 2006 and 2008/2009.

In sum, debt relief savings were certainly targeted towards strategically important projects and programmes. The available access indicators show some effects on primary enrolment rates (partly due to changed policies before and in anticipation of the debt deal), on immunisation rates, on access to health facilities and to water. No effects are visible (yet) on access to prenatal and natal care and on access to sanitation.

5.6 Conclusions

This chapter has provided evidence for several outcomes of the debt relief deal. First, the external debt has become very sustainable while it would have been only marginally sustainable in the absence of the debt deal. The counterfactual debt sustainability ratios are strongly influenced by large increases in GDP, exports and government revenues. Improved debt management contributes to a good prospect for debt sustainability in the future. The recent increase in domestic debt, although the stock is still low, gives some reasons for concern.

Second, the improved macroeconomic policies (strongly influenced by the conditionality attached to the agreement, both before, by the prospect of debt reduction, and after), had some positive effect on macroeconomic stability, in particular on inflation. In addition, the accumulated savings on the excess crude account helped cushion the effects of the 2009 global crisis in Nigeria. The positive flow effect in 2009 in the form of debt relief savings also contributed to this result.

Third, the many policy reforms carried out and the clearing of the debt overhang improved Nigeria's creditworthiness as evidenced by the first sovereign rating ever for Nigeria by two rating agencies just after the debt deal. The combination of debt overhang elimination, policy reforms and the debt deal itself as signal for improved policies also helped increasing foreign direct investment inflows and portfolio capital inflows.

Fourth, the Virtual Poverty Fund has already produced some intermediate outcomes in the area of MDG achievement. The VPF projects and programmes were focused on critical areas for MDG achievement and they have shown improved completion rates over time. VPF spending has contributed to higher immunisation rates, increased use of primary health care facilities and increased access to potable water, among other achievements.

6

Conclusions and lessons learnt

6.1 Introduction

This chapter has several aims. First, it carries out the final step in the intervention logic of this evaluation, examining the *impact* of the debt relief agreement on economic growth and poverty reduction. Second, it assesses the sustainability of the outcomes of debt relief over the medium term (3-5 years). Third, it summarises the main findings and draws conclusions on the lessons learnt from this evaluation.

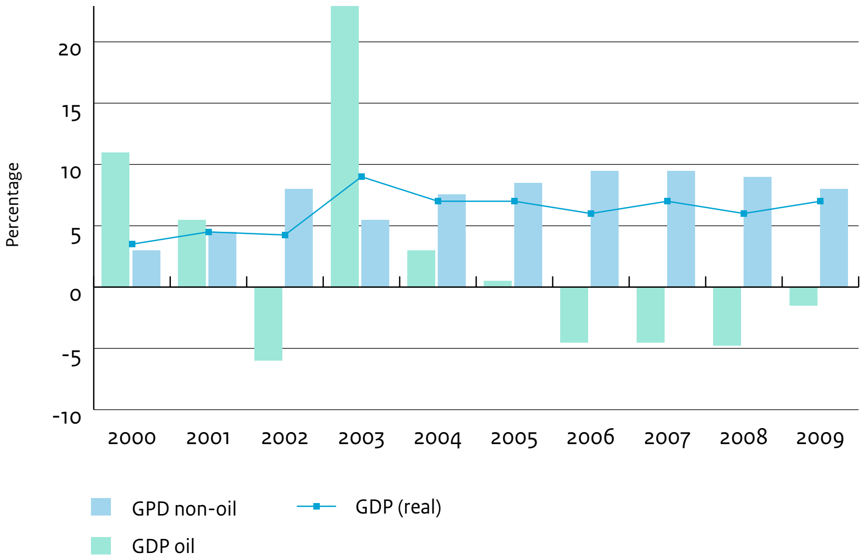
The theory behind the intervention logic of debt relief states that *if* outcomes of debt relief can be established, it can be concluded that there has been an influence on economic growth. The second possible impact is on poverty reduction. While chapter 5 (section 5.5) examined intermediate poverty indicators, in particular, access to social services, this chapter focuses on the ultimate outcomes, both income poverty outcomes and non income poverty outcomes related to literacy and infant and maternal mortality. The debt relief agreement may have a direct effect on these outcomes through better poverty reduction policies (as a result of conditions) or more spending for poverty reduction, in particular through the VPF; and it may have an indirect effect through economic growth.

Section 6.2 examines the impact on growth, while section 6.3 examines the direct and indirect impact on poverty reduction. Section 6.4 examines the sustainability of the outcomes of the debt relief. The final section summarises the main findings, compares them with findings of other studies, draws lessons on the appropriateness of the intervention logic and concludes on whether the financial resources invested in the debt deal by the donors/creditors and by the debtor have paid off.

6.2 Economic growth

Economic growth peaked in 2003 at around 10 per cent per year and then stayed at around 6-7 per cent continuously over the years 2004-2009 (Figure 6.1). In 2003, the high growth was driven by the oil sector, but since then the non-oil sectors were the main driving force. Since 2004 non-oil growth was higher than growth for the oil sector; the latter was sometimes even negative. This negative growth in the oil sector, despite a high and rising oil price until 2009, can be explained by decreasing oil production volumes. Within the non-oil economy, growth was especially high in agriculture and services (Table 6.1). Manufacturing growth was significantly lower and was negative in the years 2006-2008.

Figure 6.1 *GDP growth (oil and non-oil), in %, 2000-2009*



Source: CBN annual report 2009 (p. 246), 2007(p. 207), 2005 (p. 175).

Table 6.1 GDP growth per sector, in %, 2004-2008

	2004	2005	2006	2007	2008
Agriculture	6.5	7.1	7.4	7.2	6.5
Industry	4.2	1.7	-2.5	-2.2	-2.2
Services	8.8	8	9.2	9.9	10.5

Source: CBN.

To what extent can this growth be ascribed to the debt relief? According to the theory-based evaluation methodology, some of this growth can be ascribed to the debt deal if we can identify positive stock, flow or conditionality outcomes of the debt deal. We concluded in chapter 5 that there were several outcomes, and these outcomes can be related to economic growth.

The first outcome is improved macroeconomic stability mainly as a result of the conditionality, both implicit conditionality (in the anticipation of the deal) and explicit conditionality in the form of the PSI. The prudent fiscal policy helped accumulating savings in the excess crude account that were helpful in avoiding a bigger crisis-induced fall in the growth rate in 2009. Together with the small noticeable positive flow effect from the debt relief savings in 2009 these savings allowed for a stimulating fiscal policy. The lower public expenditure as a result of the debt relief conditionality also had a small but beneficial effect on inflation. In general, a lower inflation helps to restore confidence in markets and this is important for production and trade in general, and for agricultural production in particular. Several respondents confirmed that increased macroeconomic stability led to more land being cultivated, which was an important factor behind the high agricultural growth rate (see also below). The elimination of the debt overhang also eliminated an important cause for (future) fiscal instability and via this channel the debt relief agreement may also have contributed to economic growth.

The second relevant outcome is Nigeria's improved creditworthiness in the period 2006-2009. The improvement in the credit rating or, in fact, the first sovereign risk rating ever for Nigeria, can be partly attributed to improved policies (in turn partly a conditionality effect) and partly to the elimination of the debt overhang (the stock effect). The debt relief agreement itself is also seen as a signal to the private sector that Nigerian policies had improved. This improved creditworthiness and improved confidence in the economy has led to more inflows of foreign direct investment. It can be expected that the improved confidence in the economy has also led to increased private investment, but investment figures in Nigeria are not sufficiently reliable to conclude on this effect. Theoretically, the observed increase in FDI and the expected increase in investment as a result of the debt deal are expected to have led to a higher growth rate in the years 2004-2009.

A third outcome is the achieved high sustainability of external debt. This can be expected to be of some influence on economic growth. Improved debt sustainability is the result of the full elimination of the Paris Club debt and improved debt management, which can to a large extent be ascribed to the anticipation of the debt deal.

Fourth, the improved government policies in general, especially over the period 2003-2007, had some effect on economic growth. However, the exent to which improved policies led to increased economic growth is hard to establish. For example, we found some evidence for improved corruption and governance indicators which must have been related to the introduction of the due process, the activities of ICPC and EFCC, the NEITI, and so on. This is likely to have improved confidence in the government and in the economy.

Fifth, there is also a possible effect from the outputs of the VPF on economic growth. The VPF has improved access to credit for poor farmers, has contributed to rural infrastructure such as roads, power, and storage facilities, and has financed vocational training. These activities financed by the VPF will also have contributed to economic growth.

Although strictly speaking the flow effect of the debt relief agreement was negative and will only become positive in 2019, there is no evidence that the payment of the US$ 12 billion constrained imports or government expenditure. Therefore we conclude that the US$ 12 billion did not have a negative effect on economic growth. The payment of the US$ 12 billion was done from savings that had otherwise not come about and the use of these savings can be seen as an investment. In sum, we conclude that the debt deal has led to a *somewhat higher* growth rate in Nigeria. The two most important channels were the conditionality channel and the stock channel. The conditionality channel led to better policies both before and immediately after the debt relief agreement and to the establishment of the VPF; the stock channel brought about a highly sustainable external debt and the full elimination of the debt overhang.

6.3 Poverty reduction

To what extent had the debt deal an impact on poverty reduction? There are two possible channels for this impact: (1) a direct channel, via improved poverty reduction policies as a result of the deal, and via increased spending for poverty reduction via the VPF or otherwise, and (2) an indirect channel through economic growth. Both will be examined in this section.

6.3.1 Direct impact on poverty

Chapter 5 (section 5.5.3) examined to what extent improved poverty alleviation policies and increased spending, in particular through the VPF, had an impact on intermediate outcomes such as access to services in health, education and water and sanitation. The section concluded that access to primary education and primary health care, including vaccinations, improved between 2003 and 2008. This also held for access to water, but not for access to sanitation and to prenatal and natal care. We now examine whether this (partially) improved access to services translated in improved final outcomes. However, it is difficult to attribute eventual improvements in final outcomes to the debt deal, either via improved policies or via the VPF, because many other factors influence these indicators. In addition, the VPF has only been in existence since 2006 and the full impact of the activities funded by the VPF and of the institutional changes induced by the VPF cannot be visible yet on the available impact indicators. Considering the achieved intermediate outcomes, more final outcomes can be expected in the future.

Table 6.2 Selected MDG outcome indicators, in %, unless otherwise indicated, 2003-2009[1]

	2003	2004	2005	2006	2007	2008	2009
Population living on < $1 (PPP) per day		52					
Population below minimum level dietary consumption		35			34		33
Underweight children			30		25	23	
Pupils starting grade 1 who reach grade 5	84	74	74	74	74	72	
Primary 6 completion rate	82	82	69	68	68		
Literacy rate 15-24 year olds	60		76	80	81	80	
Infant mortality rate, (per 1000 live births)	100					75	

Table 6.2 Selected MDG outcome indicators, in %, unless otherwise indicated, 2003-2009[1]

U5 mortality rate, (per 1000 live births)	201					157	
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Maternal mortality rate (per 100,000 births)	800					545	
HIV prevalence among pregnant women 15-24	5		4			4	
Malaria prevalence (per 100,000)	1727	1157					

[1] For the three mortality rates this table only presents findings from the two Demographic and Health Surveys (DHS), held in 2003 and 2008, as figures for other years are not comparable.
Source: Government of the Federal Republic of Nigeria (2010), MDG 2010 Report.

The most recent income poverty data are from 2004, so it is not possible to assess the effect of the VPF. When new income poverty data are available,[126] we expect that this will illustrate an effect from the social safety net component (although this component is still small) and also from the improvements in rural infrastructure such as roads, electricity and storage facilities and from expanded access to (micro)credit. The proportion of the population below minimum dietary consumption appears to have decreased slightly between 2004 and 2009, as did the proportion of underweight children, which can be an effect of improved poverty reduction policies since the beginning of the decade, of economic growth and/or of the VPF.

As in many other countries, the increased enrollment appears to have been accompanied by lower completion rates up to grade 6 (Table 6.2). Nevertheless, the literacy rates among young adults are increasing. The improved immunisation rates and perhaps also the improved access to health care facilities and water due to the VPF may have been of influence on the reductions in infant and child mortality. But the reduced maternal mortality rates between 2003 and 2008 can hardly be the result (yet) of the VPF, as there was no increase in the proportion of births attended by skilled health staff (chapter 5). Yet there can be an effect from improved health policies since the beginning of the decade, which are also partially linked to the anticipation of the debt deal. The VPF funded activities in the area of HIV/AIDS awareness and prevention and the 2.5 million malarianets distributed cannot have influenced yet the reductions in the prevalence of malaria and HIV, as these reductions predate the VPF. But there can be an effect of improved policies earlier in the decade.

6.3.2 Indirect effects

Given the conclusion that the debt deal has led to a *somewhat higher* growth rate, it can be expected to also have an (indirect) effect on income poverty reduction. This indirect effect depends on (a) the type of growth: whether growth is employment intensive and whether growth is dominated by sectors in which many poor people are employed, and (b) the existing income inequality in the country: the higher the income inequality the lower the impact of growth on poverty reduction. We examine these two issues in turn.

[126] Expected in 2011.

A World Bank study of employment and growth in Nigeria finds that between 1999 and 2004, the share of wage employment decreased from 15 per cent to 10 per cent and remained at this low level in 2006. At the same time, the share of family agriculture increased from 31 per cent in 1999 to 37 per cent in 2004 and 38 per cent in 2006 (World Bank, 2009). The share of the population outside the labour force - in fact, the unemployed - remained at about 25 per cent. The share of the young population (ages 15-25) outside the labour force is even larger and also increased in the period 1999-2006: from 31 to 38 per cent in urban areas, while decreasing from 48 to 45 per cent in rural areas. This means that economic growth in the period 1999-2006 has *not* been accompanied by an increase in formal sector jobs. Employment contracted in particular from the public sector, including parastatals and public companies. More recent figures from the CWIQ, with another definition of 'unemployment', show that formal unemployment increased from 12 per cent in 2006 to 15 per cent in 2008.

Growth has been high in agriculture and in services; and low or even negative in industry (Table 6.1). The above data on trend in the labour force imply that agricultural growth was accompanied by employment growth in the sector, at least until 2006. Figures from the Central Bank of Nigeria show that agricultural growth was accompanied by huge increases of the area planted, especially for food crops (staples) but also in other crops.[127] In addition, most agricultural prices increased as well. Another finding of the World Bank study is that incomes in family agriculture have risen more than in other types of employment between 1999 and 2006 (Table 6.3). Agricultural incomes increased, in particular, between 1994 and 2004. Although we do not know what happened to agricultural incomes after 2006, we do know that poverty is highly correlated with a rural occupation, among other factors.[128] The high agricultural growth rate also after 2006 suggests that there has been some decrease in the poverty incidence.

Table 6.3 Mean earnings by employment type, 1999-2006 (weighted), in constant Naira, and growth of mean incomes, in %, 1999-2004, 2004-2006, 1999-2006

	1999 (Naira)	2004 (Naira)	2006 (Naira)	Growth (%) 99-04	Growth (%) 04-06	Growth (%) 99-06
Family agriculture	4573	8219	8551	80	4	87
Self-employed non-agriculture	6065	9174	9049	51	-1	49
Wage job	9924	16437	12362	66	-25	25
Total	**5785**	**9739**	**9427**	**68**	**-3**	**63**

Source: Elaboration of data in World Bank (2009), p. 12.

The effects of growth on income poverty reduction also depend on the existing income inequality in the country, the second issue mentioned above. We analyse existing poverty assessments for the country and research findings on socio-economic responses to changing micro and macro situations in order to deduce possible poverty impacts of growth.

127 Between 2005 and 2008, the area planted in staples quadrupled, while the area planted for other crops almost tripled (CBN Annual Report 2008).

128 Household size, especially number of infants and children, access to land, and geographic location (North and South South), see World Bank (2007).

Income inequality in Nigeria is high, but it has been decreasing over time. The World Bank estimated in its Nigeria Poverty Assessment (2007) an inequality coefficient of 44.3 for the country in 2007. This means that it has decreased from 53 in 1996 via 49 in 2004 (Table 6.4). With such a decreasing trend, it can be assumed that economic growth has been pro-poor, and has led to a decrease in the poverty incidence. If we look at the figures by zone or region, there are large differences to be noted.

In general, inequality in Nigeria has both regional and gender dimensions. Severe gender inequalities have been established in education, property rights, assets, earnings and decision-making (Aigbokhan, 1999, Aromolaran 1998, NISER and ODG 2009). Inequality also has a strong spatial dimension, especially between rural and urban areas and between north and south (Table 6.4). For instance, while household expenditure of the top 10 per cent is 16 times higher than that of the 10 per cent households with the lowest expenditure on average, in rural areas it is 18 times higher. The rural areas have the highest poverty incidence and also a slightly higher inequality than the urban areas. Poverty incidence is a lot higher in the North than in the South. However, the North has lower levels of inequality, and between 2004 and 2007, poverty decreased in the three Northern regions. In the South, inequality is higher but the poverty incidence is lower. The poverty incidence decreased in South West, but not in in South South or South East. This may be related to the violence in these regions.

Table 6.4 Inequality (Gini coefficient, 1996-2004) and Poverty Incidence (2004-2007), by region

Zones	Gini Coefficient 1996*	Gini Coefficient 2004**	Poverty incidence 2004**	Poverty Incidence 2007***
North East	0.47	0.46	72.2	67.3
North West	0.30	0.37	71.2	63.9
North Central	0.53	0.39	66.9	63.3
South East	0.55	0.45	26.7	34.2
South West	0.57	0.55	43.0	20.9 (Oyo state)
South South	0.60	0.51	35.1	59.3
National	0.53	0.49	54.4	54.7
Male	0.52	-	-	-
Female	0.55	-	-	-
Rural	-	0.51	63.3	63.8
Urban	-	0.54	43.2	43.1

*Source: * Computed from Aigbokhan (2000), 'Poverty, Growth and Inequity in Nigeria – A Case Study'. AERC. Research Paper 102. **Akande et al (2009), 'Impacts of price change on poverty: The Nigerian Experience'. NISER. ***World Bank (2007), Nigeria Poverty Assessment (based on 2004 survey).*

6.3.3 Conclusions
A combination of improved poverty alleviation policies since the beginning of the decade, partly as a result of the anticipation of debt reduction, and the VPF that was established with the debt deal have contributed to improvements in some non income poverty indicators, such as literacy rates, infant mortality rates and maternal mortality rates. Income poverty data assessing the period after the debt deal are not available yet. The outputs of the VPF, and also the institutional changes induced by the VPF, are likely to have an effect on both income and non poverty outcome and impact indicators in the future.

With respect to the indirect effects on poverty reduction via economic growth, it is clear that growth in the recent past has not been accompanied by increases in formal employment. At the same time, the high agricultural growth rate suggests that there has been some poverty reduction. Available regional figures show that between 2004 and 2007, income poverty decreased in the North and in the South West of the country but not in South South and South East. The recent reduction of violence in the South as a result of the amnesty announced early 2009 may imply that growth will now also be accompanied by some poverty reduction in the South. In sum, and given the conclusion that growth was somewhat enhanced by debt relief, the debt relief also contributed to some income poverty reduction in Nigeria.

6.4 Sustainability of outputs, outcomes and impact

This section analyses the sustainability of the outcomes and impact over the medium term (three to five years). As the impact in terms of both economic growth and poverty reduction depends on outcomes, we analyse the sustainability of the outcomes.

The sustainability of outcomes is different across each outcome. As shown in chapter 4, the effect of the conditionality on macroeconomic and other general policies is gradually waning, although some of the achievements have been resilient. In the area of combating corruption, for example, the established institutions such as the EFCC and the ICPC are well established, but the effectiveness of their activities depends on the political situation. Available corruption indicators indicate a slight deterioration in 2008 and 2009, but this deterioration does not seem to imply a return to the low levels of before 2004-2005.

The oil price based fiscal rule, established in the context of the reform package in anticipation of the debt deal, has also proved to have some resilience, although in recent years the implementation has been much less prudent. While the use of the excess crude account in 2009 was justified to stabilise expenditure in the face of falling revenues, this is much less the case in 2010. The authorities are currently planning for a redesign of the excess crude account into a Sovereign Wealth Fund, which points to the intention to maintain the basic principle of this reform.

The VPF, as a clear effect of the conditionality, is still in operation and the flow of funds budgeted for the VPF has been maintained in real terms - although at a level of three-quarters of the originally envisaged amount - and actual spending as share of the budgeted resources increased over time. Yet, its importance has decreased relative to total capital expenditure. Through the CGS the VPF has mobilised additional funds for MDG spending through the co-financing procedure. However, the extent to which these funds are really additional is not known. The VPF, as earmarked funds for MDG spending and as driving force for institutional innovations, may be sustainable because the OSSAP-MDG has managed to create vested interests among a broad group of stakeholders: state and local governments through the CGS, members of parliament, and civil society. There is already evidence of positive institutional changes in other MDAs and in state governments, promoted by the VPF, and more such changes in all three government tiers could become visible over time. This will lead to a greater achievement of the MDGs in the future.

The debt relief agreement has made the external debt much more sustainable and the public debt situation is still favourable. The improvements in debt management at federal level certainly contributed to this result, and these improvements are sustainable. It can be expected that debt management capacities in the country will further improve in the future, especially at state level where there is still much room for improvements. However, the swift rise in domestic (federal) public debt after 2008 gives some reason for concern and, if continued, may affect the sustainability of the total public debt in the future.

The flow effect of the deal was negative, but this has not hampered growth. Furthermore, the stock effect was positive. The deal eliminated the debt overhang that reinforced the volatility of the economy which in the past had a negative effect on economic growth. The positive effects of less volatility will certainly be sustained over the next three to five years. So far, improved policies and the elimination of the debt overhang contributed to rising FDI inflows. A similar effect on investment can be expected, but available figures do not allow us to verify this. This positive effect on foreign capital inflows and on investment can be expected to be sustainable in the next years, but it is of course also dependent on other factors such as macroeconomic stability, political stability and the absence of violence. In general, the sustainability of the results of the debt deal depends on the extent to which overall stability in the country can be maintained.

6.5 Main findings and lessons learnt

This section summarises the main findings of this evaluation, and aims to answer the key question whether the donors and creditors did the right thing in dedicating around US$ 18 billion to debt relief for Nigeria, and whether Nigeria was right in using US$ 12 billion of its reserves to pay the creditors. The first section summarises the main findings, and in 6.5.2. these findings are briefly compared with the findings in other debt relief studies. The final section reflects on the appropriateness of the intervention logic and answers the overall question.

6.5.1 Main findings

We concluded that the debt relief to Nigeria had a modestly positive effect on economic growth. The latter conclusion follows from our evaluation methodology, which links inputs via outputs to outcomes, and uses theory for the final step from outcomes to impact. The theory holds that if debt relief is to have a positive effect on economic growth, it is through the stock, the flow and/or the conditionality channels. If in any of the three channels an outcome can be established, there is an impact on economic growth.

In Nigeria the flow effect was strictly speaking negative but in the circumstances of Nigeria (high and increasing oil income and oil-based revenues) there was no negative effect on growth. The conditionality channel proved to be quite effective. Most of the impact of the debt deal occurred prior to the debt deal: the fact that major creditors (UK and US) told Nigeria to implement reforms in order for debt reductions to be considered provided the leverage for reforms especially from 2003 onwards. The PSI programme carried out between 2005 and 2007 also had some influence, especially on maintaining specific macroeconomic targets at clear timetables and on the timeliness of implementation of other policies. All this led to lower inflation, and to more stable fiscal policies at least up to 2009 which, for example, helped to cushion the effect of the global economic crisis.

Overviewing the reforms in Nigeria since the early 2000s, we conclude that (the (anticipation of) the debt deal provoked change in policies and institutions, and proved instrumental in breaking the political deadlock that had so long prevented economic growth in the country from taking off. This also holds for poverty reduction policies: the anticipation of the debt deal contributed to the fact that for the first time some serious efforts have been undertaken to tackle poverty and this has culminated in 2006 in the establishment of the VPF, fully the result of debt relief conditionality.

The Virtual Poverty Fund implies the allocation of around US$ 750 million of mostly additional annual spending for the MDGs. The budgeted VPF increased over time and from 2008 onwards complementing co-financing funds have been mobilised at the other government tiers. The VPF has allocated resources to critical areas for MDG achievement, and, with increasing completion rates of its projects and programmes over time, has already produced many tangible outputs. Results have already been established at intermediate outcome level, for example in increased access to vaccinations, to primary education, water, and health care services. The VPF has also introduced new and better procedures for planning, implementing and monitoring and evaluation for MDG expenditure. To some extent these innovations have already been taken over by MDAs and states, and this may further expand in the coming years. These institutional reforms will make poverty reduction policies of the Nigerian government more effective, and will lead to higher achievements of the MDGs over the longer term.

The stock channel, finally, was important as Nigeria's debt overhang was completely eliminated. Together with the improved policies this has been shown to have an effect on FDI inflows, and it can be expected to also have had an effect on private investment. The external debt has become very sustainable and the prospects for future sustainability are good, which is also due to strongly improved debt management in the country - also to a large extent the effect of the anticipation of debt reduction.

We also conclude that there are secondary effects of the debt deal. First, available evidence suggests that the higher economic growth, partly attributable to the debt deal, also led to some income poverty reduction (section 6.3.2). Second, the improved poverty reduction policies from the beginning of the decade - partly induced by the anticipation of the debt deal - and the financial and institutional outputs of the VPF, will not only bring progress on the MDGs, but this progress itself will also stimulate economic growth in the future.

6.5.2 Nigeria in perspective

The results of this Nigeria study are more positive than those of most other studies and evaluations of debt relief. In the past, debt relief was often too little and was provided in the wrong modalities, and the conditionality attached to debt relief was not effective and even led to adverse selection (Dijkstra, 2008). It has also proven difficult to establish positive results on growth and poverty reduction via recent econometric evidence (Depetris and Kraay, 2005; Johansson, 2010).

One reason for the more positive results for Nigeria is that the full Paris Club debt stock was cleared and the country could make a fresh start. Another reason is that the conditionality effect of the 2005 debt relief agreement was much stronger than that of debt relief agreements in many other countries. Like many other countries, Nigeria had a history of IMF programmes put in place in order to get access to Paris Club rescheduling. However, ownership of these programmes in Nigeria was weak and programmes often ran 'off track' quickly. This changed after 2000. Representatives of two important creditors, the UK and the US, promised to consider substantial debt reduction to Nigeria if the country would carry out substantial reforms. President Obasanjo was motivated to achieve a substantial debt relief agreement, and especially during his second term, he took ownership of the implementation of good macroeconomic policies and other reforms. These were exceptional circumstances but at the same time they show that conditionality ex post, or selectivity, may be more effective than conditionality ex ante, or the promises to implement good policies (Dijkstra, 2002). In Nigeria, the effect of the conditionality of the agreement itself was weaker than the effect of the 'carrot', but there was still a positive influence on the achievement of macroeconomic targets and in the establishment of the VPF.

6.5.3 Lessons learnt

This study confirms the validity and appropriateness of the intervention theory of debt relief. Debt relief can support economic growth and poverty reduction.Yet, initially the debt relief operation was largely politically motivated; Nigeria saw the debt as politically unsustainable and the - main - creditors granted debt relief for strategic and geopolitical interests, including oil interests.

Finally, the question must be answered whether these positive findings justify the use of around US$ 18 billion in aid money and the use of US$ 12 billion of Nigerian resources. We think they do. The investment is substantial, but the potential benefits are also huge: Nigeria is a large country with a large population of which more than half was still below the poverty line in 2004. The debt deal not only removed Nigeria's debt overhang but also improved government policies, including poverty reduction policies. Even if not all of these policy changes can be sustained, there are already positive effects on the welfare of about 150 million people in Sub-Sahara Africa.

In addition to the benefits for Nigeria from a development perspective, the creditors also gained. First, eliminating Nigeria's full debt to the Paris Club helped to re-establish trade and investment relationships for the private sector of the creditor countries. Second, the creditors received a large amount of money in debt repayments - an amount that they would not have received easily any time soon. Third, it can be expected that strategic interests have also been served by the debt deal.

From the perspective of Nigeria, the spending of the US$ 12 billion can be seen as an investment for achieving a fresh start in the relation with its creditors and with the private sector in the creditor countries. Nigeria also got rid of a debt service that not only would continue to drag on available resources, with particular harmful effects in years with lower oil revenues, but that would also have continued to provoke domestic debate. In addition, there are also undisputed positive effects on debt management, debt sustainability, and poverty reduction policies especially via the funding and institutional contributions of the VPF.

Annex 1

Terms of Reference
Joint Evaluation Debt Relief Nigeria

1. Background

In 2008, the Policy and Operations Evaluation Department (IOB) of the Netherlands Ministry of Foreign Affairs published '*The Netherlands' Africa Policy 1998- 2006. Evaluation of bilateral cooperation*'.[1] Total Dutch bilateral aid to countries in Sub-Saharan Africa in the 1998 – 2006 period amounted to € 5.8 billion. € 1.1 billion of this was debt cancellation, 90% in the form of export credits (€ 1 billion). Two countries were the major beneficiaries of the debt cancellation, the Democratic Republic of Congo (DRC) and Nigeria. IOB's evaluative conclusion that it was unclear whether the poor in Nigeria or the DRC had benefited from the debt cancellation led to the recommendation to conduct an evaluation of the process and results of export credit debt cancellation for the two countries.[2] In a parliamentary session, the Minister for Development Cooperation supported this idea.[3]

The Special Evaluator of the Special Evaluation Office of International Cooperation of the Belgian Federal Public Service Foreign Affairs, Foreign Trade and Development Cooperation was from the outset very interested in joining an evaluation of the debt relief transactions in both countries, also in view of an ongoing evaluation of the Belgian debt relief policy. In the middle of the present decade, the share of debt relief in Belgium's net ODA was high, varying between 25% and nearly 50 %, mainly as a result of considerable debt relief to the Democratic Republic of Congo, Iraq and Nigeria. At a meeting of the OECD/DAC Network on Development Evaluation (November 2008), the evaluation plans were on the agenda with the IOB willing to lead a joint evaluation of the debt relief to the DRC and Nigeria.

In June 2009 the Director General for International Cooperation (DGIS) at the Dutch foreign ministry sent a letter to her English, German and French colleagues inviting them to take part in a joint evaluation. The UK Department for International Development (DFID) and the French Ministry of Finance both responded positively to the invitation but eventually concluded that, due to previously programmed evaluations, they would be unable to play an active part in a joint evaluation.

In September 2009 the Belgian and Dutch evaluation services decided to begin concrete preparations for the joint evaluation of debt relief in the two countries. Approach papers outlining the evaluation set-up were written and sent for comments to Abuja (Nigeria) and Kinshasa (DRC). In December 2009 a combined Belgian-Dutch preparatory mission travelled to Kinshasa to collect reactions to the Approach Paper. In January 2010 a similar mission went to Abuja for the same purpose. In both capitals the preparatory mission met with key people involved in the preparation and follow-up to the debt relief deal – government officials and representatives of the donor community and civil society organisations. Without exception they supported the joint evaluation plans and gave positive and constructive comments and suggestions.

1 IOB, 'The Netherlands' Africa Policy 1998–2006. Evaluation of Bilateral Cooperation' (2008).
2 IOB, 'The Netherlands' Africa Policy 1998–2006. Evaluation of Bilateral Cooperation' (2008), pp. 105 and 122.
3 Proceedings Parliament, Lower House, General Consultation October 22, 2008.

The above resulted in separate terms of reference for each evaluation. Though the nature of the two interventions is similar, the country-specific characteristics necessitate distinct terms of reference.[4] The present terms of reference apply to the joint evaluation of the 2005 debt relief transaction benefiting the Federal Republic of Nigeria.

The 2005 Debt Relief Agreement

Nigeria's 'sovereign debt'[5] at the end of 2004 was US$ 35.9 billion, US$ 30.8 billion of which was due to members of the Paris Club;[6] multilateral debts amounted to US$ 2.8 billion and commercial debts to US$ 2.2 billion.[7] The US$ 35.9 billion external debt represented roughly 50% of Nigeria's GDP and grew each year, as Nigeria was not servicing the debt it owed to the Paris Club creditors, thus incurring penalties. In practice Nigeria was only paying about US$ 1 billion of the average of US$ 2.1 billion due annually.

In October 2005 the representatives of the Paris Club creditor countries agreed on a comprehensive debt deal with the representatives of the Federal Republic of Nigeria. Under this arrangement, Nigeria first paid US$ 6 billion in arrears. This paved the way for the Paris Club creditors to cancel some US$ 18 billion of Nigeria's debt ('Naples terms'). Nigeria bought the remaining debt at a 25% discount and eventually paid US$ 6 billion for it ('debt buy-back'). In short, Nigeria was granted a debt cancellation of US$ 18.4 billion and paid its Paris Club creditors an amount of US$ 12.4 billion.

Fifteen members of the Paris Club participated in the decision: Austria, Belgium, Brazil, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, the Russian Federation, Spain, Switzerland, the UK and the USA. Eight countries bore the brunt (95%) of the debt cancellation: the UK, France, Germany, Japan, Italy, the Netherlands, the USA and Belgium. The combined share of Belgium and the Netherlands in the debt cancellation totalled some US$ 1 billion.

4 Although there are similarities between the two debt relief transactions, they are two very different and separate cases. The DRC is an HIPC country that, in accordance with the HIPC rules, was granted partial debt relief (cancellation) after reaching the 'decision point'. The remainder of its debts will be cancelled when it reaches the 'completion point' (probably sometime in 2010). The debt relief for Nigeria had a completely different basis and was implemented in a relatively short time after agreement was reached in 2005.

5 Nigeria's 'sovereign debt' consisted of official bilateral and multilateral debt and government-guaranteed private debts. The debt relief with Nigeria concerned cancellation of 'sovereign debt'.

6 The Paris Club was formed in 1956. The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. Decisions are made on basis of consensus. As debtor countries undertake reforms to stabilise and restore their macroeconomic and financial situation, Paris Club creditors provide an appropriate debt treatment. Paris Club creditors provide debt treatments to debtor countries in the form of rescheduling, which is debt relief by postponement or, in the case of concessional rescheduling, reduction in debt service obligations during a defined period (flow treatment) or as of a set date (stock treatment). Source: http://www.clubdeparis.org/

7 Debt Management Office of Nigeria (DMO).

Nigeria was (and still is) not an HIPC country.[8] The Paris Club's relief of Nigeria's sovereign debt is one of the most comprehensive ever. Nigeria accepted a number of conditionalities linked to the debt cancellation agreement, covering areas such as economic and public sector reforms, poverty alleviation and anti-corruption measures.[9] One of the accompanying conditions was the creation of a Virtual Poverty Fund (VPF) to finance expenditures in the social sectors. The fund would be financed by Nigeria from the savings made possible by the debt relief, and monitored by the IMF.[10] Since the non-serviced debt amounted to US$ 1.1 billion per year (see above), the amount of US$ 1 billion (rounded figure) was considered the debt relief gains, and consequently constituted the size of the Virtual Poverty Fund.

Background to the 2005 Debt Relief Agreement

In May 1999, democratically elected Olusugun Obasanjo was sworn in as Nigeria's new president, after more than 15 years of military rule. He inherited ineffective and inefficient institutions, a catastrophic mismanagement of the country's vast natural resources, and a in many ways divided society. President Obasanjo was re-elected in 2003 and with assistance of competent ministers among whom Finance Minister Ngozi Okonjo-Iweala, a former World Bank Director, he pursued a macroeconomic reform agenda which to a great extent was based on the National Economic Empowerment and Development Strategy (NEEDS). Finance Minister Okonjo-Iweala soon began negotiations with the Paris Club in a desire to finally get rid of the country's huge debt. Meanwhile relations between Nigeria and the IMF were improving.

In July 2005 the G-8 met in Gleneagles for its annual summit. Noteworthy, the G8 leaders agreed to double aid for Africa by 2010 and welcomed the Paris Club decision to write off around $ 17 billion of Nigeria's debt.[11]

Later that year, 2005, the Paris Club creditors and the Federal Government of Nigeria formally agreed to a comprehensice debt deal whereby in the end the creditors wrote off US $ 18 billion of Nigeria's debt in exchange for payment of the remainder US $ 12 billion by Nigeria. One of the largest debt cancellations ever decided by the Paris Club thus became a historic fact.

Besides the foregoing, the unusual characteristics of the country itself – beyond the facts that Nigeria is the most populated country in Africa and has the continent's second largest

8 The HIPC (Highly Indebted Poor Countries) Initiative was launched in 1996 and was followed by the Enhanced HIPC Initiative in 1999. Countries qualify for debt relief under the HIPC Initiative on the basis of a Debt Sustainability Analysis, a track record of policy implementation, and the progress made with elaborating a Poverty Reduction Strategy Paper (PRSP). Since Nigeria was not a HIPC country it did not have a PRSP.

9 The conditions were laid down in an agreement between the IMF and Nigeria ('Policy Support Instrument', 2005).

10 A number of the indicators in the Policy Support Instrument (IMF, 2005) related to the VPF.

11 Friday 8 July 2005, Gleneagles 2005: Chairman's Summary, see: http://www.number10.gov.uk/archive/2005/07/gleneagles-2005-chairmans-summary-7883

economy – warrant a cautious approach when evaluating the present debt relief deal. The following section merely illustrates some of the country's particulars and special circumstances and clearly indicates that the present evaluation may be more problematic than other evaluations of this type of intervention.

2 The Federal Republic of Nigeria

The population

Nigeria is Africa's most populated country. Its population is estimated at over 150 million people (2010). The Nigerian population thus accounts for nearly 50% of West Africa's population.

Each of the country's 250 ethnic groups has their own language, with many dialects within each group. In all, over 500 languages are spoken in the country. English is the official language; three other languages are accepted in government: Igbo, Hausa and Yoruba, and ten are broadcast on radio and television.

The country's four largest ethnic groups are the Hausa, Yoruba, Igbo (also refered to as Ibo), and the Fulani. They are also the most influential in political terms although, understandably, this situation is disputed.

The Hausa (over 20% of the population) live in northern Nigeria (as well as southern Niger). Islam is the dominant Hausa religion, and several of the northern states have adopted 'Sharia law'. Frequent and violent clashes occur between Muslims and Christians. The term 'Hausa' refers to a common language rather than a homogeneous ethnic group. The same applies to the Yoruba (over 20 % of the population) who live in the southwest of the country (and parts of the Benin Republic). Nigeria's largest cities - Lagos, Ibadan and Abeokuta - are in 'Yorubaland'. Christianity is the dominant Yoruba religion, as it is for the Igbo, who live in the southeast and also consist of smaller ethnic groups (together accounting for more than 20% of the population). The predominantly Muslim Fulani (known in French-speaking Africa as 'Peulh') live throughout West Africa, from Senegal in the west to Cameroon in the east, including in Nigeria where they mainly live in the north and account for over 10% of the population.

Half of the Nigerian population lives in cities. At least ten cities have a population of one million or more, among them two of the largest cities in Africa: Lagos (15 – 18 million) and Kano (approx. 10 million). In general, the country's population is unevenly spread across the country.

The economy and the public sector

Nigeria is an oil-rich country and the sixth largest producer in OPEC. The country is also well endowed with other natural resources such as natural gas, coal, gold, gemstones, tantalite and uranium. The Nigerian economy is the second largest in Sub-Saharan Africa, after South Africa, and it accounts for over 40% of West Africa's GDP. Economic growth was an annual

6% in the 2006-2008 period (real GDP at factor costs).[12] In 2012 the Nigerian economy may surpass the South African economy, in terms of GDP.

Oil revenues represent some 30% of GDP and accounted for between 70% and 90% of overall government revenues in the present decade (rounded figures). Government expenditures are broadly divided into recurrent and capital expenditures. The recurrent component in the past accounted for at least 70%.[13] In 2008[14] total revenue amounted to Naira 8,063 billion of which Naira 6,535 billion was oil revenue and Naira 1,529 billion was non-oil revenue (Consolidated Government). Total expenditures in the same year were Naira 7,159 billion (Consolidated Government). From this amount the federal government spent Naira 2,625 billion and state and local governments Naira 3,529 billion.[15]

Other interesting macroeconomic indicators are the value of exports (US$ 84 billion, of which US$ 82 billion oil and gas exports) and imports (US$ 37 billion, of which US$ 8 billion oil and gas imports). Significantly, Nigeria's external debt as of the end of 2008 stood at US$ 4.5 billion or 2.2% of GDP.[16]

GDP at market prices amounted to US$ 207 billion in 2008. Per capita GDP fluctuates between US$ 1300 and 1400. However, this average conceals the extraordinarily uneven distribution of income, with a very large proportion of the population living on one or two dollars a day. Although the armed conflict in the oil-rich Delta Region has more than one cause, certainly the poverty and the hopeless perspectives of the destitute population are among its main ones.

Poverty

Despite being a rich country, well endowed with natural resources, the majority of the people live in poor circumstances. In 2007, Nigeria's overall HDI ranking (Human Development Index), and for life expectancy at birth (47.7 years), was a mere 158th place.[17] MDG indicators (Millennium Development Goals) do not reflect the country's potential, with child mortality and maternal health indicators notably deteriorating in recent years.[18]

Corruption

The contrast between the nation's wealth and the poverty of its population is often attributed to the widespread corruption in the country, which, for many years, resulted in

12 IMF, Staff report for the 2009 Article IV Consultation, September 24, 2009, p.28
13 Professor Ode Ojowu, 'Overview of Public Budgets/Expenditure Patterns and NEEDS/SEEDS Priorities (2004-2007)', Public Finance Watch, Policy paper 1, a publication of the Centre for Democracy and development (November 207), pp. 6-8.
14 In 2008 the exchange rate was Naira 115 - 120 for US$ 1.
15 IMF, Staff report for the 2009 Article IV Consultation, September 24, 2009.
16 Ibid.
17 UNDP, Human Development Report 2009.
18 Office of the Senior Special Assistant to the President on Millenium Development Goals, OSSAP/MDGs, "Highlights of Nigeria's status on MDGs indicators from mid-term evaluation', in: 'The State Tours', p. 7 (no publication year) and IMF, Staff report for the 2009 Article IV Consultation, p. 36, Table 6 'Nigeria: Millenium Development Goals – Status at a Glance'(2009).

Nigeria being one of the most corrupt countries in the Transparency International Corruption Perception Index (CPI).[19] This situation explains why the inclusion of anti-corruption measures was one of the conditionalities which accompanied the 2005 debt deal.

Political and administrative structure

The Federal Republic of Nigeria consists of 36 states and the Federal Capital Territory of Abuja. Several states have populations and GDPs greater than those of some African countries. The great differences between the states result in tension at several levels and a precarious political balance. There is tension both between states themselves, and between the states and the federal government. Some interrelated areas of dispute concern the budgetary powers of the state versus those of the federal government, the division of the states' revenues, the discretionary powers to contract loans, and the responsibility of debt management, to name just a few.

The unrestricted power and authority of states and state governors in the past to contract foreign loans was undisputedly one of the main factors underlying Nigeria's debt problem, causing it to seek a debt relief arrangement with its foreign creditors.

Among the key institutions nowadays operating in the area of public finance, debt and debt management are the Federal Ministry of Finance, including the Debt Management Office, and the Central Bank of Nigeria. Furthermore, the National Planning Commission, the Fiscal Responsibility Commission, the Nigerian Investment Promotion Committee and the Infrastructure Concession Regulatory Commission play important roles. The fight against corruption is being led by the Economic and Financial Crimes Commission and the Independent Corrupt Practices and other related Offences Commission. Last but not least, whereas the broader mandate for the monitoring of the fight against poverty lies with the National Planning Commission, the Office of the Senior Special Assistant to the President on MDGs has a more limited and specific mandate to support the National Planning Commission in the coordination of efforts towards achieving the MDGs.

3 Aim of the evaluation and the questions to be addressed

3.1 Aim of the evaluation

The two main aims of the evaluation are: 1) to learn lessons from the experience and 2) to account for the spending of a hitherto unspecified amount of ODA[20] and the payment of US$ 12 billion to its Paris Club creditors by Nigeria.

It is important to note that the debt relief agreement has not been evaluated before.

[19] Transparency International, 'National Integrity Systems. Country Study Report, Nigeria 2004'.

[20] Broadly speaking, the cancelled sovereign debt originated from exportcredit insurance agencies (ECAs) and from previously granted official loans to Nigeria. Since the latter category had already been reported as Offical Development Assistance (ODA), it is not allowed to report the cancellation of this category debt for a second time as ODA. Study of documents, files and archives will provide more insight in the exact amounts of each of these two categories.

3.2 The main questions

3.2.1 Synopsis of reasoning

The main evaluation questions are based on a basic line of reasoning covering the relations between inputs and outputs (= *efficiency*), output and outcomes (= *effectiveness*) and outcomes and impact (= *relevance*). In an elaborated form the Evaluation Matrix shows the details (Figure 1).

In this scheme, the inputs are funds & policy dialogue and/or conditionalities; outputs refer to the reduction of the debt, the materialisation of a poverty fund, anti-corruption measures, and macroeconomic and public sector reforms, and focus the question: 'Was it realised?', whereas the outcomes answer the question: 'And did it work?', 'What are the results: less poverty, less corruption, more investments, improved public finance management?'[21]

After all, it is interesting to know whether the outcomes - or impact if we manage to measure this - are sustainable.

The dual aim of the evaluation explain the inclusion of a main evaluation question with respect to the lessons drawn from the experience.

3.2.2 Efficiency, effectiveness and relevance

Efficiency
To gain an insight into the efficiency of the debt relief, it is not sufficient solely to determine the scale of expenditure on the transaction, but also to investigate the forms and modalities employed. In addition, the conditions imposed on the beneficiaries are important, as is the process of preparation, decision-making and implementation of the debt relief activities.

This should all be compared with the direct results, especially the reduction of the debt burden, the debt stocks, and changes in public expenditure and the balance of payments on the current account. In addition, the evaluation will have to investigate the extent to which the conditions imposed have been complied with and what role they played in achieving the set aims.

The efficiency question also includes the *counterfactual*. Given the lack of agreement on a definition of '*counterfactual*', the evaluation team will be invited to address this issue in its Inception Report. In a general way, the counterfactual is considered to be the imaginary situation without the debt relief including the policy conditions. In this context also the related issue of additionality will be addressed: whether the amounts of debt cancelled and reported as ODA were additional to ODA flows to Nigeria of the Paris Club creditors involved in the debt deal. The latter question wil be investigated using DAC-statistics on ODA performance of DAC-members.

[21] This list of questions and issues is not meant to be exhaustive. See the Evaluation Matrix for further details.

Effectiveness
Debt relief is provided with the objective of achieving more or less clearly specified results. The most obvious of these aims is to make a country's debt burden, which has generally become unbearable, more sustainable. This is achieved by improving the relationship between debt servicing and exports, and between the country's total debt and its gross national product (GNP). In addition, reducing debt stocks means that a reduction in 'debt overhang'[22] can promote investment and increase international creditworthiness (and thereby the influx of private capital).

The deployment of ODA funds is justified by the objective of development cooperation: poverty reduction. The question on effective debt relief thus also focuses on the outcomes or impact at micro-level, i.e. on households and businesses.

Relevance
Relevance refers to the extent to which inputs, via outputs and outcomes, contribute to impact. The relevance issue also includes the answer to the question whether the policy pursued by Belgium and the Netherlands was a useful and adequate response to the debt problem and the priorities from a development point of view. In that respect it is not only important to assess the policy the two countries pursued to relieve debts once they were in place, but also what role they played in the debts being incurred in the first place.[23]

3.2.3 The main evaluation questions

The main evaluation questions are:

1) What political, economic and institutional developments led to the comprehensive debt deal?

2) Did the debt deal result in or lead to a sustainable debt?

3) What role did the conditionalities play which accompanied the debt agreement?

4) How effective was the Virtual Poverty Fund?

5) How sustainable are the outcomes?

6) What lessons can be drawn regarding the validity and appropriateness of the intervention theory underlying debt relief as a means to contribute to economic growth and poverty alleviation?

[22] 'Debt overhang' refers to a solvency problem on such a large scale that creditors no longer expect the full debt to be repaid. If the level of debt increases further, in the case of 'debt overhang', the debt servicing will no longer increase proportionately with the increase in the debt stocks (as is normally the case) but will progressively decrease. In such a situation, debt cancellation is in the interests of both debtor and creditor; if the debt burden is reduced, the debtor will be better able to repay the remaining debts. This in effect increases the value of the remaining debt.

[23] The evaluation of Belgian and Dutch policy includes assessing their positions in fora deciding upon debt relief such as the Paris Club, HIPC, the MDRI and the Bretton Woods Institutions.

3.3 Elaboration of the main evaluation questions

The above main questions can be elaborated into a number of supplemental questions.

3.3.1 What political, economic and institutional developments led to the comprehensive debt deal?

Where appropriate, the answers to the above and following questions will have to be specific about the federal and state levels in Nigeria that were implied in the process.

Supplemental questions:

1) What was the origin and nature of the sovereign debt and the reason for the debt problem?

2) Who were the main actors in Nigeria in the preparation of the debt deal and what role did they play?

3) What was the Nigerian debt policy, in particular its debt management policy?

4) What goals did the Government of Nigeria pursue by concluding the debt deal?

5) What goals did the Paris Club creditor countries pursue by concluding the debt deal?

6) What was the debt policy of Belgium and the Netherlands and how were these reflected in the debt deal and the conditionalities that accompanied it?

7) How did the debt relief agreed between the Paris Club and the Nigerian Government fit in into the (international) debt relief policy of Paris Club members and the Bretton Woods Institutions? In particular, how did it relate to the (Enhanced) HIPC Initiative?

8) In terms of 'ownership', who 'owned' the process leading to the debt relief agreement?

3.3.2 Did the debt deal result in a sustainable debt?

Where appropriate, attention should be given here to the federal and state levels. Furthermore, both external and internal debt will have to be taken into consideration.

Supplemental questions:

1) If the answer to the main question 'Did the debt deal result in a sustainable debt?' is affirmative, what factors explain or contributed to this result?

2) If the answer to the main question 'Did the debt deal result in a sustainable debt?' is negative, what factors explain or contributed to this situation?

3) Did other creditors - outside the Paris Club - engage in debt relief in Nigeria following the 2005 debt deal and what role did the Paris Club debt relief play in this respect?

4) What role was and is being played by the Debt Management Office (federal / state levels). This question will also deal with the authority to contract loans (federal / state levels).

5) Have other institutions in Nigeria played a role in the management of the country's debt and attainment of a sustainable debt situation? If affirmative, what was their role, also in comparison with that of the Debt Management Office?

6) After the debt deal, did Nigeria's status change from LIC to MIC status? If yes, can that be attributed to the 2005 debt deal? If not, what was the reason?

3.3.3 What role did the conditionalities play which accompanied the debt agreement?

We examine here both the relation between one of the inputs and the output, and the relation between output and outcome. Hence we address here both the efficiency and effectiveness question.
Broadly speaking, the conditionalities covered four areas: (i) macroeconomic reforms; (ii) public sector reforms; (iii) anti-corruption measures; (iv) poverty alleviation (policies and expenditures). A particular aspect of the latter condition was the creation of a Virtual Poverty Fund from the debt relief gains.

The following supplementary questions need to be answered. It goes without saying that it is important to distinguish here between federal and state levels.

Macroeconomic reforms
1) Have the goals set (conditionalities) been attained?
2) What were the effects in the short-term and what are the perspectives (outlook) for the short and medium term?
3) Among the variables playing a role in Nigeria's macroeconomic performance after 2005, what role did macroeconomic reform measures play? In particular this question will focus on the economic growth rate, the balance of payments, and developments in the financial/banking sector with, notably, attention for the role of the global financial crisis and economic recession.
4) What role did monetary policies and the exchange rate regime play in macroeconomic performance since 2005?
5) Is there now a macroeconomic policy framework conducive to support economic growth and diversification of the economy, in conformity with the objectives of the policy document '*Vision 2020*'? One of the factors to be addressed in answering this question is the fiscal policy, notably the oil-price-based fiscal rule.

Public sector reforms
1) Generally, have the goals set (conditionalities) been attained?

2) What were the effects in the short-term and what are the perspectives (outlook) for the short and medium term?
3) What progress has been made with the public financial reforms at federal level and at state and local government level. What are the achievements, what are the deficiencies, what are the explaining factors? This question will also address public finance management and in particular debt management, and cover the full set of public financial management issues including planning, budgeting and monitoring of expenditures. It will also address issues of governance and accountability.
4) Has the envisaged reduction in the size of the public sector been accompanied by growth of the private sector? If not, why not? If yes, what were the main factors contributing to this performance?
5) Were fiscal policies and public spending effective in promoting economic growth and alleviating poverty? How pro-poor were public expenditures? See also below, under Poverty Alleviation.

Anti-corruption measures

1) What anti-corruption measures have been taken (e.g. National Action Plan on Corruption, legislation, institutional, enforcement of the law against corruption) at the federal and state levels?
2) Has Nigeria's ranking in the Transparency International Corruption Perception Index (CPI) changed since 2005? If yes, what are the reasons for this change?
3) Since reputation, image and perception of the public may take a long time to change, what objective indicators can be distinguished and used to ensure a clear picture of the present situation?

Poverty alleviation

1) What measures in the area of poverty alleviation have been taken since the debt deal? To what extent have the policies, investments and reforms helped to create the conditions for poverty alleviation?
2) How pro-poor were public expenditures (at the federal, state and local levels)?
3) How pro-poor were fiscal and monetary policies?
4) How effective was the Virtual Poverty Fund (also see below, 3.3.4)?
5) What is the status of Nigeria in achieving the Millennium Development Goals and, particularly, what has been achieved since 2005? Are there any notable differences between states and if so, what are the reasons for this?
6) What is the trend on poverty (indicators) in Nigeria?

3.3.4 *How effective was the Virtual Poverty Fund?*

Supplementary questions:

1) How were the funds of the Virtual Poverty Fund administered and how were its operations organised?
2) How effective was / is the Virtual Poverty Fund?
3) What are the explanatory factors behind the performance of the Virtual Poverty Fund?

3.3.5 *How sustainable are the coutcomes?*

This question focuses on:

1) the reduction of the debt burden, i.e. prolonging the improved debt sustainability[24],
2) sustained improvement in the macroeconomic framework conducive for economic growth,
3) sustained improvement in public finance management – including public debt management – with special attention to the sustained effects on *processes* of planning, budgeting, implementation, governance and accountability of expenditures,
4) the sustained improvement of the current account of the balance of payments,
5) the sustained improvement of the conditions for intensifying (i) the fight against corruption and (ii) poverty.

Whereas the first question will be addressed through the use of a Debt Sustainability Assessment (DSA), the other questions will have a 3 – 5 year focus and will reply the question whether outcomes will last at least a period of 3 to 5 years.

3.3.6 *What lessons can be drawn regarding the validity and appropriateness of the intervention theory underlying debt relief as a means of contributing to economic growth and poverty alleviation*

The questions preceding question 3.3.6 will be answered on the basis of the evaluation matrix presented in Figure 1. There may be a need to adjust the evaluation matrix during the evaluation. Subsequently, during the evaluation's last phase, the answer to question 3.3.6 may result in suggestions to improve upon the existing intervention theory. It is important to note the role played by conditionalities.

The intervention theory at the outset – the intervention logic

The intervention theory (intervention logic) is based on the assumption that debt relief can make debt sustainable in two ways, and in that way contribute to economic growth and/or poverty reduction:

1) Liquidity improvement: by alleviating the debt servicing burden (= interest and principal repayment commitments) resources are freed up that can be used on additional imports or public spending. These can, in turn, lead to economic growth, through more private

[24] Also see 3.3.2 above.

investment, better use of available capital goods, more expenditure in the social sectors and higher public investment.

2) Improvement of a country's solvency: reducing the debt burden ('debt stocks') of the beneficiary country will improve its creditworthiness, encouraging investment, the influx of foreign private capital and the availability of more domestic private capital. These can in turn lead to higher economic growth and, under certain circumstances, poverty reduction.

In addition to the above: yet another effect or improvement may need to be recognised: namely, that the opportunity for a new fund and the support generated for a focused and renewed emphasis on specific (social) investments can create a catalyst for improved planning, governance, coordination and accountability. Debt relief thus provides an opportunity to inject best practices, institutional reform and a new platform for the achievement of previously identified national objectives.

The effects may thus arise not through an economic mechanism, but through policy and political channels emerging in the new space created for decision-making and reform by the debt-relief opportunity. The major constraint on debt-burdened countries such as Nigeria was not simply a lack of fiscal space, but a lack of policy space and advocacy space from which to introduce the substantial investments and new ideas needed to attempt ambitious development goals.

Figure 1 Evaluation Matrix Debt Relief Nigeria

Objectives - Means	Indicators	Sources	Evaluation
Input Debt relief expenditures and modalities; Policy dialogue;	Amounts spent; Conditions;	Parliamentary documents, policy papers, archies/files Min of For Aff (Be/NL), Min of Fin (Be/NL), Paris Club; Apraisal Memorandum for debt relief and other doc; Global Development Finance; HIPC and MDRI doc.; IMF/WB Country Reports IMF Policy Support Instrument Debt Sustainability Analysis Fed. Rep. of Nigeria and State and local gov. policy papers and statistics; Debt Management Office (DMO) doc.; Interviews;	
Comparison outputs and inputs:			Efficiency

Figure 1 Evaluation Matrix Debt Relief Nigeria

Objectives - Means	Indicators	Sources	Evaluation
Output Reduction of debt and debt service; Increase of imports; Increase of GoN Exp.; Policy change; Change in governance; Creation Virtual Poverty Fund (VPF);	Total debt (nominal and net present value); Interest payments and amortizations; Balance of payments; Gov. accounts (Fed/State); Public sector reforms; Size of VPF; Pro-poor measures and spending; Anti-corruption measures;	Global Development Finance; World Development Indicators; IMF/WB Country Reports; IMF Article IV Consultations; Fed. Rep. of Nigeria and State and local gov. policy papers and statistics; Interviews;	
Extent to which inputs via outouts contribute to outcomes			Effecttiveness
Outcome Reduction of debt burden/Sustainable debt; Improved creditworthiness; Improved investment climate; Improved debt management; Improved PFM; Pov. All. / Improved cond. for poverty alleviation; Less corruption;	Debt/GDP ratio; Debt service/Exports; I/GDP; I_p/GDP; International Credit Ratings; Employment statistics; Poverty indicators / MDG performance; Pro-poor budgeting; Rating T.I.;	Global Development Finance; World Development Indicators; IMF/WB Country Reports; IMF Article IV Consultations; HDR; Fed. Rep. of Nigeria and State and local gov. policy papers and statistics; Moody's; Standard & Poor; Commercial banks and Chambers of Commerce; M&E reports VPF and GoN MDG expenditures; Transparancy International reports; Interviews;	
Extent to which inputs via outputs and outcomes contribute to impact:			Relevance
Impact Economic growth; Poverty alleviation;	Change in GDP; HDI ranking; MDG status;	World Development Indicators; IMF/WB reports; UNDP Human Development report; HDR Nigeria 2008-2009; Fed. Rep. of Nigeria statistics; OSSAP/MDGs; Interviews;	

4 Limits of the evaluation and evaluation methodology

4.1 Limits of the evaluation

The evaluation period is 2005-2010.

As the impact of Belgian and Dutch debt relief activities cannot be separated from the activities of other creditors, the evaluation will also have to take account of these efforts. It will therefore cover the total amount of debt cancellation, i.e. US$ 18 billion. Furthermore, the evaluation will cover all three inseparable components of the debt deal (payment of arrears, cancellation based on Naples terms, and the debt buy-back transaction). In this respect it is important to note that the evaluation covers not only the portion of debt-relief savings accruing to the Federal Government, but also the funds accruing to the State Governments.

The Bretton Woods Institutions (the IMF and the World Bank) play a special part in international debt relief policy: the IMF usually plays a monitoring role and both institutions hold key positions in respect of HIPC, Enhanced HIPC and the Multilateral Debt Relief Initiative (MDRI). The fact that Nigeria is not an HIPC country can be seen as a complicating factor but it can also be argued that the role of the IMF and the World Bank in the specific case of debt relief in Nigeria is not in effect any different. Either way, the evaluation will not address the role played by the Bretton Woods Institutions in Nigeria on the basis of their general mandate, nor will it evaluate their debt relief mechanisms or devote attention to the core funding allocated to the World Bank and the IMF by Belgium and the Netherlands, which these institutions use for debt relief.

The evaluation will, however, address the importance of the conditions imposed, adopted by Belgium and the Netherlands, their implementation and how the process is monitored.

4.2 Evaluation methodology

The Belgian and Dutch decision-making process on debt relief to Nigeria will be reconstructed on the basis of official publications, file studies and interviews with relevant actors within and outside the ministries involved (Foreign Affairs and Finance) in both countries.

The methodology for the evaluation of the debt relief deal and its aftermath will be a combination of quantitative and qualitative methods. Argumentation will be based on the analysis of factual macroeconomic and other data as well as qualitative assessments of institutional developments, legislation, etc.

The effectiveness question focuses on four effects: (1) the freeing up of financial resources for imports and public expenditure by alleviating the debt burden, (2) increasing the private capital flow by improving creditworthiness, (3) improvements in governance, accountability and institutional performance, and (4) the trend on poverty in Nigeria, .

The investigation and determination of these effects will be based on extensive literature study, including 'grey' literature (i.e. non-published reports of Nigerian and non-Nigerian origin), Poverty Assessments, Household Surveys, etc. Preparatory desk work indicates that much statistical information has already been collected and made available in the form of reports and other publications of institutions in Nigeria, IMF and World Bank reports, OECD/DAC publications, DAC aid statistics, a.s.o., often available in an electronic form. This literature study and the subsequent desk work will be completed with a field study in Nigeria. For this purpose the evaluation team will visit two states which will be selected on the basis of criteria yet to be determined, e.g. one of the five states where presently pilot activities take place (MDG monitoring; setting up of local DMOs at state level), one state with no pilot projects, or one state with high debts before 2005. Interviews will be conducted with local actors (Nigerian authorities, independent experts, the donor community, intended beneficiaries) to both verify the information obtained and supplement existing facts and insights. Conducting field studies and visits is considered essential given the political structure of Nigeria with a federal government, in Abuja, and 36 states with considerable power and of a great variety in terms of resources, budgets, economy, people – even laws.[25]

Every evaluation faces the problem of attribution: can the output, outcome and eventual impact be attributed to the inputs, beyond any reasonable doubt? The present evaluation is confronted with this problem even more than other evaluations because of its nature and scope. The evaluators will address this issue and, if the attribution problem cannot be solved in a satisfactorily manner, will resort to a 'probability – hypothesis'.

5 Organisation and planning

5.1 Organisation of the joint evaluation

5.1.1 Preparation and tendering

The following is based on the agreements between the SEO (Belgium) and the IOB (the Netherlands). It was agreed that the IOB would be lead agency responsible for organising the joint evaluation.

The preparation of the joint evaluation, in particular drafting of its terms of reference, has been a combined Belgium-Dutch effort with important inputs by key actors and resource persons both in Europe and in Nigeria. Notably the preparatory mission to Abuja was very useful and resulted in important suggestions which have been included in the final draft terms of reference. The draft document was presented for comments to the Abuja-based Advisory Group (see below) before being officially approved by the directors of both evaluation departments involved, SEO and IOB.

25 In 12 of the 36 states the Sharia, an Islamic law, has been instituted as a main body of civil and criminal law.

The tendering procedures for the evaluation are according to European regulations. In conformity with the Belgian-Dutch agreement, the IOB is responsible for the tendering, also on behalf of the SEO, and will therefore be the official contractor. Under the lot regulation,[26] a contract will be concluded with an expert to draft a chapter on the specific country context in Nigeria. This country study will be put at the disposal of the evaluation team at the start of its work.

5.1.2 *Nigerian participation, quality control and overall management*

The participation of Nigerian civil servants and private persons in the evaluation is ensured in two ways. First, Nigerian authorities and independent experts have been invited, along with representatives of the donor community, to take part in a local advisory group. The group's main functions are to advise and to perform quality control. Secondly, the evaluation team must include Nigerian expertise, notably Nigerian experts (a condition that was included in the tender document).

The main function of the Abuja-based Advisory Group is for purposes of quality control. Next in importance is the issue of ownership – scoring high on the Agenda of the Paris Declaration (2005) and the Accra Agenda for Action (2008) – and the desire to learn lessons from the experience gained with this intervention, one of the two main aims of the present joint evaluation.

During the preparatory mission in January 2010 a number of decisions were taken as to the composition of the Advisory Group. The following institutions / persons agreed to take part in the group's work:[27]

- Federal Ministry of Finance
- Debt Management Office
- Central Bank of Nigeria
- Hajia Amina Mohammed Az-Zubair, Senior Special Assistant to the President, MDGs
- Dr Jibrin Ibrahim, Director, Centre for Democracy and Development
- Dr David U. Enweremadu, University of Ibadan
- DFID
- H.E. the Ambassador, Embassy of Belgium
- H.E. the Ambassador, Embassy of the Netherlands

The group will be chaired alternately by the Belgian and the Dutch ambassador.

Quality control is ensured in three ways: first, through the Abuja-based Advisory Group

[26] Under current regulations it is permitted to contract out a lot (part of an assignment) on the open market, without following the European procurement procedures. Under the regulations, this lot may not exceed 20% of the total value of the assignment, up to a maximum van € 80,000. The standard procurement rules continue to apply; this means that, if the value of this lot is lower than € 50,000, it may be contracted out directly; if it is higher, it will have to be contracted on the basis of a restricted call for tenders.

[27] As of the end of April 2010 four other invitations were pending / to be confirmed.

(see above). Secondly, through the creation of a Europe-based Reference Group. This group will meet in Belgium or the Netherlands. The Reference Group will consist of independent external experts, relevant officials from the foreign ministries of both countries and, possibly, other stakeholders (both ministries of finance, Atradius[28] and Delcredere[29]). The group will be chaired by one of the members of the Evaluation Steering and Management Group (ESMG). Thirdly, the evaluation will be led and monitored by the Evaluation Steering and Management Group, composed of SEO and IOB. The ESMG will manage and follow the evaluation step-by-step and be responsible for regular consultations with the team implementing the evaluation.

IOB is lead agency, in terms of management and content. The agreement will be laid down in a Memorandum of Understanding between Belgium and the Netherlands.

5.1.3 Reporting

All reports will be written in English. Dutch and French summaries of the final report will be produced for the parliaments in Belgium and the Netherlands.[30]

5.2 Planning and time line

5.2.1 Planning

In the preparatory phase (fourth quarter of 2009) an Approach Paper will be discussed with the parties involved and the tender document will be drawn up.

The aim is to complete the contracting procedure for the team implementing the evaluation by the end of March 2010. In principle the party to whom the contract is awarded will be asked to submit the definitive final report by 31 December 2010.

After the selection of the winning consultancy group, the evaluation team will present within three weeks an Inception Report which will be discussed by the Europe-based Reference Group. Upon approval of the Inception Report by the ESMG, the contract will be signed. Subsequently, a desk study will follow (March – May). The ensuing report will be discussed with the Europe-based Reference Group.

The evaluation team will conduct interviews and collect and study additional documentation in Nigeria (3 weeks in August). The team will meet with the Abuja-based Advisory Group twice: at the start and at the end of its work in Nigeria.

The evaluation report will be drafted in the course of the second half of 2010. A draft final version will be sent well in advance to Nigeria, and two weeks later the evaluation team will

[28] The export credit insurance agency in the Netherlands.
[29] The export credit insurance agency in Belgium.
[30] A Dutch summary for the Netherland's'parliament; Dutch and French summaries for the Belgian parliament.

meet with the Abuja-based Advisory Group to discuss the draft. The same applies to the Europe-based Reference Group (last quarter of 2010).

The evaluation team leader will submit the final report no later than 31 December 2010. The publication of the evaluation report is foreseen for early 2011. The report will be presented and discussed at a conference to be held in Abuja in the first semester of 2011 and to which official stakeholders, politicians, civil servants, academicians, civil society and other interested people will be invited.

5.2.2 *Time line*

January 2010	Preparatory Mission to Abuja
February	Drafting terms of reference Selection Consultancy Group / Evaluation Team
March	Finalising terms of reference Contextual Study ready Inception Report
April	Terms of reference approved Meeting Europe-based Reference Group
May	Desk Study (Evaluation Team)
June	Draft intermediate report – Meeting Europe-based Reference Group
August	Field Mission to Nigeria (Evaluation Team) Meetings (2) with Abuja-based Advisory Group
August - Sept	Evaluative work / drafting final report
October	1st draft Evaluation Report – disc. with Abuja-based Advisory Group
November	2nd draft Evaluation Report – disc. with Europe-based Reference Group
December	Final Evaluation Report
Jan – March 2011	Publication of report
March – June 2011	Conference (in Nigeria)

Annex 2

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Annex 3

Interviews

Interviews - Nigeria

Abuja

Organisation	Name	Position
Government		
Central Bank of Nigeria (CBN)	Mr Abwaku Englama	Deputy Director; Head External sector division, research department
CBN	Mr G.K. Sanni	Principal Economist, Research and statistics department
CBN	Mrs O.O. Duke	Economist External sector division, Statistics department
Federal Ministry of Finance (FMF)	Dr. Bright E. Okogu	Director-General Budget Office
FMF	Athans A. Braimah	Director Expenditure / Budget Office
FMF	Anslem Aghware	Technical Assistant to the Director-General Adviser on budget
FMF	Dr. Oyebode Oyetunde	Technical Assistant to the Director General
FMF	Osibote Oludare	Director Consolidated Accounts
FMF	Mr. Abiddun Alao	Head of Department of External Economic Relations
FMF	Pius Aloiyafem	
Debt Management Office (DMO)	Dr. Magaji B. Mahmoud	Director, Policy Strategy and Risk Management
DMO	Ibrahim M. Natagwandu	Director, Policy Strategy and Risk Management
DMO	Ibrahim Aliyu	Principal operations officer, Policy Strategy and Risk management
National Bureau of Statistics (NBS)	Dr. Vincent O. Akinyosoye	DG/CEO
NBS	Dr George Adewoye	Director Census and Surveys
NBS	Mr Iroh	Head, Social Statistics Department
NBS	Tunde Lawal	Ag. Director Macroeconomic Analysis
NBS	J.O. Eloho	Assistant Director Macroeconomic Analysis Dept.
Nigerian Investment Promotion Commission (NIPC)	Reuben I. Kifasi	Director, investment promotion
Office of the Senior Special Advisor to the President on the Millenium Development Goals (OSSAP-MDGs)	Hajia Amina Mohammed Az-Zubair	Senior Special Assistant to the President, MDGs
OSSAP MDGs	Lawal Y. Aboki	Coordinator M&E
OSSAP MDGs	I.M. Mahid	Head of the Conditional Grants Unit
OSSAP MDGs	Jonathan Phillips	ODI Fellow
Federal Ministry of Health	Mr L.N Awute	Permanent Secretary
Federal Ministry of Health	Dr (Mrs) Ngozi Azodoh	Deputy Director, MDG

Organisation	Name	Position
Federal Ministry of Education	Prof. O. A. Afolabi	Permanent Secretary
Federal Ministry of Education	Biodun Salami	Director (PPM&R)
Federal Ministry of Education	Dr. Rosalind A. Ukpong	Deputy Director
Federal Ministry of Education	C.O. Ajaegbu	Programme Coordinator/ Policy Planning Management & Research
NAPEP	Dr Magnus Kpakol	National Coordinator
NAPEP	Dr Dan Mou	Secretary of Programme
Economic & Financial Crimes Commission (EFCC)	Norman Sixth Wokoma	Director / NFIU
EFCC	Emmanuel Akomaye	Secretary to the Commission
SPARC	Joe Abah	Deputy National Programme Manager
SPARC	Tim Donaldson	Senior Knowledge Management Advisor
Former Director DMO, former perm. Sec. FMF	Akin Arikawe	Board Member / Federal Roads Maintenance Agency (FERMA)
Former chief economic advisor	Prof. Ode Ojowu	Centre Director / CoPoC
Former President of Independent Policy Group	Prof. Mike Kwanashie	Ahmadu Bello University, Zaria
Donor community		
DFID	Tom Adams	Economic Advisor
DFID	Scott Caldwell	Governance Advisor
Embassy of Belgium	Clementine Fauconnier	Acting Head of Mission
Embassy of France	Vincent Huyghues Despointes	Economic and Commercial Counsellor, head of economic department
Embassy of Germany	Matthias Veltin	Deputy Head of Mission
Embassy of the Netherlands	Margriet Struijf	Acting Head of Mission
Embassy of the Netherlands	Ronald Sonnemans	Second Secretary Trade and Economy
Embassy of the USA	Perry E. Ball	Minister Counselor for Economic Affairs
European Commission	Ibi Ikpoki	Economic officer, Politics and Economics section
UNDP	Kabiru Nasidi	Assistant Resident Representative
UNDP	Uzman Okpanachi	National Economist
UNDP	Colleen Zamba	Economic Advisor
UNIFEM	Kemi Ndieli	Programme Coordinator (Gender and HIV&AIDS)
World Bank	Stephen Ling	Management Specialist / Environment & natural resource
World Bank	Gloria Joseph-Raji	Economist
IMF (former Resident Representative)	Menachem Katz	Director of Research, CSEA (Centre for the Study of the Economics of Africa)

Organisation	Name	Position
Non Governmental Organisation (NGO)		
Africa Centre for Leadership, Strategy and development	Dr Otive Igbuzor	Executive Director
Centre for Democracy and Development	Dr. Jibrin Ibrahim	Executive Director
Centre for Democracy and Development	Ms Mercy Ezehi	Senior Programme Officer, M&E
Civil Society Legislative Advocacy Centre	Auwal Ibrahim Musa (Rafsanjani)	Executive Director
C4C	Ms Amina Salihu	Programme Coordinator
CSEA	Dr. Ebere Uneze	Director of Research
CSEA	Dr. Menachem Katz	Executive Director
OXFAM	Lesley Gene Agams	Country director
The Nigerian Economic Society	Dr. K.S. Adeyemi	President
Business community		
National Association of Nigerian Traders (NANT)	Mr Ken Ukaoha	President
DADTCO NIGERIA	Mr Peter Bolt	Director-General / CEO

Kano

Organisation	Name	Position
Ministry of Planning and Budget	Ashiru Dan'azumi Zage	Permanent Secretary
Ministry of Planning and Budget	Alh. Shu'aibu Musa	Director Development Support Coordination
Ministry of Finance	Surajo Karaye	Honorable Commissioner
Ministry of Finance, Treasury department	Mr. Abdulkadir	Director Treasury
Ministry of Finance, Final accounts department	Ibrahim Kura	Director Final Accounts
Ministry of Finance	Aminu I. Abubakar	Director of Planning, Research and Statistics
Human Rights and Development Association	Danladi Saleh	
Community Health Care and Research Initative	Adbulhamid Bagara	Executive Director
Network for Empowerment and Development Initiative	Peter Hassan	Director
Civil Society Legislative Advocacy Centre	Mustapha Ali Mohammed	
Grassroots Health Organization of Nigeria	Hadiza Nagona	Executive Director

Organisation	Name	Position
Grassroots Health Organization of Nigeria	Nura Haladu	Senior Programme Officer
ESSPIN – DFID	Olalekan Saidi	Planning and Management Specialist
PATHS2 – DFID	Mansir Nasir	Voice and Accountability officer
SPARC- DFID	Zaynab Maina-Lukat	Technical Coordination Manager

Calabar

Organisation	Name	Position
Ministry of Finance	Kelly K. Ayamba	Commissioner of Finance
International Donor Support/ MDG	Roy Ndoma-Egba	Special Adviser to the Governor
State Planning Commission	Ndem Ayara	Economic Adviser /Vice Chairman
Budget Monitoring & Evaluation	Dr. Peter A. Oti	Special Adviser to the Governor
EU-SRIP/State Planning Commission	Margaret Ebokpo	Deputy State Civil Society Advisor
Entrepreneurship Enhancement Centre	Eteng Gabriel	Head, South-South Zonal Office
Vourti Bon Consultants	Aborade Jayeola	Asst. Project Team Leader
EKPACHI Foundation	Sunday Omori	Programme Officer
CEPIN	Dr. Out Ibor	Head

Interviews - Belgium

Organisation	Name	Position
FPS Foreign Affairs, ForeignTrade and Development Cooperation	Dirk Van Eeckhout	Former ambassador in Abuja between 2003 and 2005; currently ambassador in Santiago de Chile
FPS Finance	Frans Godts	Manager of International & European Financial Affairs (IEFA) Executive Director: Export credit agency ONDD
Office National du Ducroire / Nationale Delcrederedienst (ONDD)	Thibaut De Haene	Strategy, Legal Affairs and Risk management: Deputy Head Legal Affairs
ONDD	Anton De Doncker	Strategy, Legal Affairs and Risk management: Sovereign Debt
ONDD	Raphaël Cecchi	Strategy, Legal Affairs and Risk management: Country Risk Analyst
FPS Foreign Affairs, ForeignTrade and Development Cooperation	Johan Debar	Assistant Manager of Charles Michel (Minister of Development Cooperation) Aid effectiveness, OECD/DAC, Paris Declaration
FPS Foreign Affairs, ForeignTrade and Development Cooperation	Erwin De Wandel	Advisor: Cabinet of the Minister of Development Cooperation Development Cooperation Counsellor: Embassy of Belgium in Washington DC
Special Evaluation Office of International Cooperation, FPS Foreign Affairs, Foreign Trade and Development Cooperation	Andrée François	Evaluator; member Evaluation Steering and Management Group (ESMG)
Institute for Development Policy and Management, Antwerp University	Danny Cassimon	Professor; Evaluator Belgian Debt Relief Policy; member Evaluation Team Joint Evaluation Debt Relief DRC (ongoing)

Interviews - The Netherlands

Organisation	Name	Position
Ministry of Foreign Affairs		
Deputy DGIS	Rob de Vos	Deputy Director-General for International Cooperation (DGIS) during the 2005 debt relief operation
DEK	Maarten Brouwer	Involved in discussion on start up of the debt relief operation
DVF	Hans de Voogd	Country officer during and after the 2005 debt relief operation
Policy and Operations Evaluation Department (IOB)	Fred van der Kraaij	Evaluator; leading the joint evaluation; member Evaluation Steering and Management Group (ESMG)
Ministry of Finance		
BFB/EKI	Nicole Bollen	Head of Netherlands Delegation in Paris Club since 2003; signed debt relief deal on behalf of the Netherlands

Interviews - Washington DC

Organisation	Name	Position
IMF	Ester Barendregt	Senior advisor Office of the Executive Director for the Netherlands IMF
	Mauro Mecagni	Chief for Central 1 Division, African Department
	Robert Gregory	SPR economist for Nigeria; Trade, institutions, and policy review division of SPR
	Lynge Nielsen	SPR economist for Nigeria 2005 till 2006 first half, now senior economist audit and inspection
	Mumtaz Hussain	Senior economist in African Department; desk economist for Nigeria since early 2010
	Bert van Selm	Currently Deputy Division Chief in the Strategy and Policy Review Department; was desk economist for Nigeria from May 2005 to August 2006
	Mauricio Villafuerte	Currently Deputy Division Chief in the Fiscal Affairs Department and was a fiscal economist for Nigeria between 2004 and 2006
	Hervé Jolly	Currently Chief of Debt Policy Division and main IMF representative at the Paris Club; became alternate representative in late 2005
	Martine Guerguil	Currently Chief, Eastern 1 Division, African Department; main IMF representative at the Paris Club from 2004 to 2008
	Zuzana Mogusova	Currently Advisor in the European Department and was deputy mission chief for Nigeria from early 2006 till late 2007

Organisation	Name	Position
World Bank	Ngozi Okonjo-Iweala	Managing Director World Bank and former Minister of Finance, Nigeria
	Ruud Treffers	Executive Director; was Director-General for International Cooperation (DGIS) at Dutch Ministry of Foreign Affairs during the 2005 debt relief operation
	Lev Freinkman	Lead economist PREM and lead author of PEMFAR Nigeria *(Public Expenditure Management and Financial Accounting Review)*
	Brian Pinto	Office of Managing Director, author of DSA Nigeria April 2005, *Nigeria's Opportunity of A Generation: Meeting The MDGs, Reducing Indebtedness*
	Volker Treichel	Lead economist Africa division and working on Nigeria

Annex 4

Gross Outputs

Annex to 4.2.2 An alternative scenario: debt service payments linked to oil prices

If debt service would have been linked to the oil price during 2005-2009, it would probably have been slightly higher in some of these years, and especially in 2007 and 2008 when oil prices were much higher than during 2003-2004. In 2005 the oil price did not increase much yet so that the informal arrangement probably continued, and 2006 was another election year. Table A4.1 shows likely estimates of counterfactual debt service under this scenario. This would have led to a higher flow output of the deal in the years with higher counter-factual debt payments, so 2007-2009. With respect to the stock output, it would be smaller than under the assumptions of the most realistic counterfactual in Part One of this report (Table 4.3). On the other hand, if we do include the fact that debt service due would increase annually as a result of the arrears accumulation in all years that debt service paid is lower than debt service due, the difference with our most realistic counterfactual is probably small (last lines of Table A4.1).

Table A4.1 Oil price, and alternative counterfactual: if debt service is linked to oil price and if debt service due responds to arrears accumulation, 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Oil price (on spot, Bonny light)	24.5	25.4	29.1	38.7	55.4	66.4	75	101.2	62.1
2. Counterfactual debt service paid to PC if responding to oil price	1.3	0.2	1.0	1.0	1	1	2	2.5	1.5
3. Flow output					-7.1	-3.5	2	2.5	1.5
4. Counterfactual debt service due		3	3	3.2	3.4	3.7	4	4.2	
5. Counterfactual debt increase resulting from non-paid debt service due (4-2)			2.2	2.4	1.7	1.5	2.7		
6. Counterfactual debt increase from non-paid debt service due implicit in Table 4.3	2	2	2	2	2				

Source: For oil price: CBN Annual reports 2008, 2009, CBN Statistical Bulletin 2004; For debt service: DMO annual reports.

Annex to 4.2.3 Aid by donor

Table A4.2 shows that in the years before the debt deal, the US and the UK were the main bilateral donors to Nigeria. They both raised their aid volumes in 2004. The UK continued to increase its aid volume until 2007, so debt relief clearly was additional. The US aid volume decreased a bit in 2005, but this cannot be due to the debt relief, as the full debt relief from this country was registered in 2006 (Table 3.2). Both donors increased their aid volume in 2007, and the US again in 2007.

For some smaller donors, such as Japan, Germany, France, Italy and the Netherlands, net ODA became negative in 2006, and for Japan this also was the case in 2005. It is likely that these countries received repayments on earlier ODA loans in those years, as part of the debt deal.

Table A4.2 Net ODA minus debt relief, by donor/creditor involved in the Paris Club deal, in US$ millions, 2002-2008

debt service	2002	2003	2004	2005	2006	2007	2008
Austria	2	4	10	6	1	1	1
Belgium	0	1	1	1	1	1	4
Denmark	0	0	-1	0	0	1	0
Finland	0	0	0	0	0	0	1
France	9	8	7	8	-7	12	12
Germany	5	10	14	31	-59	19	28
Italy	1	0	-1	0	-7	2	4
Japan	19	6	9	-18	-301	27	29
Netherlands	3	7	4	5	-30	2	2
Spain	0	0	1	2	2	0	25
Switzerland	0	0	0	0	0	0	0
UK	42	43	126	137	151	286	47
US	76	99	120	99	172	241	364
Total	158	179	290	271	-76	592	515

Source: DAC.

Annex to 4.3.1 Reforms in Nigeria 1999-2009

The period 1999-2003: reforms initiated

With the start of the democratic rule of the Obasanjo administration, an era of reforms was initiated. In his first term President Obasanjo focused on consolidating the democracy, but also started anti-corruption measures such as the start of the ICPC, and he began implementing existing Acts which had not been implemented before. The Obasanjo administration resumed the dialogue with the IFIs and in January 1999 the IMF began a Staff Monitored Programme (SMP) which led to a Standby arrangement in August 2000.

In 2001 a team under the responsibility of the Presidents' Office started the preparation of a PRSP. In 2002 the Government presented an Interim PRSP (I-PRSP). The Interim PRSP was produced with the intention to present a full PRSP.

The period 1999-2003 was a turbulent period. In 2001 the Twin Towers went down in New York and 2002 the war in Iraq started. These events triggered a world wide reform response in the financial sector to fight money laundering of terrorist groups, tightening regulation on the international banking sector. In addition, the Nigerian banks were under international scrutiny since the 1990s for fraudulent behaviour. In response, in 2003 the government approved the Act which founded the EFCC and the organisation started its activities.

The period 2003-2005: expanding the reform agenda

NEEDS, the development plan for the period 2004-2007, can be seen as a consolidation document of reforms that were being implemented by the new economic management team that started its work in 2003. It can also be regarded as a follow up reform programme of the Interim-PRSP[1]. It used the information and insights generated during the two-year effort to prepare the Interim Poverty Reduction Strategy Paper and the wide consultative and participatory processes associated with it. NEEDS focussed on four areas (Okonjo-Iweala and Osafo-Kwaako, 2007):

1. improving macroeconomic environment;
2. structural reforms;
3. strengthening PFM;
4. implementing institutional and governance reforms.

Building upon the I-PRSP, the reform agenda as reflected in NEEDS started to materialise in 2003 and was launched in 2004. The development of NEEDS at federal level was complemented by State Economic Empowerment and Development Strategies (SEEDS). As reforms could not be enforced on state level, the federal government tried to convince the states of the importance to develop state level development programmes. The federal government provided guidelines for the development of SEEDS.

Macroeconomic policy

The focus was very much on macroeconomic stability. In the past, the Nigerian government had always spent all oil revenues and had even taken on loans in periods of high oil prices. As a result, when oil prices declined, the government not only had to reduce expenditure because of lower oil income but had to cut spending further in order to pay debt service. Volatility of public expenditure was even larger than the volatility in oil prices (Budina et al., 2007). The country had paid a high price for this macroeconomic volatility in the form of, among other effects, reduction of quality and productivity of government expenditure, high expenditure arrears, and reduced private investments.

The IMF concluded in December 2005 that *'Implementation of the strategy in 2004 and the first half of 2005 has been impressive, especially in the area of macroeconomic policies'*[2]. Gillies (2007) concluded that achieving macroeconomic stability in the period 2003-2005 was an exceptional achievement, as this direction contradicted the typical behaviour of oil producing states during price booms.

Key interviewees and the IMF (2009) stated that maybe one of the most important macroeconomic reforms initiated was the introduction of an oil price based fiscal rule

[1] National Planning Commission (2004), *Meeting Everyone's Needs: National Economic Empowerment and Development Strategy* (Abuja 2004).

[2] IMF (2005), *'Joint Staff Advisory Note on the PRSP – NEEDS'*. 05/434.

which was first implemented in 2004. This rule practically de-linked public expenditure from (oil driven) public revenues, by stating that government expenditure should be based on a prudent oil price benchmark. Revenues above the benchmark price were saved in a special Excess Crude Account (ECA). This rule turned around a fiscal deficit of approximately 3.5 per cent of GDP in 2003 into a fiscal surplus of 10 per cent in 2004 and 11 per cent in 2005. In addition, as a result of increasing oil prices well above the conservative oil price used for the budget, substantial fiscal savings were achieved of up to US$ 18.5 billion by 2005 in the excess crude account.[3]

CBN implemented a disciplined monetary policy[4] which, in combination with a somewhat restrictive fiscal policy, contained inflation (2004-2005) and reduced inflation significantly (2007-2008), and resulted in declining interest rates (See 5.3.2.).

Public finance management and accountability

NEEDS underlined the importance of PFM improvement to boost efficiency of government spending and improve service delivery. Budget implementation was very low and lack of proper monitoring led to low quality of expenditure. Most important PFM reforms that were implemented or initiated in the period 2003-2005:

- Making public the transfers from federal government to state and local governments, which hugely increased transparency;
- Writing of a fiscal strategy paper identifying trade offs for budgetary spending;
- The establishment of a cash management committee for improved cash management;
- Introduction of MTEF (Medium Term Expenditure Framework) and MTSS (Medium Term Sector Strategies) in eight major ministries;
- Publishing annual budget implementation reports (assessing strengths and weaknesses in budget execution) in 2004 and 2005;
- Extending the due process in public procurement, which was introduced in 2001, to all ministries and parastatals in order to reduce costs and strengthen governance.

The IMF identified the implementation of the Fiscal Responsibility Bill and the Public Procurement Bill as proposed in NEEDS as critical for a prudent fiscal policy. A draft of the Fiscal Responsibility bill was still under preparation by the end of 2005 and the Public Procurement Bill needed further attention to secure passage through parliament. Procurement was seen as particularly cumbersome. A federal government survey noted that prior to 1999 the government lost an average of about N40 billion (US$ 300 million) each year as a result of corrupt practices in public procurement (Okonjo, 2007).

Structural reforms

Structural reforms focused on privatisation, civil service reform, banking sector reform, and trade policy reform:

- Privatisation: It was calculated that in 2001 direct government financial support to state-owned enterprises totalled about US$ 323 million (or 0.68 per cent of GDP), with about one-half of the total subsidy allocated to oil refineries and the telecom sector. One

3 These were the inflows in the excess crude account according to CBN.
4 IMF (2006), IMF Country Report 06/180.

of the major components of the privatisation programme was the unbundling of the Power Holding Company of Nigeria, making the power sector ready for privatisation. By the end of 2005 this was completed by the establishment of 18 different companies responsible for generation, transmission, and distribution. Furthermore, between 1999 and 2006 about 116 enterprises were privatised (Okonjo, 2007);
- Civil Service Reform (CSR): Civil service reform activities started in 5 pilot ministries and included updating personnel records and payroll data, structural reorganisation, and staff lay off. A total of 35,700 officials have been severed from the civil service at an estimated cost of about N26 billion and approximately 8,000 ghost workers were expunged from the government payroll (Okonjo, 2007);
- Banking sector reform: A bank consolidation exercise was launched in mid 2004. By the end of 2005 all deposit banks had to raise their minimal capital base. Implementation of the consolidation exercise triggered various mergers. The mergers in the banking sector reduced the number of deposit banks in Nigeria from 89 in 2004 to 25 in 2007. However, no audits were carried out on the consolidated banks and banking supervision was still weak. Later, many of these banks proved to be insolvent;
- Trade market liberalisation: By October 2005 the new ECOWAS four band tariff structure was implemented, clustering most tariffs in four bands of 0, 5, 10, and 20 per cent. It was the intention to temporarily maintain some import bans up to January 2007 and to maintain a 50 per cent tariff rate on selected items (to be reviewed in January 2008). However, in practice the number of import bans proved to have increased between 2005 and 2008 (World Bank, 2009).

Institutional and governance reform:
- Governance reforms mainly focused on tackling corruption. The NEEDS agenda did not present a separate anti-corruption agenda, but integrated the fight against corruption in all dimensions of government policy. NEEDS followed a two way approach. First, implementing anti-corruption measures and second, to analyse which corruption is the most harmful for the general public. Corruption was identified as especially severe in public procurement.
- In 2003 Nigeria was one of the first countries to adopt the Extractive Industries Transparency Initiative (EITI). Nigeria prepared an EITI bill by the end of 2005 and in 2005 an international firm has audited the oil and gas accounts of both government and oil companies for 1999-2004[5].
- In 2003 the Economic and Financial Crimes Commission (EFCC) Act was approved and in 2004 the EFCC started to be operational. The EFCC is empowered to prevent, investigate, prosecute, and penalise economic and financial crimes. According to our interviews in Nigeria, the EFCC was indeed very active in this period leading to accusations against high government officers including a state governor. But, as interviewees stated and Gillies (2007), there might have been some bias in the crimes investigated, giving priority to (possible) political enemies of the President[6].

5 It should be noted that some interviewees stated that substantial oil revenues are not reflected in the accounts.

6 Also often addressed in newspaper articles and on the internet. Some illustrations: See Daily Champion, 2 November 2010, *EFCC's advisory List – Why there is disquiet in Parties;* Daily Trust, 26 October 2010, *EFCC advisor: Kalu – It's return to Tyranny: Bafarawa Farida should resign;* Nigerian Village Square, 17 March 2008, *Reforming the EFCC: Will Nigeria ever see the promised land?*

The period 2005-2007: reform continuation

The reforms in the period 2005-2007 were mostly reflected in the PSI, as the government of Nigeria used the PSI as a way to specify and set a concrete time frame for the reforms[7]. Most stakeholders identified a somewhat slower pace of reform, if compared with the 2003-2005 period. See below for details about the PSI reviews.

Macroeconomic policy

It was envisioned that the Fiscal Responsibility Act would institutionalise this voluntary use of the oil price based fiscal rule. However, legally the fiscal responsibility act could not bind other levels of government as the Act was not fully aligned with the constitution that states that the federal, state and local governments should divide oil receipts about equally[8]. In September 2007, a political agreement was reached under which all states would pass fiscal responsibility legislation. The political agreement made it possible to draw down of the account to compensate for revenue shortfall in order to ensure that funding remains at the target levels set out in the Budget.

Public finance management and accountability

The PSI reflected a strong focus on PFM reform in the period 2005-2007 with 8 structural assessment criteria and 9 structural benchmarks. In total 10 criteria were met, 3 of these indicators have been observed with delay, and 4 criteria were not met. Reforms focused on:

- Improving transparency and accountability (publication of revenues to all three tiers of government, identifying MDG expenditure in budget classification, produce quarterly expenditure reports on VPF, auditing arrears, oil and gas sector auditing);
- Improving debt management (establish primary dealer structure);
- Expenditure control (introduction of the Integrated Personnel and Payroll Information System (IPPIS) database pensioners, settle contractor arrears);
- Improve revenue collection (automated tax collection, tax policy unit, custom service reform).

Structural reforms

- Privatisation: The government continued with its privatisation programme. In 2006-2007 the majority share in the Hilton hotel Abuja was sold and Nigeria Telecommunications Limited. The liberalisation of, and improved regulatory framework for, the telecom sector has been completed by 2007, and generated strong results in the period 2008-2009. In 2007 privatisation of activities in the power sector were still ongoing. The 4th PSI review (October 2007) stated that the evaluation of many power sector companies were still underway;
- Civil Service Reform (CSR) : By the end of 2007 numerous MDAs were restructured. Organisational structures for the reforming ministries were reviewed and rationalised. After some delay IPPIS (Integrated Personnel and Payroll Information system) was introduced in 2007;
- Financial sector reform: Banking supervision was seen as very weak. Banking sector reform focused in the period 2005-2007 more on improved banking supervision.

7 This has been clarified by key stakeholders in interviews, at that time involved in reform implementations and discussions with the IMF with regard to the PSI.

8 IMF (2007), *4th Review PSI, October 2007, 07/353.*

New supervision regulation was prepared, and facilities were created to improve CBNs' control over interest rate volatility;
- Trade policy reform: The temporary 50 per cent band was phased out by the end of 2007. The simple unweighted average tariff rate declined from 29 to 18 per cent. But, as also noted above, the number of import bans increased at the same time (World Bank, 2009).

Institutional and governance reform
- Parliament approved the new Procurement Act (which is based on the due process mechanism) in 2006. The new procurement practices were prepared and already partially implemented in the period 2003-2005. A database of international prices was developed (for benchmark purposes) and the government published public tender journals;
- The EITI audit was completed and revealed that 0.02 per cent of the oil revenues were not accounted for. The audit mainly focused on poor data keeping by the government;
- In the period 2004-2007 the EFCC addressed about 350 cases of high profile prosecution on corruption. To date, EFCC is still quite active and visible in newspapers[9].

The results of the reforms in the period 2005-2007 are summarised in the box text below.

Box A4.1 *Accomplishments of the Structural Reform Programme under PSI, 2005-2007*

Improve macroeconomic management:
- Fiscal policy: oil price based fiscal rule applied;
- Fiscal Responsibility Bill passed by parliament;
- Foreign exchange markets *Whole Sale Dutch Auction System* operational;
- Exchange markets unified;
- Monetary policy: Standing facility introduced.

Public financial management reforms to support macroeconomic and fiscal management:
- Multi-year, strategic budgeting federal and state government strategies (NEEDS and SEEDS) guide policies;
- NEEDS review and SEEDS benchmarking carried out, draft NEEDS 2 prepared;
- Medium-term sector strategies expanded;
- Budget accountability: Virtual Poverty Fund for debt relief-financed MDG spending introduced;
- Virtual Poverty Fund quarterly reports initiated;
- Contractor and pension arrears cleared;
- Computerised Electronic accounting system (ATRRS) introduced to government agencies;
- Integrated Personnel and Payroll System for federal government rolled out to several agencies;
- Human resources management projects in tax and customs administration underway.

9 Own observations during field visit in August 2010.

Reform of tax and customs administration to ensure revenue collection while being business friendly:
- Tax administration: Internal reorganisation, and greater independence established;
- Taxpayer enumeration added thousands of taxpayers, and new database established;
- Customs service: Fast-track customs clearance procedures for low risk clients expanded.

Governance, transparency, and the effectiveness of government operations:
- Oil revenue reports and reconciliation beyond EITI requirements published;
- NEITI Act enacted;
- Procurement reform: 'Due process' procedures including central monitoring of tendering and pre-payments certification enforced;
- Procurement Act enacted;
- Procurement manual prepared;
- Anti-corruption: Economic and Financial Crimes Commission (EFCC) active including cases against many state governors;
- Civil service: Large scale disengagement of staff without relevant skills, and selective hiring of high skilled staff;
- Wage reform consolidated most allowances, and provides incentives only for selected scarce skills;
- Government administration: Internal reorganisation and streamlining of all government agencies and many parastatals advanced.

Redefine the role of government in the economy in support of private sector-led growth:
- Business environment, trade tariff reform reduced unweighted average tariff below 20 per cent;
- All major ports concessioned;
- Investor one-stop shop set up;
- Domestic petroleum product markets partly liberalised through adjustment to domestic fuel prices, and a fuel subsidy scheme;
- Privatisation: Power sector reorganised, and evaluation of bidders for many power sector companies underway;
- A large petrochemical, most oil service companies, and LPG companies privatised;
- Fixed line telephone company privatised;
- Hotels and other commercial enterprises privatised.

Strengthen the financial system:
- Banking sector: Bank consolidation (89 to 25 banks) and recapitalisation completed;
- CBN Act enacted.

Source: 4th review PSI, IMF (2007), ICR 07/353.

End of 2007: Pending reforms
By 2007 there were still reforms under way:
- Central Bank supervisory powers needed to be strengthened further. Central Bank supervision was preparing for a risk-based approach within the framework of Basel-II;
- New legislation (CBN/BOFI Act Amendment Bill) was drafted and has been submitted to the National Assembly to improve autonomy of the central bank;
- Although import prohibitions were scheduled to be eliminated in January 2007, they were still in place at the end of 2007 and the number even increased;
- The new procurement procedures still needed to be implemented on state level (due process mechanism).

Reform impact and slipped reforms
Banking sector reform. IMF concluded in its Article IV consultation 2009 (IMF, 2009) that '*Reforms earlier this decade have left the economy better prepared to deal with the crisis. Central to this success is the oil-price-based fiscal rule. Similarly, the bank consolidation in 2005–2006, provided the banking sector with a capital buffer against potential losses during an economic downturn.*' Many banks raised significant further capital following consolidation.

However, there were still significant weaknesses in the financial sector. Commercial credit grew rapidly after the 2006 consolidation. Bank deposits and credit grew four-fold from 2004 to 2009 and banking assets grew on average at 76 per cent per year since consolidation (Sanusi, 2010). The Central Bank was slow in putting up a monitoring and regulatory framework for intensified supervision. Although plan for consolidated and risk-based supervision was developed (as announced in 2007), by the end of 2008 implementation was still slow.

When the financial crisis started, the Nigerian banking sector was hit hard as well. Rapid and high levels of capital outflow and a deterioration of the quality of the capital portfolio led to the need to support banks (Sanusi, 2010). Some interviewees questioned whether the banking consolidation reform (with required higher capital buffers) had been successful, judging by the large impact the financial crisis had on the Nigerian banking sector. As a result of the lack of ex-post audits of the financial positions of the merged banks after the bank consolidation process, it was questionable whether banks were indeed strengthened. There were still many weak banks.

In 2009, a new Central Bank governor launched special examinations of bank balance sheets. The investigations identified serious breaches of regulations and laws (off balance sheet instruments, loan reclassifications, connected lending, etc). On the basis of the first round of examinations, which covered 10 banks, the Central Bank intervened in five banks in August 2009. Management of the banks was replaced and funds were injected into the banks. Capital adequacy and liquidity ratios in the intervened banks, which account for about one third of bank sector assets, fell short of regulatory requirements. The Central Bank provided N420 billion (about US$ 2.8 billion), equivalent to about 2.5 per cent of non-oil GDP, of liquidity support in the form of loans. Later, another N 200 billion was provided. The crisis initiated (or re-initiated as some interviewees stated) the reforms which focus on strengthening CBN financial supervision.

Reforms on state level

Ngozi & Osafo (2007) identified in 2007 that a substantial part of the reform agenda still needed to be implemented on state level. Gillies (2007) confirmed this view. She stated that especially the governance reforms to bring about change at sub-federal level have to be seen as a weakness of the Obasanjo administration. Only a handful of states had adopted far-reaching reforms. In 2009 the IMF also concluded that some economic reforms still had to be implemented at the state and local level, especially addressing PFM. As state and local governments account for almost half of public spending, better PFM at the sub-national level is essential to achieve spending priorities.

In the context of its State Governance Capacity Building Project, the World Bank has conducted public expenditure reviews and public expenditure and financial accountability assessments in 7 out of 36 states (not publicly available yet)[10]. These have highlighted a number of challenges, including:

- Limited budget credibility;
- Limited budget reporting, with significant extra-budgetary operations;
- Poor alignment of resource allocation with state development priorities;
- Ineffective budget execution as result of poor revenue forecasts and monitoring;
- Weak cash management;
- Deficiencies in accounting, recording, and reporting systems. A major problem is the poor quality and timeliness of annual financial statements;
- Relatively good external audit systems, but significant flaws in the scrutiny and follow-up of audit recommendations.

Box A4.2 *Reform efforts in Kano and Cross River State (CRS)*

The main driver of reforms in CRS seems to be the Governor who got into office in 2007 and appointed reform oriented directors. In addition, donor presence in CRS is strong which resulted in an intensive dialogue between donors and government officials. Some interviewees see a positive impact of this dialogue on reforms.

Important reforms such as the Fiscal Responsibility Act and the Procurement Act needed to be approved on state level. The Fiscal Responsibility Act was passed at federal level in 2007. The Act can only be implemented on state level after all states separately approve the state-level Fiscal Responsibility Acts. Discussions in Kano on the Fiscal Responsibility Act started in 2007. In CRS and Kano a draft Fiscal Responsibility Act and a draft Procurement Act have been submitted to the Council. In both states it is anticipated that both Acts will be approved before 2010.
In CRS PFM reforms have been impressive. The state has recently developed a full strategic

10 Unfortunately the assessments were not available for the evaluation team. This information is based on IMF (2009), Article IV consultation.

planning and budgeting framework which led a strong link between policy objectives and the budget. In addition, the Planning Commission initiates yearly PFM self assessments on the basis of the PEFA methodology. The PFM reforms have been initiated by the Governor in 2008/2009 with no direct link to federal reform agenda's. Kano also recently made progress in improving its strategic planning framework. It has drafted a Kano Road Map for Development with supporting sector strategies. It will start with an MTEF for the budget of 2011-2013.

In both states civil service reform seems to be the reform area where less progress was made in the last few years. Although in both states aspects of civil service reform are addressed, no encompassing reforms have been undertaken (such as restructuring and lay off of government staff).

Reviews of the PSI 2005-2007

IMF staff appraisal first review

Macroeconomic objectives under the PSI have been achieved and all end December 2005 quantitative assessment criteria and benchmarks were met. Progress in implementing the structural reform agenda has been excellent with all assessment criteria and benchmarks satisfied, albeit one assessment criterion with a short delay. IMF staff supported granting a waiver for the short delay in publicising a draft audit report under the Nigeria EITI (IMF 2006, ICR 06/180).

Table A4.3 Structural assessment criteria and benchmarks under the PSI programme and compliance by May 2006

	Structural assessment criteria	Expected date of achievement	Remarks
Financial sector reform			
1	Finalisation of an exit strategy for banks that do not meet the capital requirements, as described in paragraph 5 of the Policy Statement.	End October 2005	Observed
2	Submit bills for amendments to the CBN Act and Bank and Other Financial Institutions Act (BOFIA) to the National Assembly to strengthen CBN's regulatory capacity.	End November 2005	Observed
3	CBN to move from retail to wholesale auction system.	End February 2006	Observed
Trade			
4	Adopt and implement a five-band customs tariff regime based on the Common External Tariff (CET) of ECOWAS.	End October 2005	Observed

Table A4.3 Structural assessment criteria and benchmarks under the PSI programme and compliance by May 2006			
	Structural assessment criteria	**Expected date of achievement**	**Remarks**
Transparency oil sector			
5	Completion and publicising of draft report of the Nigeria EITI audit.	End December 2005	Not observed
Privatisation and market regulation			
6	Unbundling of the National Electricity Company by establishing successor companies (generation, transmission and distribution).	End December 2005	Observed
	Structural benchmarks	**Expected date of achievement**	**Remarks**
PFM			
1	Continue publication of revenue allocation to the three tiers of Government.	Continuous	Observed
2	Identify specific MDG-related expenditures in the six MDG sectors (Health, Education, Power, Water, Roads and Agriculture). Modify the Chart of Accounts to incorporate the identified MDG Expenditure items in the six sectors.	End December 2005	Observed
3	Submission of the Asset Management Company Bill to the National Assembly.	End November 2005	Observed
4	Complete the audit of contractor arrears in excess of N1 billion.	End February 2006	Observed
Privatisation and market regulation			
5	Opening of the financial bids for the privatisation of NITEL (the State Telecommunications Company).	End December 2005	Observed
6	Opening of financial bids for the concessioning of Tin Can Island port.	End December 2005	Observed
7	Opening of the financial bids for sale of Nicon Hilton Hotel.	End March 2006	Observed
Financial sector reform			
8	CBN is to make operational a Real Time Gross Settlement system, an Electronic Financial Analysis and Surveillance System and a Banking Application System.	End November 2005	Observed

Source: IMF Country report 06/180, May 2006.

Table A4.4 Progress review PFM reforms (1st PSI review), 2006		
	Reform	Status
1	Fiscal Responsibility Bill	At committee stage after passing second reading in both houses of the National Assembly.
2	Public Procurement Bill	Passed by the Senate, awaiting passage in the House.
3	EITI Bill	Passed by the House. Senate pending. Interim EITI audit reports have been issued and the final report covering 1999-2004 will be issued by end-June 2006.
4	Auditor Generals Bill	Submitted to National Assembly.
5	Budget reporting	Report on the implementation of the 2004 budget was published last November.
6	Medium Term Sector Strategies	During the preparation of the 2006 budget, key line ministries prepared medium-term sectoral strategies linked to the achievement of goals under NEEDS and MDGs.
7	Virtual Poverty Fund	N100 billion in MDG-related expenditure are specifically identified in the 2006 budget. The chart of accounts was modified accordingly to allow for tracking this spending.
8	Public investment review	To be undertaken annually.
9	Extension of civil service reform	Guidelines have been approved to extend reforms to other ministries and parastatals. Pilot cases have resulted in significant retrenchments.
10	PEFA assessment by WB	Assessment is being undertaken in the federal government and four state governments.

Source: IMF 2006, ICR 06/180.

Second, third and fourth phase of the PSI

The Government of Nigeria and the IMF agreed to continue to set quantitative targets and benchmarks on the same items as in the first phase of the PSI.

The government of Nigeria agreed in the letters of Intent of March 2006 (second), December 2006 (third), and May 2007 (fourth) a list of structural benchmarks and assessment criteria as reflected in the table below. The table also illustrates whether the benchmarks were observed in the subsequent reviews.

Table A4.5 Overview 2nd, 3rd and 4th PSI review - structural assessment criteria and structural benchmarks

	Structural assessment criteria	Expected date of achievement	Remarks
	Public sector reform		
1	Federal Executive Council to adopt guidelines for the restructuring of at least five ministries and parastatals.	End June 2006	Observed (2)
2	Complete restructuring of MDAs as set out in paragraph 9 of the statement.	End March 2007	Pending (3), Observed (4)
3	FIRS to complete implementation of human resource management system, including installation of HRM hardware and software for nationwide access, and conduct a competence assessment exercise to determine training needs.	End June 2007	Pending (3), Not met (4), waiver requested
PFM			
4	Publish the final Nigeria EITI 1999-2004 audit report.	End June 2006	Observed (2)
5	Debt Management Office to establish a primary dealer structure for treasury paper.	End June 2006	Observed (2)
6	Establish one-stop shop for investors, as described in paragraph 5.	End June 2006	Observed (2)
7	Introduce Integrated Personnel and Payroll Information System (IPPIS).	End September 2006	Delayed (2), Not met (3), observed with delay (4)
8	Establish database of pensioners and estimate size of pension arrears.	End September 2006	Observed (2), Observed (3)
9	FIRS to conduct nationwide taxpayer enumeration in preparation for introducing automated tax administration system, including TIN as set out in paragraph 5 of the statement.	End December 2006	Pending (2), Not met (3), observed with delay (4)
10	Appoint auditors to conduct the audit of the oil and gas sector for 2005 and 2006 as set out in paragraph 9 of the statement.	End March 2007	Not met (3), Not met (4)
11	Issue report on SEEDS Benchmarking for 36 states to be published as set out in paragraph 9 of the statement.	End June 2007	Observed (4)

Table A4.5 Overview 2nd, 3rd and 4th PSI review - structural assessment criteria and structural benchmarks			
	Structural assessment criteria	**Expected date of achievement**	**Remarks**
Financial sector reform			
12	The CBN to establish prudential standards for consolidated supervision and begin to supervise the banking groups on a consolidated basis.	End-December 2006	Pending (2), Not met (3), Not met (4)
13	The Central Bank to introduce a new Standing Facility to help reduce interest rate volatility as stated in paragraph 7 of the statement.	End June 2007	Observed (3) (4)
Privatisation and market regulation.			
14	Management contract for the Transmission company of Nigeria will be awarded as set out in paragraph 9 of the statement.	End March 2007	Not met (3), not met (4)
15	Bid opening for sale of the Abuja Electricity Distribution Plc as set out in paragraph 9 of the statement.	End June 2007	Not met (4)
Structural benchmarks			
PFM			
1	Continue publication of revenue allocation to the three tiers of Government.	Continuous	Observed (2), (3), (4)
2	Produce quarterly report of spending in MDG-related sectors (Health, Education, Power, Water, Roads and Agriculture) to cover Q1 and Q2 in the first instance.	End September 2006	Delayed (2), Not met (3), not met (4)
3	Finalise and issue Procurement Manual.	End September 2006	Dealyed (2), Not met (3), not met (4)
4	Set up a tax policy unit in the Ministry of Finance.	End December 2006	Pending (2), Observed (3)
5	Settle contractor arrears in cash for creditors with claim of up to N100 million and issue bonds to cover 50 per cent of debts owed to larger creditors.	End December 2006	Pending (2), Observed with delay (3)
6	Continue reform of Nigeria Customs Service by expanding the operations of the Large Importers/Exporters Unit to handle at least 50 per cent of the trade.	End December 2006	Pending (2), Not met (3), not met (4)

Table A4.5 Overview 2nd, 3rd and 4th PSI review - structural assessment criteria and structural benchmarks			
	Structural benchmarks	Expected date of achievement	Remarks
Anti-Corruption			
7	Conduct transparency and anti-corruption survey in at least six pilot states.	End December 2006	Pending (2), Observed (3)
Privatisation and market regulation			
8	Financial bid opening of Port Harcourt and Kaduna refineries.	End June 2006	Delayed (2), Not met (3), observed with delay (4)
9	Opening of financial bids for the concessioning of Central Railways Corporation.	End June 2006	Observed (2)
10	Opening of financial bids for the concessioning of the Federal Airport (Abuja).	End June 2006	Observed with delay (2)
11	Bid opening for sale of 8 Oil Service Companies.	End June 2007	Observed (3) (4)
Public sector reform			
12	Complete payment of severance benefits and training programmes for retirees resulting from the civil service reform programme in MDAs.	End March 2007	Not met (3), observed with delay (4)
13	Complete restructuring of 11 core ministries as set out in paragraph 9 of the statement.	End March 2007	Observed (3)
14	Complete restructuring of five parastatals in terms of right-sizing and right-staffing.	End March 2007	Observed (3) (4)
15	Nigerian Customs Service to conduct staff survey to determine suitability of personnel for minimum requirements of service in preparation for rationalisation, realignment and right-sizing its human resource system.	End June 2007	Observed (3) (4)

(2) = conclusions 2nd review (January 2007), (3) = conclusion 3rd review (July 2007), (4)= conclusion 4th review (October 2007).

Staff appraisal 2nd review

The 2nd review concluded that Nigeria ensured satisfactory progress under the 2nd phase of the PSI. The government met all assessment criteria and structural benchmarks through end-September 2006, except for:

- the introduction of the Integrated Personnel and Payroll Information System (owing to delays in system procurement);
- the end-June benchmark on the opening of the financial bids for the Port Harcourt and Kaduna refineries (owing to weak interest in the tender process);
- the end-September benchmark on the opening of financial bids for the Abuja airport (owing to delays in the due diligence process);
- delays in production of quarterly reports of spending in MDG-related sectors (owing to delays in computerisation);
- and issuance of the procurement manual (which was prepared, but its publication was pending the National Assembly's approval of the Procurement Bill).

Table A4.6 Overview of the 2nd review - criteria and benchmarks observed, pending, delayed or not met

	PSI (2)	Observed	Pending	Delayed	Not met
Structural assessment criteria					
Financial sector reform	1	1			
PFM	6	4	1[11]	1	
Public sector	1	1			
Structural benchmarks					
PFM	6	1	3[12]	2	
Privatisation and market regulation	3	2		1	
Anti-corruption	1		1[13]		

Staff appraisal 3rd review

The 3rd phase was somewhat less successful. The 3rd review was somewhat more critical. The review concluded that '*While significant progress was achieved in structural reforms over the course of the PSI, the delays in completing the final steps of several measures are regrettable.*' The review identified slippages in policy implementation, but the appraisal identified that these slippages were adequately addressed minimising the risks to macroeconomic performance. Interviews confirmed that the final steps of several reforms measures in phase 3 of the PSI were somewhat more difficult reforms than reforms in phase 1 and phase 2. In addition, the upcoming elections were also complicating the reform implementation.

11 Observed with delay under the 4th review.

12 One observed under 3rd review, one observed with delay under 3rd review and one not met under 4th review.

13 Oobserved under 3rd review.

Table A4.7 Overview of the 3rd review - criteria and benchmarks observed, pending, delayed or not met					
	PSI (3)	Observed	Pending	Delayed	Not met
Structural assessment criteria					
Financial sector reform	2	1			1
PFM	1				1
Public sector reform	2		2		
Privatisation and market regulation	1				1
Structural benchmarks					
Privatisation and market regulation	1	1			
Public sector reform	4	4			

Staff appraisal 4th review
Most structural measures for the fourth review had been implemented on time, and the authorities brought to completion a number of previously delayed measures from the third review. Waivers were granted for the mesures that were not met. Performance since the third review has improved significantly.

Table A4.8 Overview of the 4th review - criteria and benchmarks observed, pending, delayed or not met					
	PSI (4)	Observed	Pending	Delayed	Not met
Structural assessment criteria					
Financial sector reform	1	1			
Privatisation and regulation	1				1
PFM	1				1
Public sector reform	2	2			
Structural benchmarks					
PFM	2	2			
Privatisation and regulation	2	2			

Conclusion
The fourth review concluded, looking back at the two year period, that Nigeria is to be commended for the strong macroeconomic performance during the PSI which surpassed the original programme objectives (IMF 2007). The break from the policies of previous oil booms was instrumental in delivering the improved economic outcomes. The most notable achievements include robust economic growth, especially in the non-oil sector, significantly strengthened fiscal and external positions, improved confidence and reduced inflation. Prudent policies were pivotal to securing these gains: The political accord for the oil price based fiscal rule was the key factor, while the fiscal path was modified to accommodate infrastructure spending as macroeconomic conditions improved.

Table A4.9 presents a summary of all benchmarks and assessment criteria reflected in subsequent letters of intent. The table groups the benchmarks and criteria per theme and states whether the benchmarks and criteria were finally met, as concluded during the fourth review. It shows that the largest number of conditions was in the area of PFM (17 criteria and benchmarks), followed by privatisation and market regulation (8), public sector reform (7), and financial sector reform (6). Another conclusion that can be drawn from the above analysis is that reform efforts in the third phase of the PSI seemed to be more complicated than in the other phases.

Table A4.9 Overview of PSI - benchmark and assessment criteria per period and their compliance

	PSI (1)	PSI (2)	PSI (3)	PSI (4)	Total	Of which: Observed	Of which: Observed with delay	Of which: Not met
Structural assessment criteria								
Financial sector reform	3	1	1	-	5	4		1
Trade	1	-	-	-	1	1		
Transparency oil sector	1	-		-	1	1		
Privatisation and market regulation	1	-	1	1	3	1		2
PFM	-	6	1	1	8	5	2	1
Public sector reform		1	2	-	3	2		1
Structural benchmarks								
PFM	3	6	-	-	9	5	1	3
Privatisation and market regulation	1	3	1	-	5	4	1	
Financial sector reform	1	-	-	-	1	1		
Public sector reform	-	-	4	-	4	3	1	
Anti-corruption	-	1	-	-	0			
	(11)	(18)	(10)	(2)				

Reforms after 2007

Most key stakeholders identified a reform slow down after 2007. This can be partly explained by the fact that reforms after 2007 was more focusing on implementation of new laws and regulations, which was in Nigeria often more complex then the drafting and approving the new laws and regulation. In addition, some Acts reached the point of roll out to the states (such as the Procurement Act and the Fiscal Responsibility Act). This is a slow process, as every state needs to assess the Acts, translate to their own specific circumstances and complete a political consultation process with state assemblies. Furthermore, a new government took office in 2007 with a less rigorous approach to reform. Although the new government was still committed to the reforms, less initiatives for new could be identified, as well as a less rigorous approach to implementing existing reforms. An example of a new reform which is still in preparation is the fact that the authorities are working on the necessary legislation to set up a national Sovereign Wealth Fund in the medium-term, to improve management of natural resources of Nigeria.

Development plan: 7 Point Agenda

The 2007 Government of President Yar'Adua initiated its 7 *Point Agenda*, the development plan for the period 2008-2011. This agenda was partly based on the preparations made for NEEDS-2 and partly based on the political programme of President Yar'Aduas' political party. The 7 points agenda consisted of the following 7 priorities:

1. Power and Energy;
2. Food security and agriculture;
3. Wealth creation (diversified production of agricultural products and solid minerals);
4. Transport (roads and railway);
5. Land reform;
6. Security (especially the Niger Delta security);
7. Education (international standards and education for all).

As with NEEDS, there was a strong incentive to roll out the reform agenda to the state level. States were requested to develop state development plans on the basis of the 7 *Point Agenda*. Contrary to NEEDS, the focus of the development plan is less on initiating economic reforms.

Vision 2020 plan

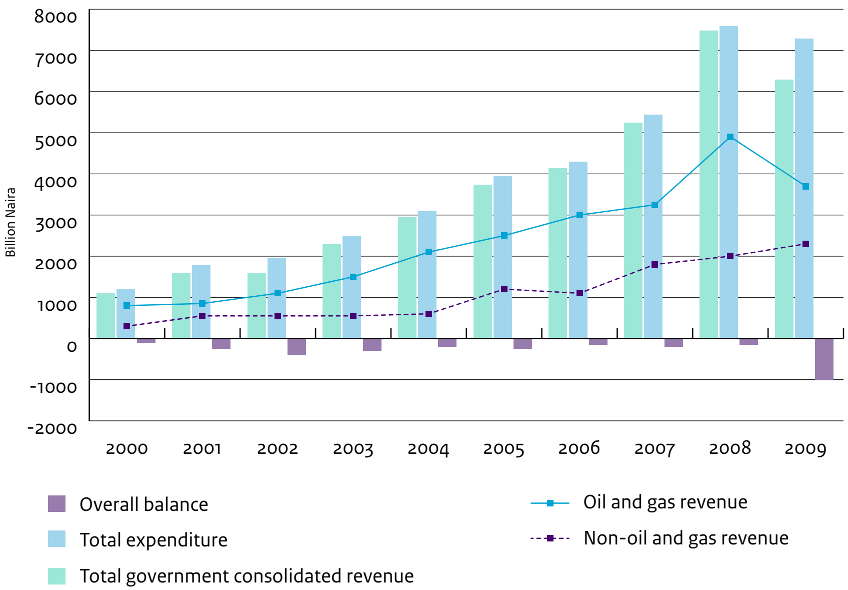
President Umaru Musa Yar'Adua launched the blueprint for the next strategic planning cycle in October 2009. The government has prepared '*Nigeria Vision 2020*', a strategic plan for the coming 10 years, also building upon the previous strategic plans. '*Nigeria Vision 2020*' will be supported by three medium term implementation plans: 2012-2014, 2015-2017, 2018-2020. The development goal in '*Nigeria Vision 2020*' is to be one of the world's top 20 economies by the year 2020, and to raise per capita income to at least US$ 4,000.

Annex to 4.3.2 Consolidated revenue, expenditure, and overall balance

Figure A4.1 and Table A4.11 present total government consolidated revenue, oil/gas and non-oil/gas, total expenditure and overall balance for the period 2000-2009. In the period 2000-2009 total government consolidated revenue increased with a factor 6 in nominal terms. In the period 2000-2005 the revenue increase was already strong, mainly as a result of oil and gas revenues. In this period oil and gas revenues increased with a factor 3 from 1,584 billion to 4,759 billion Naira, as a result of a sharp increase in the oil price (from US$ 28 per barrel to US$ 55.4 per barrel). Non-oil revenue also experienced substantial growth, especially in the period 2005-2009. Before 2005 it more than doubled, and for 2010 it is expected to almost triple relative to 2005.

Total government expenditure also increased substantially. In the period 2001-2003 government expenditure exceeded government revenues leading to deficits of 4 to 7 per cent of non-oil GDP. In 2004 Nigeria introduced the oil price based fiscal rule. The objective of this rule was to disconnect government revenues and expenditure by introducing more conservative oil prices on which the government budget is based. Initially the oil price based fiscal rule kept government deficit under control. In 2009 the consequences of the global economic crisis became apparent in Nigeria's budget. As a result of falling oil prices the fiscal accounts moved to a deficit of 6 per cent of non-oil GDP in 2009. For 2010 a minor deficit is expected.

Figure A4.1 *Consolidated government revenue, expenditure and overall balance, in billions of Naira, 2000-2009*



Source: CBN Annual reports 2009 (p. 233), 2007, 2004 (p. 128-134)

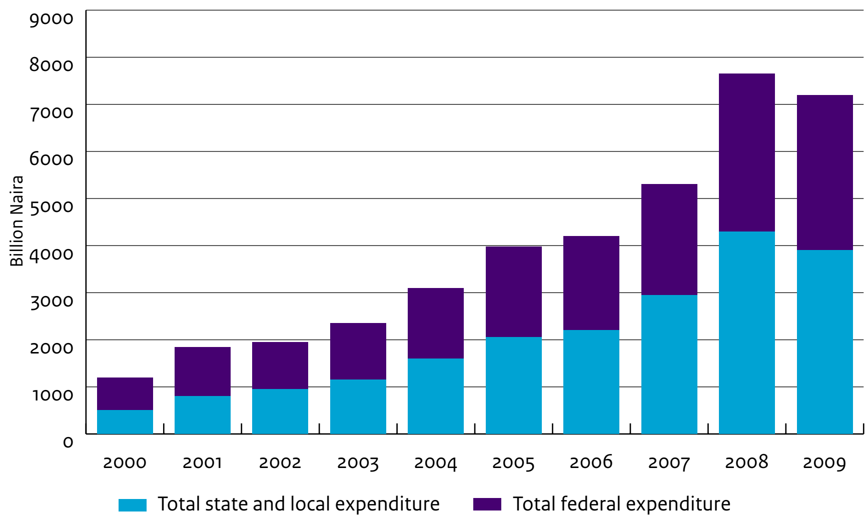
Table A4.10 Consolidated government revenue, expenditure and overall balance, in percentage of non-oil GDP, 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total government consolidated revenue	**47.1**	**35.1**	**30.6**	**39.3**	**40.7**	**42.4**	**35.9**	**39.9**	**49.4**	**36**
Oil and gas revenue	36.5	20.6	21.7	26.1	29.2	28.9	26.1	25.2	32.6	21.6
Non-oil and gas revenue	13.4	11.9	9.8	8.6	8.5	13.2	9.4	14	13.1	13.4
Total expenditure	51.7	40.7	37.5	43.5	43.1	44.8	37	41.1	50.3	41.7
Overall balance	-4.5	-5.6	-6.9	-4.3	-2.5	-2.4	-1.2	-1.2	-0.9	-5.7

Source: CBN Annual reports 2009 (p. 233), 2007, 2004 (p. 128-134).

Federal, state and local expenditure
The increase in government expenditure over the period 2000-2009 is noticeable on the federal and on the state and local level. In the period prior to 2004 increase in federal expenditure was relatively modest. However, modest federal spending development was more than offset by expenditure on state and local level as a result of oil windfall by states and local governments. For natural resource revenues, the constitution states that oil producing states receive 13 per cent upfront as derivation grants. Of the remaining 87 per cent, the federal government receives 52.7 per cent, states 26.7 per cent, and local governments 20.6 per cent.
In the period 2008-2009 the opposite development can be observed, where expenditure on state and local government levels decreased and expenditure on federal level stabilised. Up to 2008 a clear trend was observable that state and local government were becoming more important for government spending. In 2000 state and local governments were responsible for 35 per cent of government expenditure, whereas in 2008 it accumulated to 50 per cent. However, after 2008 it is expected to decline again to roughly 40 per cent of total expenditure.

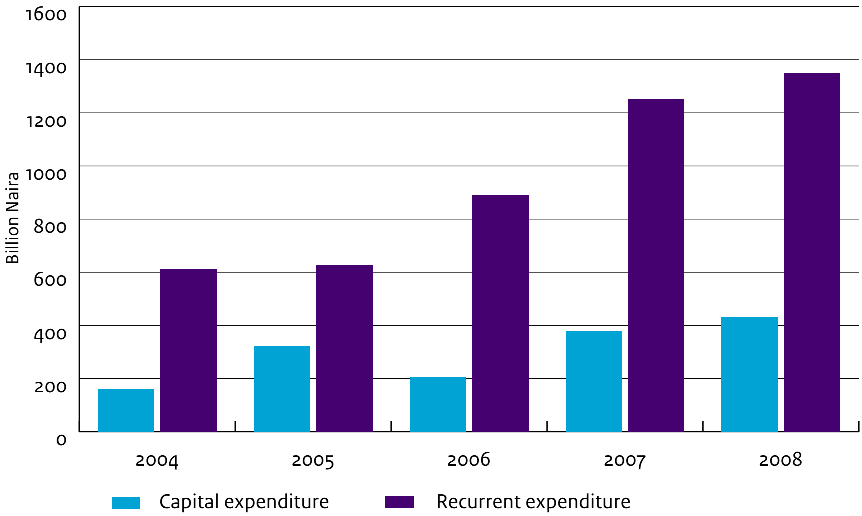
Figure A4.2 *Federal and state/local expenditure, in billions of Naira, 2000-2009*



Source: CBN annual reports 2009 (p.233-234), 2007 (p. 195-203), 2005 (p.164-170), 2004 (129, 132, 134).

Figure A4.3 below presents the development of actual capital and recurrent expenditure on federal level in real terms. Figure A4.3 illustrates that the increase in federal expenditure since 2004 can be mainly explained by a sharp increase in recurrent expenditure.

Figure A4.3 *Federal capital and recurrent expenditure, in billions of Naira (in real terms), 2004-2008*



Source: Report of the Accountant-General Financial Statements 2004 to 2008.

Financing

Table A4.11 indicates the financing needs of the federal government of Nigeria in the period 2000-2009. The table illustrates that before 2007 Nigeria was not able to finance its deficit externally.

Table A4.11 Financing federal government, in billions of Naira, 2000-2009

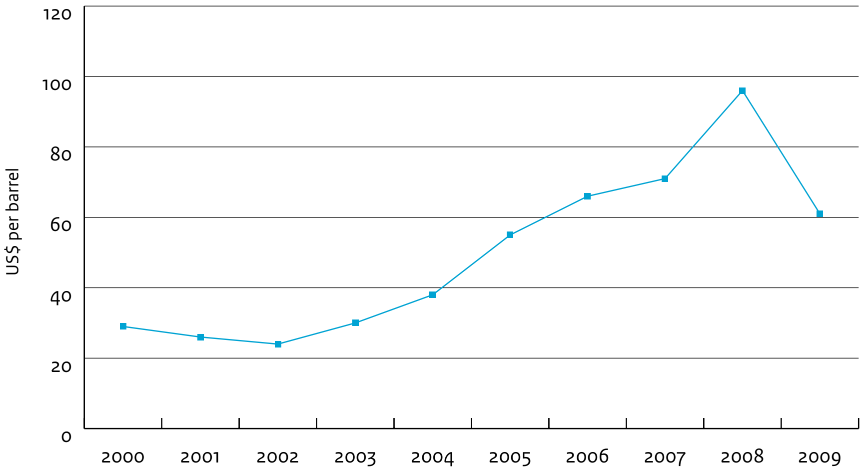
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Financing	**103.7**	**221**	**301.4**	**202.7**	**172.6**	**161.4**	**101.4**	**117.2**	**47.4**	**810**
Of wich:										
• External	0	0	0	0	0	0	0	0	62.9	93.6
• Domestic	103.4	118.7	149	163.7	46.4	143.5	45.1	212.3	150.7	511.1
• Other*	0.3	102.3	152.3	39	126.1	17.9	56.3	-95.1	-166.2	205.3

* *Includes Public, Special and Trust Funds, Treasury Clearance Funds, excess reserves, etc.*
Source: CBN Statistical bulletin.

Oil price

The development of the oil price has been crucial for the public finance position of Nigeria. During the period 2000-2008 the oil price has been on an increase, more than tripling its value. In 2008 this trend was abruptly reversed, continuing well into 2009. In August 2010 the oil price was at US$ 78.8 per barrel with no clear upward trend.

Figure A4.4 *Average yearly oil price (Bonny light), per barrel, in US$, 2000-2009*



Source: CBN (CBN Annual report 2008, CBN Statistical Bulletin 2004, figures 2009 based on internet data CBN website).

Annex to 4.3.3 Changes in debt management

In 1999, the quasi-independent Debt Management Office was established. The DMO is set up with a Front-Middle-Back office arrangement. DMO's mandate relies upon its ability to interact effectively with a wide range of stakeholders, at both federal and state level. In the Front office two departments, Market Development and Portfolio Management, deal with the external creditors and domestic market participants. The Middle Office comprising Policy Strategy and Risk Management department and Strategic Programmes department is responsible for most of the analytical work including debt strategy formulation. In the Back Office consisting of the Debt Recording and Settlement department is responsible for recording all the debt instruments and repayments on time. This arrangement of the offices has helped significantly to clarify the various functions and ensure that all the functions are performed competently. It is also worth mentioning that there is an active Organisational Resourcing Department that assists in building and updating knowledge and skills of staff. Further over the last decade, DFID (UK) has been assisting with a technical assistance project to strengthen the Debt Management Office, especially in the area of debt data recording and management.

At the highest level, the DMO operates within the *7 Point Agenda* and the National Economic and Empowerment Strategy (NEEDS). DMO had played an important role in economic growth and poverty reduction in terms of helping the government to borrow prudently and managing it. This contributes to the achievement of the goals set out in the *7 Point Agenda* and NEEDS-2.

Though improvements and levels of performance vary between the DMO at the federal level and the different states, it is fair to say that overall, progress has and is being made in public debt management. As all states do not have the same capacity and probably equal resources, it is envisaged that the rate of development in debt management will vary across the various states. Therefore progress made in various states has to be judged against the background of the constraints faced by the states.

The DMO has a responsibility to ensure the sustainability of all public debt in Nigeria and to do this requires a careful monitoring of state-level debts. In addition the Fiscal Responsibility Act also requires that states work within a national deficit benchmark. Current legislation will not allow states to borrow directly from external sources but limited borrowing is allowed from domestic sources. However, the DMO is limited in what it can impose on the states by the autonomy provided to the states by the Constitution. States are allowed to prepare the projects and financing requirements independently but to obtain external funding they have to request the Ministry of Finance and DMO. These funds will be contracted by DMO but will then be on-lent to the states. To achieve its goal under these circumstances, the DMO must combine three alternative approaches:

- First, the DMO can place a legal obligation on the states to provide information to conduct debt management in a specified manner but due consideration must be given to the autonomy of the states as described in the Constitution;
- Second, the DMO can use contractual arrangements to achieve its aims. For example, by on-lending to the states or guaranteeing states' debts, the DMO can in return require the disclosure of certain information or impose conditions on the states;
- Third, the DMO can encourage fiscal discipline and capacity building in debt management at the state level through outreach and advocacy. This is an example of a 'bottom-up' approach (as opposed to the two 'top-down' approaches above).

The DMO is already engaged with the states in all three approaches. Using the Governors' Forum[14] as a platform, the DMO has already contributed to improving relationships between the federal and state tiers of government. The DMO has also provided the states with specific guidelines, training and technical assistance to encourage the establishment of their own Debt Management Departments (DMDs) for effective debt management at the sub-national level.

As debt data management is an important area, already the DMO is helping with the training of staff in computer based debt management system called CS-DRMS 2000+. Though at present only a few states have installed the system and operating it over time it is envisaged that all states will use the system.

[14] The Governors' Forum is the coalition of all 36 states. The Nigeria Governors' Forum was founded in 1999. It is a platform to share policy information and analyses, communication and coordination mechanisms and bring together key policy makers in all three branches of the national government.

Debt management at state level

After reviewing several documents and visiting two states, Kano and Cross River state, it is fair to say that the level of debt management varies from state to state. This is largely due to initiatives taken at the state level, their existing capacity, borrowing needs etc. In the early stages of development states will set up debt management units, and when they advance to a higher level, the units will be upgraded to debt management departments. These will be situated in the Ministry of Finance. The three basic pre requisites for good debt management are:

- legal framework, that will have a clear mandate and purposes for borrowing;
- competent core staff who will be able to manage the borrowing prudently;
- a sound recording, monitoring and payments system.

Kano debt staff has completed the debt management section in the state level Fiscal Responsibility Law and is waiting for final approval, installed the CS-DRMS for recording and management of debt and have a dedicated core staff of about 3. They were able to generate stock and flows reports and repayment schedules. Unlike the earlier years, they can now forecast all their payments due and do not have to solely rely on this information to be provided by the DMO. Kano has no bilateral debt and as such was not that much concerned about Paris Club debt.

When compared to Kano, Cross River state is at the initial stages of development, with a debt management unit with dedicated staff. They have installed CS-DRMS but are not able to generate reports on debt stocks and flows like Kano. In terms of the composition of debt, unlike Kano, Cross River state has bilateral debt. At present, it is reviewing the part related to legal framework of debt management in the Fiscal Responsibility Act. Cross River state has to allocate more resources and obtain more training in the immediate future to catch up with Kano.

Annex to 4.3.4 Changes in poverty reduction policies

By the start of Obasanjo's first term (1999-2003), there were a plethora of 'tagged' poverty reduction programmes undertaken during the military regimes of Babangida and Abacha. Most of them were programmes to manage the social consequences of the earlier structural adjustment, tackle growing unemployment, infrastructural decay and increasing vulnerability of groups such as rural women, farmers and so on. These include the National Directorate of Employment (NDE), Better Life for Rural Women programme (BLP), Directorate of Foods, Roads and Rural Infrastructure (DFRRI), Family Economic Enhancement Programme (FEAP) and the Poverty Eradication Programme (PEP) (see Box A4.3).

The PEP was the entry point of the Obasanjo Administration's poverty reduction efforts. While he allowed the existing PEP programmes to continue within ministries, he established the National Poverty Eradication Council (NPEC) and a Poverty Eradication Fund (PEF), to which states, local governments, private sector and donors were to contribute, and the National Poverty Eradication Programme (NAPEP) in 2001. To date, NAPEP coordinates all poverty reduction programmes at federal, state and local government levels. The blueprint for NEEDS is reflected in the NAPEP operational mode; that is a policy coordination framework that works through the three tiers of government. NAPEP was re-engineered to align with lower tiers of government such that there is NAPEP at the federal level as well as state and local government chapters. This reflects the intergovernmental coordination that characterised NEEDS (Interview with National Coordinator, NAPEP). NAPEP's mandate is to demonstrate strategies that can lower levels of poverty in the country for up scaling. The principle of poverty eradication pursued is to link poverty reduction to economic growth through employment generation while also taking care of the vulnerable – those who would normally 'fall thru the cracks' of employment and productivity due to various forms of vulnerabilities, through social transfers.

Box A4.3 *List of Poverty Reduction Programmes inherited and initiated by the Obasanjo Administration*

(I) List of Poverty Reduction Programmes inherited by the Obasanjo Administration

The National Directorate of Employment aims to address the growing unemployment especially among youths and underemployment among rural dwellers:

1. The Better Life for Rural Women Programmes (BLP) initiated in 1987 by Mrs Mariam Babangida under the auspices of the National Commission for Women, later Ministry of Women Affairs, to bridge the human development and empowerment gap between men and women and between rural and urban dwellers;
2. The Department for Food, Roads and Rural Infrastructure (DFRRI) also during the Babagida regime which was to complement the Roads and Rural Infrastructure programme under the World Bank Assisted Agricultural Development Programme;
3. Family Economic Advancement Programme (FEAP), initiated by the next first lady, Mrs Mariam Abacha in 1993;
4. The Poverty Eradication Programme (PEP) which was being implemented within a good number of MDAs during the Abacha regime;
5. National Poverty Eradication Programme (NAPEP), the first comprehensive social safety net programme (1999).

(II) List of Poverty Reduction Programmes initiated by the Obasanjo Administration

Alongside NAPEP, and within specific sectors, there were major policy shifts characterised by a number of sectoral and subsectoral policy blueprints and revisions including The New Agricultural Policy; The Transport Policy; The National Energy Policy; The National Gender Policy; revision of the National Policy on Education, including the National Blueprint on Girl-Child education; National Policy on Orphans and Vulnerable Children (OVC), to mention a few. Also special programmes that emerged to complement the poverty reduction efforts of the regime, especially sectors related to achievement of the MDGs include:

1. The Universal Basic Education –UBE (1999);
2. National Programme on Immunisation (1999);
3. Roll Back Malaria (2000);
4. National Action Committee on AIDS (NACA);

5. Greater investment in rural water schemes in partnership with Water and Sanitation (WATSAN) programme of UNICEF;
6. Construction and launching of the Gurara Dam to increase water sources (2007);
7. Enhancement of the Rural Electrification Scheme and a Twenty Five-Year Power Generation Development Plan;
8. Introduction of the Public-Private-Partnership (PPP) Initiative to enhance investment in many key sectors ;
9. National Committee on Privatisation and the Bureau of Public Enterprises leading to government gradual divesture in the power, telecommunication and petroleum sectors to make these more efficient for leading employment generation;
10. National Transport Commission Bill focused on enhancing public transportation;
11. Federal Roads Management Agency (FERMA);
12. Presidential Initiative on Agriculture – focusing on selected crops of food security importance;
13. National Strategic Grains Reserve Programme to smooth all-year-round food availability;
14. National Special Programme on Food Security;
15. National Agricultural Insurance Scheme to protect small farmers from production and price shocks;
16. Reconfiguration of National Agriculture and Rural Development Bank to leverage more credit for small farmers;
17. The Fadama (= 'irrigable land') Programme to promote small farmers commercialisation and enhance farm income.

The major and comprehensive shift in poverty reduction policies came with the emergence of the Poverty Reduction Strategy paper (PRSP) required by the World Bank for policy-based lending facilities such as the Economic Recovery and Growth Facility (ERGF). Nigeria prepared the Interim PRSP in 2001 under the office of the Vice President. The economic management team started that same year as the 'Economic Policy Coordinating Team'. Ngozi Okonjo-Iweala was in that period (2001-2003) the economic advisor. In June 2003 she became Minister of Finance, and then the team was called the economic management team, led by Prof Charles Soludo as Chief Economic Adviser. In the understanding that they had to come with a credible plan on how to spend money after the debt relief was granted and to convince the creditors that Nigeria had a good institutional framework to prevent future debt problems, the Interim PRSP (I-PRSP) was re-named National Economic Empowerment and Development Strategy NEEDS, that is, the PRSP without the attached conditionalities, developed to be owned by Nigeria and implemented as the comprehensive national development framework, debt deal or no debt deal. NEEDS however became an important tool in the debt relief negotiations.

NEEDS, launched in 2004, has at its core, economic reforms of the decadent Nigerian system as well as a comprehensive Human Capital Development Agenda, a Social Charter, Sectoral Programme Development, all hinged on (i) wealth creation, (ii) employment generation, (iii) poverty reduction, and (iv) value reorientation. Therefore, achievement of substantial poverty reduction and human capital improvement was to be managed through the instrumentation of NEEDS, as well as its lower level counterparts, the States Economic Empowerment and Development Strategy (SEEDS) and the LEEDS, at the local government level of governance. NEEDS reflects most of the anchors of the PRSP, but NEEDS was not a direct conditionality. It was simply the voluntary tool for meeting the possible requirements for debt relief.

It was variously noted by stakeholders, especially from civil society, that while NEEDS was being developed (since 2002) as Obasanjo was still canvassing for debt relief, NEEDS could not be implemented without substantial financial leverage. The oil windfall was a momentous gain but might not be sustainable due to volatility of the oil market. The debt deal was more sustainable as it would release continuously at the minimum, the amount spent on debt service annually.

Assessment of NEEDS (2004 to 2007 MTEP) indicated that there was enhanced growth especially in agriculture (6 per cent annual growth in 2006) but that this did not translate into substantial poverty reduction. Poverty incidence increased from 54.4 per cent in 1999 to about 64 per cent in 2003 and 66 per cent in 2006. The 7 million target employment generation had only achieved about 0.9 million jobs by 2007. There was concern that the growth was being achieved at the expense of human development because NEEDS was to be mainly private-sector driven, resulting in caps on public expenditure which was affecting human development sectors. Civil society representatives thus criticised government policies for not having done enough for providing jobs and for improving human development. See Boxes A4.4 and A4.5 on civil society and international partnerships with NEEDS.

Box A4.4 *Civil Society Engagement with Poverty Reduction*

During Obasanjo's first term in office, the space created for civil society engagement allowed the airing of major socio-economic concerns. A number of civil society organisations and coalitions emerged while a good number of international NGOs revamped their engagement with the democratic government to canvass for and contribute to poverty reduction efforts.

Global Action Against Poverty (GCAP) is a coalition of NGOs that held the view that the NEEDS agenda was owned by or driven by the World Bank, and was being executed on the basis of World Bank templates and that the PSI put a cap and pressure on public expenditure and was worsening poverty. The perceived failure of NEEDS called for a new agenda for addressing poverty. The cap on public expenditure did not provide much financial room to maneuver. However NEEDS did deliver an improved financial sector and an improved macroeconomic climate. The coalition was not initially in support of the debt deal especially the pay-off of US$ 12 billion. However, civil society engagement with the process through the OPEN M&E has been convincing of the potentials of successful poverty reduction via the VPF.

Box A4.5 *International Partnerships*

Several multilateral and bilateral agencies were already engaged in leveraging the development and implementation of PRSP and NEEDS, aligning their mandate with the four pillars of NEEDS – employment generation, wealth creation, poverty reduction and value reorientation. At the heart of all these lay the need for economic empowerment through poverty reduction. Thus, many initiatives during Obasanjo's first term aimed at NEEDS targeted poverty reduction efforts through changing policies and programmes in health, education, agriculture, small scale industries a.s.o. and were supported by donor agencies including UN, DFID, CIDA, European Union, USAID to mention a few. Many of the government schemes were supported by these multilateral and bilateral donors as well as international NGOs many of whom were expanding their engagement with the new democratic regime. The partnerships were also strengthened by the economic reform agenda that shaped the debt negotiations and so can be attributed even if in part by the prospects of a debt deal. It is also not incorrect to say that the institutional reforms around the management of DRG has fostered greater confidence among donors. While ODA patterns did not change significantly for most, DFID and USAID actually increased ODA spending over the period of Obasanjo's first term. Also to the extent that the pattern of ODA favoured government much more than civil society organisations that had been engaging directly with the poor at the grassroots, a measure of confidence in the government's reform agenda can be assumed.

The UN Joint Donor Assistance Fund (UNDAF) had emphasised synergy with government priorities, in this case, to promote the objectives and strategies of NEEDS since 2004. There are thematic focus groups across all the UN-Agencies. While for instance, UNIFEM heads the thematic group on gender equality with focus on the equity issues within NEEDS, UNDP coordinates poverty reduction programmes within the UN system. Significant support was given to promoting the implementation of NEEDS and SEEDS within UNDAF. UNIFEM has supported increasingly programmes and projects of reducing discrimination against women (Goal 3) and especially the domestication of CEDAW –Convention on Elimination of All Forms of Discrimination Against Women, development of gender equality policy and proposed joint funding of the Millennium Village project with the MDG Office. It also supported states in developing of SEEDS documents in 2005 and 2006. OXFAM.GB was banned from Nigeria during the civil war because her interventions were not politically acceptable to Nigeria. OXFAM returned during the first term of Obasanjo, in 2001. Before then, Nigeria was not considered a high risk country and also due to the military incursion (a military coup that disrupted the second democratic regime of the Nigerian state in 1994). In the 1990s poverty profiles rose, making the country a target for intervention. Democracy facilitated the return of OXFAM (source: stakeholder interviews).

The EU alone is the largest contributor (up to 400 – 500 million euros in the last 4 to 5 years); concentration of cooperation is in the areas of support to macroeconomic reforms with technical assistance alone is in the region of 5 million euros annually; German NGOS operate in Nigeria of their own – such as Heinrich Boll Foundation, Friedrich Ebert Foundation to contribute to macroeconomic reforms and poverty reduction efforts (source: stakeholder interviews).

DFID financed State and Local Government Support Programme (SLGP), jointly with EU-SRIP (Support to Reforming Institutions Programme of the EU) and UNIFEM supported the benchmarking exercise for SEEDS in 2006, thereby promoting the framework for more effective outcome (service delivery) of NEEDS/SEEDS plans and budgets for poverty reduction.

SLGP also supported the development of a new Chart of Accounts for Kano state. SPARC has a commitment for 4 years in Kano state supporting state reform planning. SPARC support in Strategic Planning helped Kano state to develop the 'Kano State Road map for Development' (KSRD), started in 2009 and still in progress. SPARC is now supporting the costing of the strategy. The KSRD has been translated into MTSS (Medium Term Sector Strategies) for all sectors.

Annex to 4.3.5 The Virtual Poverty Fund (VPF)

VPF outputs

Table A4.12 VPF allocation by sector: human development sectors, M&E findings, in billions of Naira, 2006 and 2007

Sector Activities	Allocation 2006 N billion
Health sector	**21.29**
Roll Back Malaria	1.28
HIV/AIDS	4.75
Tracking MDGs	0.21
PHC	9.05
NPI	5.50
TB/LEPROSY REFFERAL	0.50
Education sector	**19.22**
Policy support	1.97
HIV/AIDS Unit	0.10
Girls Education	2.0
National Mass Literacy	1.0
Nomadic Education	0.5
Curriculum Support	0.3
National Teachers' Institute	4.0
Colleges of Education	1.60
Universal Basic Education	6.75

Table A4.13 VPF allocation by sector: agricultural sector, M&E findings, in billions of Naira, 2006 and 2007

Activities	Allocation 2006 N billion
On farm storage	0.70
Water harvesting	0.50
Livestock &pest control	0.70
Fisheries	0.50
Rural infrastructure	5.00
Irrigation	0.55
Animal traction	0.75
Microcredit	0.70
Others	-
Total	**9.40**

Table A4.14 VPF allocation by sector: infrastructure sectors, in billions of Naira, 2006	
Activities	**Allocation 2006 N billion**
Power & steel	16.96
Rural electrification	16.96
Federal highways	9.86
Water supply	19.22
National Water supply	9.425
Rural Water supply	9.795
Environment	1.485
Erosion control	0.65
Afforestation	0.55
Waste management	0.20
Sanitation	0.07
Others	0.01
Housing and Urban Dev.	0.495
Slum dwellers programme	0.495
Total	**86.175**

Table A4.15 VPF allocation by sector: empowerment programmes, in billions of Naira, 2006	
Activities	**Allocation 2006 N billion**
Women Affairs	**1.00**
Policy support and capacity building	0.735
Project support	0.265
Youth Empowerment	**0.99**
Entrepreneurship	0.86
Advocacy and training	0.13

Table A4.16 Allocation to Social Safety Nets Component of the VPF (NAPEP), in billions of Naira, 2007-2010				
Scheme	**Allocation from DRG (N Billion)**			
	2007	**2008**	**2009**	**2010**
Yep-keke NEPAP*	8	6	-	
Conditional cash transfers	1	2	-	
Village solutions	1	1	-	
Total	**10**	**9**	**-**	**3.39**

** Provisional figures.*

Table A4.17 CGS Disbursements to states (2007-2010) and state counterpart contributions, in billions of Naira

	2007 CGS	2008 CGS	2009 CGS	Total CGS	Total state counterpart	Total value
Abia	0.3	0.9	1.0	2.1	1.8	4.0
Adamawa	0.3	0.5	1.0	1.7	1.5	3.2
Akwa Ibom	0.0	0.2	0.8	1.1	1.1	2.1
Anambra	1.8	0.8	0.9	3.6	1.8	5.3
Bauchi	1.0	1.0	0.9	2.9	1.9	4.7
Bayelsa	0.0	0.8	1.2	1.9	1.6	3.5
Benue	0.0	0.0	0.9	0.9	0.9	1.8
Borno	0.0	0.6	0.3	0.9	0.9	1.8
Cross River	1.4	0.0	1.0	2.4	1.0	3.4
Delta	0.0	0.9	0.8	1.8	1.8	3.5
Ebonyi	0.0	0.0	0.7	0.7	0.7	1.3
Edo	0.7	0.9	0.9	2.5	1.8	4.3
Ekiti	2.1	0.9	0.5	3.4	1.4	4.8
Enugu	0.0	0.4	0.9	1.2	1.2	2.5
FCT	1.7	0.8	1.0	3.5	1.8	5.3
Gombe	0.7	1.0	0.6	2.3	1.6	3.9
Imo	0.0	1.0	1.0	1.9	1.9	3.9
Jigawa	0.8	0.9	1.0	2.7	1.9	4.5
Kaduna	0.5	1.0	0.8	2.4	1.8	4.2
Kano	1.1	0.6	0.0	1.7	0.6	2.3
Katsina	0.6	0.9	1.0	2.6	1.9	4.5
Kebbi	0.0	0.8	0.8	1.6	1.6	3.3
Kogi	0.0	0.4	0.6	1.0	1.0	2.0
Kwara	0.0	0.7	0.8	1.5	1.5	3.1
Lagos	0.7	0.6	0.5	1.8	1.1	2.8
Nassarawa	0.6	0.5	0.0	1.1	0.5	1.6
Niger	0.0	0.5	0.9	1.4	1.4	2.8
Ogun	0.0	0.8	0.0	0.8	0.8	1.6
Ondo	0.5	0.3	0.2	1.0	0.4	1.5
Osun	0.0	0.3	0.8	1.2	1.2	2.3
Oyo	0.0	0.9	0.9	1.8	1.8	3.6
Plateau	0.0	0.5	0.9	1.4	1.4	2.7
Rivers	0.0	0.9	0.7	1.6	1.6	3.2
Sokoto	0.0	0.4	0.6	1.0	1.0	2.0
Taraba	1.9	0.8	0.9	3.6	1.7	5.3
Yobe	0.5	0.9	0.8	2.2	1.7	3.8
Zamfara	1.2	1.0	0.5	2.7	1.5	4.3
Total	18.4	24.4	27.0	69.9	51.0	120.9

Source: OSSAP/MDG Office.

Annex 5

Gross Outcomes

Annex to 5.2.1 Debt sustainability analyses by IMF and World Bank 2001-2005

Since the launching of the HIPC initiative the starting point of any possible offer of debt relief is based on a Debt Sustainability Analysis (DSA) carried out by the IMF. The exercise is carried out under various macro and borrowing scenarios and the ratios obtained are checked against the thresholds. The second reason for carrying out a DSA is to assess whether the borrowing policy that the country is undertaking is within a sustainable level of debt. Though Nigeria remained a 'blend' country (until 2005) and was not eligible for HIPC or MDRI, the IMF carried out DSAs in 2001 and 2005 during the Article IV missions.

2001 DSA -Baseline scenario assumptions

- The implementation of sound economic and financial policies, continued structural reforms (including transparency and accountability, efficient use of public resources, civil service reform and privatisation);
- Oil prices, according to World Economic Outlook (WEO) projections are expected to decline from US$ 29 per barrel to the medium term forecast of US$ 20 per barrel by 2010 and oil exports and oil revenues will continue to fall, though non-oil exports are projected to rise;
- A decline in GDP in 2001 by 5.5 per cent and then gradually increased to 5 per cent in 2007;
- Given the above, with constant terms of trade over the long run, current account deficit is projected to stabilise around 7 per cent of GDP. With further progress in structural reforms the capital account improvements are expected in terms of increased private capital in flows and FDI;
- No further debt relief except the on-going Houston terms offered in 2005.

The results show a worsening of the external debt indicators:

- Debt to GDP would increase to 85 per cent in 2003 and hovers around this figure but declining gradually to 60 per cent by 2010. There will be large financing gaps that would also add to the stock of debt;
- The NPV of debt to exports of goods and non-factor services ratio remain at 170 per cent until 2005 and thereafter decline to 110 per cent by 2010;
- Debt service to exports ratio increases to 25 per cent in 2006 before falling to 21 per cent in 2010.

The overall conclusion based on the DSA was that the flow rescheduling scenarios will lead to a surge in debt service payments until the end of the rescheduling period which ends in 2005. If Nigeria is to avoid the marked increase in debt service payments, in addition to good macroeconomic policy performance further debt relief would be needed.

2005 DSA - Baseline assumptions

A debt sustainability analysis was carried out by the IMF in 2005 (during an Article IV mission) just prior to the commencement of the debt relief programme. After substantial progress made in the implementation of successful reforms and macroeconomic performance Nigeria was offered a significant debt reduction option under the Paris Club initiative. However, the DSA did not assume that any debt relief operations will be in place and following assumptions (2005-2025) were made:

- Growth will average 5 per cent with non-oil growth of 5.5 per cent;
- Inflation brought down to 3 per cent in 2010 and remaining at that level thereafter;
- Oil prices average US$ 49.5 per barrel in 2005 and then fall to US$ 35 per barrel in 2019 and then rising by about 2 per cent per annum;
- Overall deficit to be brought down and maintained at maximum of 5 per cent;
- Outlook for oil prices being favourable, with fiscal and external positions being comfortably in surplus with the build up of gross international reserves.

Results: external sustainability:

- Given a low status of CPIA, the NPV of debt is projected to be marginally above the sustainable threshold of over 30 per cent until 2010;
- NPV of debt to exports and debt service to exports was estimated to be below the threshold of 150 per cent and 15 per cent respectively;
- NPV of debt to government budget revenue and debt service to budget revenue was estimated to be within the sustainable thresholds of 200 per cent and 20 per cent respectively;
- The only case highlighted in the study was that if oil prices decline by US$ 6 with unchanged fiscal policies, the sustainability can be only assured until 2018.

Table A5.1 (below) shows the various debt sustainability indicators over time for the baseline scenario.

Table A5.1 Debt sustainability indicators (baseline scenario), 2005-2025

	2005	2006	2007	2008	2009	2010	2015	2025
NPV External PPG debt to GDP	38.2	34.6	33.8	32	31.1	29.6	26.7	19.7
NPV External PPG debt to Exports of Goods(G) and Non-Factor Services (NFS)	72.5	64.7	65.2	61.6	61.3	58.1	59.3	57.2
Debt service to Exports of G&NFS	7.5	6.3	5.6	5.6	5.5	4.6	5.5	2.8
NPV of PPG External debt to Budget revenue	80.3	73.5	74.7	71.3	71.2	67.2	68.3	63.6

Source: Debt Sustainability Analysis, IMF Article IV mission, August 2005.

The DSA assessment prior to the debt deal has led to discussions in Washington. The Netherlands has raised some comments. The first comment focused on the fact that the DSA for Nigeria did not follow the agreed joint framework for DSA. And second, the Netherlands has made some comments on the underlying baseline scenario. Baseline scenario suggested a declining oil price from US$ 46.50 to US$ 34 by 2019, whereas other IMF studies indicated that to some extent price increases incurred in 2005 were labelled as structural price increases. This was not taken into account in the baseline scenario. In addition, only an additional price decrease of 0.5 standard deviation (US$ 6) on top of the 1 standard deviation price drop could lead to sustainability problems.

Alternative approach debt sustainability analysis

The IMF DSAs[1] carried out in 2001 and 2005 show that using a standard approach and based on the most likely development of macroeconomic performance and oil prices, debt relief was not needed for maintaining debt sustainability in the long term. The only case where debt relief was emphasised was in the 2001 DSA, where it was shown that, with oil prices around US$ 20 per barrel, substantial debt relief was required to maintain debt sustainability. In 2005 it was concluded that if oil prices decreased by 1.5 standard deviation the debt would not be sustainable.

However, there was an alternative debt sustainability approach as a reaction on the more 'strict' IMF assessment, and more based on Nigeria's development needs. Nigeria is a large populous country (around 150 million) with a low per capita income. Its social indicators also show a poor development in basic health, education and infrastructure sectors. Large investments were needed to raise the level of these poor indicators to an acceptable level and one approach was to base the progress on achievement of the Millennium Development Goals. The World Bank[2] carried out a DSA in 2005 based on this and concluded that debt relief was needed for Nigeria to achieve its MDG's. The following table shows the status of some of the economic and social indicators measured in 2005.

Table A5.2 Status of economic and social indicators 1990 / 2005 (measured in 2005)

MDG Goal to be achieved by 2015 from 1990	Status in 1990	Status in 2005
Halve proportion of people whose income is less than $1 per day. Halve proportion of people suffer from hunger	42.7% of population with income less than $1 per day	57% of population with income less than$1 per day
Provide primary education for all children	68% gross primary enrolment	60% gross primary enrolment

[1] The DSA carried out by the IMF in 2001 was not based on the new DSF template developed much later. However, DSA report included in the Article IV mission report of 2001 has a table and narrative on the DSA analysis carried out in 2001.

[2] *'Nigeria's Opportunity of a Generation: Meeting the MDGs, Reducing Indebtedness'*, April 2005, World Bank.

Table A5.2 Status of economic and social indicators 1990 / 2005 (measured in 2005)		
MDG Goal to be achieved by 2015 from 1990	**Status in 1990**	**Status in 2005**
Reduce under-5 mortality by 66% and reduce maternal mortality by 75%	Under-5 mortality of 235 per 1000 births 33% of births attended by skilled personnel	Under-5 mortality of 201 per 1000 births 36% of births attended by skilled personnel
Reduce by 50% of people without access to safe drinking water and basic sanitation	Access to clean water:36% Access to basic sanitation:34.2%	Access to clean water:42% Access to basic sanitation:40%

Source: 'Nigeria's Opportunity of a Generation: Meeting the MDGs, Reducing Indebtedness', April 2005, World Bank.

The indicators show that instead of getting better over time, the situation has become worse for many of the goals. To reverse this trend and progress on the MDGs, large investments had to be made. Consequently large expenditures based on proper MDG costing had to take place in these sectors which subsequently give rise to high financing needs. In other words, large deficits will appear given moderate increases in oil revenues.

Even if oil revenues increase moderately, the country cannot entirely rely on this as experience shows that oil prices are highly volatile. In order to reduce the volatility and maintain a stabilisation and saving fund that would help during bad times and for future generations, some of the oil revenues during higher oil prices should be saved. Given this scenario, where development has to take place in attaining MDGs, some oil revenues saved and borrowing is to be sustainable, some level of debt relief is essential. The study's main conclusion is that a much higher level of MDG related spending than that in the Baseline Scenario of the IMF (DSA 2005) will be required to attain the MDGs. Nigeria will probably need a large amount of additional concessional inflows during 2005-2015 in addition to high GDP growth rates, high oil prices and appropriate policies. Though the analysis is not based on the typical IMF type DSA, it looks at bringing down the debt to GDP ratio below 60 per cent, criteria similar to the EU convergence criteria.

Annex to 5.2.4 Debts of states after 2005

After 2005, states have only incurred multilateral debts. The total, including Federal Capital Territory (FCT), increased from US$ 1.4 billion to US$ 1.8 billion between 2006 and 2009. This means that the share of the states' debts in total debt increased from 38 per cent in 2006 to 47 per cent in 2008. See Table A.5.3.

Table A5.3 State debts, in US$ million, 2006-2009

		2006	2007	2008	2009
1	Abia	19.60	20.37	25.89	27.86
2	Adamawa	15.20	19.66	21.21	24.50
3	Akwa Ibom	60.79	60.06	60.36	58.74
4	Anambra	16.87	15.19	18.89	17.31
5	Bauchi	37.94	69.11	73.39	44.20
6	Bayelsa	16.31	22.29	25.79	25.05
7	Benue	14.39	16.78	21.49	24.26
8	Borno	11.03	13.57	15.08	14.81
9	Cross River	93.52	94.45	99.39	101.83
10	Delta	26.40	24.17	21.57	19.48
11	Ebonyi	20.83	23.22	30.09	32.04
12	Edo	35.00	33.31	31.68	42.05
13	Ekiti	20.37	32.76	33.86	32.74
14	Enugu	22.03	23.90	26.62	33.39
15	Gombe	10.41	14.27	17.53	21.26
16	Imo	33.32	43.93	45.17	49.46
17	Jigawa	12.58	15.80	16.89	18.25
18	Kaduna	85.00	93.15	109.10	135.81
19	Kano	42.63	39.80	39.82	44.09
20	Katsina	66.95	69.64	77.70	78.78
21	Kebbi	39.19	42.65	45.31	46.83
22	Kogi	20.03	30.88	30.35	32.35
23	Kwara	20.05	24.52	24.97	30.08
24	Lagos	190.44	243.28	270.84	347.93
25	Nassarawa	25.60	24.76	23.28	28.54
26	Niger	31.84	27.68	27.63	25.81
27	Ogun	29.23	38.90	54.87	67.90
28	Ondo	39.51	40.34	41.87	46.65
29	Osun	55.41	53.17	57.66	64.11
30	Oyo	113.85	108.92	106.72	100.28
31	Plateau	38.12	34.48	29.26	29.23
32	Rivers	28.62	30.99	32.34	33.73
33	Sokoto	25.63	32.69	33.97	36.02
34	Taraba	18.36	18.86	19.64	19.91
35	Yobe	16.05	18.15	18.79	27.22
36	Zamfara	12.80	13.62	17.23	23.79
37	FCT	10.06	12.20	14.24	29.35

Annex to 5.3 Macroeconomic stability

When we look at inflation in the period 2003-2009, the year 2005 was a turning point. Pre-2004 years reflected double digit inflation figures. Prudent fiscal policy with sound monetary policy led to a continued declining path for inflation since 2005 and reached single digit inflation figures in 2006. This policy mix continued in 2006 pushing back inflation even further. In 2006 some monetary relaxation occurred. The government deviated from the oil price based fiscal rule which led to fiscal expansion and an unanticipated liquidity increase. The IMF concluded that this liquidity increase did not lead to inflationary pressures as a result of increased confidence and higher money demand.

Table A5.4 CPI inflation Nigeria, 2003-2009

	2003	2004	2005	2006	2007	2008	2009
CPI end of year (annualised)	23.8	10	11.6	8.5	6.6	15.1	13.9

Source: CBN, internet.

The 2007 monetary programme included reversing the broad money acceleration of the previous year which led to an even better inflation performance. Inflation accelerated again in 2008 in response to rising global food and fuel prices and the loosening of monetary conditions.

Impact on price stability

Table A5.4 presents the CPI (period average) over the period 2000-2009. Fiscal discipline and monetary policies are seen as critical determinants for keeping inflation within limits. In 2004 IMF concluded that the expenditure increase was within acceptable levels. Monetary policy tightening was needed and also implemented to contain inflation. In 2005 it was identified that the 2005 federal fiscal expansion led to higher inflation (through infrastructure spending)[3]. Monetary policy was especially successful in 2006. Fiscal targets were relaxed in that year (compared to the original PSI programme), because of lower-than-targeted inflation. In 2007 inflation was further reduced through lower food prices (as result of good weather and agriculture growth). Monetary policy was successfully implemented to accommodate economic growth. In 2008 inflation accelerated as a result of rising global food and fuel prices and the loosening of monetary conditions.

Additional spending in 2005 would have had a negative impact on price stability, as especially in 2005 fiscal expansion was already one of the main drivers of inflation. For 2006 the fiscal effect on inflation would have been less apparent, as fiscal targets were relaxed already due to accommodative effective monetary policy.

[3] IMF article IV August 2005.

Under the assumption that all other factors would have remained constant over the period 2004-2006 (such as monetary policy[4]), the counterfactual might have shown higher inflation in 2005. As inflation was already high in that year, price stability would have been especially threatened in 2005. We therefore observe that the expenditure caps related to the debt deal would have probably had some influence on the containment of inflation.

Annex to 5.5.2 The VPF in Kano and Cross River state[5]

Kano state

The allocation for the Conditional Grant Scheme to Kano state moved from N 5.81 billion in 2007 to N 2.56 in 2008 and N 3.58billion in 2009. The list of projects implemented in the state through Federal MDAs' DRG-funded projects, CGS funded, Social Safety Net funded by NAPEP and the Quick Win Projects are listed in Table A5.5. A total of 359 CGS projects consisting of 152 solar powered boreholes and 207 V.I.P. toilets were at different stages of execution as shown in the table. A total budget line of N 1,249,500,000.00 was appropriated for 2008 CGS projects in Kano state, made up of N 988,000,000.00 worth solar powered boreholes and N 261,500,000.00 worth V.I.P toilets, respectively. Out of the 152 solar powered boreholes in this sector, 135 were completed, 9 on-going, 1 abandoned and 7 were not executed. 16 were selected, but not provided for in the projects portal list.

Table A5.5 DRG projects in Kano state

S/N	Projects/Programmes	Total number
Federal MDAs projects		
1	Agriculture	3
2	Education	27
3	Environment	3
4	Health	4
5	Water Resource	2
6	Women Affairs	16
7	Youths Developments	5
Conditional Grant Scheme (CGS)		
1	Solar powered boreholes	152
2	V.I.P. toilets (Water Sanitation)	207
NAPEP projects/programmes		
1	Keke-NAPEP	224 beneficiaries
2	VEDS (Village Economic Development Scheme)	245 beneficiaries
3	CCT (Conditional Cash Transfer)	493 beneficiaries

4 Whether this assumption is realistic is questionable. Monetary policy could have reacted on even higher levels of inflation.

5 This section is mainly based on the State M&E Reports for Kano and CRS.

Table A5.5 DRG projects in Kano state		
S/N	Projects/Programmes	Total number
Quick-wins projects		
1	3-Classroom Block packaged with office and toilets facilities	51
2	Supplies of primary school books and teaching aids	33
3	Supplies of school furniture	78
4	Supplies of basic drugs and medical equipments	15
5	Supplies of hospital furniture	5
6	Construction of primary health care centres	2
7	Construction of motorised boreholes	23
8	ICT (Information Communication and Technology Centre)	3
9	Supply of computer accessories to computer centre	3
10	Hand pumps	124
11	Construction of comprehensive community centre	1

Performance of Projects

The M&E Teams comprised Globarch Associates, as the Technical Consultants and FADE Africa (Fight Against Desert Encroachment) as Consultant CSO (Civil Society Organisation).

M&E report indicates that most of the MDGs-DRG projects in Kano state were satisfactorily executed and completed. CGS projects were the best carried out and executed, with 94.4 per cent completion. Projects under the Quick-Wins sector, were generally poorly executed, especially those located in the remote parts of the state where completion rate was only 54.8 per cent. Interventions of NAPEP through the Keke-NAPEP, VEDS and CCT programmes recorded impressive performance with 63.5 per cent completion rate. Performances by federal MDAs, however, varied, with education sector recording 81.5 per cent, the health sector recording 95 per cent completion and agricultural sector recording about 80 per cent.

Challenges

Lack of effective supervision during the execution of the projects; abandonment and use of sub-standard materials; defaulting contractors, who may have been awarded other MDGs-DRG contracts in 2009, in spite of poor performance in 2008; lack of access to project documents such as BOQ (Bill of Quantity), Work Plan Schedule etc. for effective M&E exercise, including lack of access to contract documents of projects which caused delay for early take-off of some projects. Many projects were relocated after approval making monitoring exercise very difficult. Terrain and physical features of villages and communities where projects are located are also a challenge. With particular reference to solar powered borehole, it was reported that almost 70 per cent of facilities installed (submersible pump and solar panel) were stolen away by hoodlums.

As there is instability of power supply nationwide, companies that benefited from the gro-processing projects (Village Solutions) produced at higher cost, which invariably affects the price of commodities produced. Inadequate water supply in locations of some of the beneficiary SMEs also added to the cost of the final products. In almost all the communities visited, citizens were not consulted over need assessment on projects sited in their area. There is general lack of maintenance of MDGs projects.

Cross River state

Cross River state is basically an agrarian economy with a preponderance of the population (over 75 per cent) engaged in subsistence farming and living in rural communities. In spite of the fact that the state is in the oil producing area of the Niger Delta, income levels are exceedingly low and poverty is endemic with over 70 per cent of the population living below the poverty line of US$ 1 a day.

Infant Mortality Rate (IMR) is 140 per 1,000 live births. The national average for 2003 was 100 per 1,000 live births. Under-5 mortality rate (U-5MR) is over 200 per 1,000 live births while the national average is 203 per 1,000 live births. The Maternal Mortality Rate (MMR) in the state is estimated at between 1,500 and 2,000 maternal deaths per 100,000 live births while the national average is 704 per 100,000 live births as at 2003. Life expectancy in the state is put at 54 years compared to the national average which is 52 years. Using the IMR, U-5MR and MMR as indicators of health care, the indication is that health care delivery in the state is relatively very poor. HIV prevalence rate is currently 5 per cent.

2008 Quick Wins MDGs/DRG Projects

The M&E Team comprises of Vourtibon Nigeria Limited and Enterpreneurship Enhancement Centre (EEC) were appointed the state team for the M&E of DRGs and CGS in Cross River state.

In 2008, the state benefited from the Quick Win Constituency Projects but did not benefit from the 2008 Conditional Grant Schemes (CGS).[6] Cross River state had over 131 projects at various stages of completion. The 2008 MDGs/DRGs Quick Wins Project in Cross River state were in three sectors: health, education and water resources. Health had 16 projects representing 12 per cent of the total projects, education had 75 projects representing 57 per cent of the total projects and the water sector had 40 projects representing 31 per cent of the total projects awarded for execution under the 2008 Quick-Wins.

Performance projects

The level of completion of the 2008 Quick-Wins projects in Cross River state was assessed to be 32 per cent. Quality compliance was 56 per cent; community participation was 53 per cent, branding 76 per cent, capacity building 49 per cent, while accessibility is 63 per cent.

Overall education sector completion and impact assessment showed the following: completion level, 52 per cent; quality compliance, 61 per cent; community participation, 55 per cent; branding, 76 per cent; capacity building, 52 per cent and accessibility, 65 per

6 It did benefit from the CGS in 2007 and 2009.

cent.
Water sector completion level was 39 per cent; quality compliance, 53 per cent; community participation was 44 per cent; branding, 75 per cent; capacity building, 42 per cent and accessibility, 59 per cent.

Challenges
The major challenges are similar to what obtained in Kano state. However, peculiar to CRS was that award of contracts was highly politicised; beneficiaries were uninformed, therefore many projects do not have the buy-in of the benefiting communities.

Stakeholders interviewed revealed the fact that infrastructure development has vividly improved in the state. However, most of the projects were imposed on the communities by the government. Regardless of this, there were gains from these projects, but could be better if the process of selection and implementation could be more participatory. The process of selection of Conditional Grant Scheme projects on the other hand has largely involved the communities. State funds have been freed to finance other infrastructure which included more health care centres and renovation of primary and secondary schools.

Annex to 5.5.3 Outputs and intermediate outcomes of the VPF

Table A5.6 Service Delivery on MDG Goals through VPF, 2006-2010

Goals	Deliverables
Goal 1	• 7,400 NYSC educators trained;5000 youths trained; 370 youths cooperatives granted aid; • 11,000 corps members + 2,200 facilitators trained; • over 900 rural electrification projects; 3,263 agroallied enterprises created; • 37 cooperative centres developed; • 2,060 anchor projects + 3,570 capacity projects provided; • 3,700 youths trained and funded in agriculture; • 4,012 units of Keke NAPEP distributed; • 740 food crop growers and 109 horticulturists trained; • 4,500 youths trained; 21,842 households empowered; • 18,750 households trained by COPE; 49 vocational and 27 women; • 6,612 beneficiaries of NACRDB; • 44,500 metal bins, 4,060 kilns provided and 414 fabricators trained; • 16 run-off water structures constructed; • 52 gazetted and 50 non-gazetted grazing reserves rehabilitated; • 14,000 extension workers and farmers trained; 102 livestock service centres rehabilitated; 1,200 youths sensitised on conflict resolution; • 62 warehouses constructed; seeds distribution through 20 centres.

Table A5.6 Service Delivery on MDG Goals through VPF, 2006-2010

Goal 2	• 300,000 teachers received in service training; • 74,000 teachers trained and recruited; • 4,600 community stakeholders involved in; • National Education Assurance Framework; 1,050 inspectors retrained; • 21 model second chance centres and 18 youth centres established; • 1,995 state officials and school management committee members trained; • 1,760 computer systems procured, 24 business centres (BACTS) equipped; • 1,453 classrooms constructed; 89 classrooms rehabilitated; • 72 libraries, 296 computer centres and 3 laboratories constructed.
Goal 3	• 50 NGOs funded; 2,000 copies of National Gender Statistics Book developed and developed; 6 zonal women political empowerment offices established; • 360 birth attendants trained; 15,000 copies of Child Right Act produced; • 4 computers supplied; and 3 ambulances purchased.
Goal 4	• 22.7 million doses of anti-malarias distributed; 2,444,374 insecticide-treated nets distributed; 167 PHCs constructed + 207 PHCs renovated; • 126 million vaccines procured; 2,844 PHCs constructed; • 15 federal medical institutions refurbished; • 600,000 pregnant women and under 5 children provided with free maternal and child health; 2,445 facilities equipped with medical equipment; • 12 blood banks established; 10 health training institution refurbished; and 6,673 health workers trained.
Goal 5	• 2,488 midwives engaged and deployed; 14 medical centres refurbished ; 3,320 midwifery kits procured; and 600,000 mothers and children given access to community health insurance scheme.

Source: www.mdgs.gov. (OSSAP-MDGs) .

Table A5.7 VPF outcomes: CGS activities realised (2007 – 2008) and expected outcomes (2009)

2007 outcomes	2008 outcomes	2009 expected outcomes
• 1,176 solar boreholes; • 946 hand-pump boreholes; • 130 motorised boreholes; • Wudil water supply scheme serving 240,000 people; • 1,423 VIP toilet blocks; • 335 Primary Healthcare Centres constructed or rehabilitated; • 527,500 insecticide-treated nets; • 74 solar electrification schemes; • Provision of immunisations to eradicate wild polio virus.	• 511 solar powered boreholes; • 2,858 hand-pump boreholes; • 174 motorised boreholes; • 801 Primary Healthcare Centres constructed or rehabilitated; • 1,121,074 Insecticide-treated nets; • 37 skill acquisition and women development centres; • 20 water projects and related consultancy; • 21,000 hand pumps and boreholes; • Free basic healthcare for 600,000 mothers and children; • Procurement of 1.5 million doses of ARVs; • Rehabilitation and equipping of 18 skill acquisition centres and training of 4,500 unemployed youths; • Rehabilitation and furnishing of 89 classrooms in 10 barracks; • Rehabilitation and equipping of 10 medical receptive stations in 10 barracks; • Payment of consultancy fees; • Payment of mobilisation.	• 1,321 solar powered boreholes; • 2,404 hand-pump boreholes; • 300 motorised boreholes; • 132 small town water schemes; • 1,088 Primary Healthcare Centres constructed or rehabilitated; • 759,000 insecticide-treated nets; • 6,143 health workers trained; • 6 agricultural facilities; • 4,290 households receiving CCTs. a. A concept note describing LGA programme; b. Tutorials conducted for key MDG staff in CGS office on Earth Institute software programmes; c. Hosting OSSAP/MDGs staff at Millennium Village conferences; d. A detailed workplan for first six months; e. Launching and hosting first assessment meeting of the International Advisory Panel; f. Overview of Earth Institute MV management tools provided to OSSAP/MDGs/ CGS staff.

Source: Presentation of the SSA-OSSAP at National Assembly.

Table A5.8 MDG achievement status, 2003-2008				
Goal	**2003**	**2005**	**2007**	**2008**
1. Eradicate Extreme Poverty and Hunger				
Population living on < $1 (PPP) per day		51.6		
Population under poverty (million)			67.1	
Percentage of population below minimum level of dietary energy consumption		35	35	33.1*
Percentage of underweight under-5 children		30	25	23.1*
2. Achieve Universal Education				
Net enrolment ratio in primary education	-	87.9	89.6[1]	88.8[1]
Proportion of pupil starting from Grade 1 to Grade 5	84	74	74	72.3[1] **
Primary six completion rate	82	69.2	67.5	-
Literacy rate of 15-24 years old	60.4	76.2	81.4[1]	80.0[1] **
3. Promote Gender Equality and Empower Women				
Ratio of girls to boys in primary education (girls per 100 boys)	79	81	85.1	85.4[1]*
Ratio of girls to boys in secondary education (girls per 100 boys)	78	81	75	80[1]
Ratio of girls to boys in tertiary education (girls per 100 boys)	72	70	66	67[1]
Share of women in wage employment in the non-agriculture sector	-	79	-	
Seats held by women in national parliament	3.1	3.1	7.7	7.5*
4. Reduce Child Mortality				
Infant mortality rate (per 1000 live births)	100	110	86	75*
Under-5 mortality rate (per 1000 live births)	201	201	138	157**
Percentage of one-year-olds fully immunised against measles	31.4	60	60	74.3 (2009)*
5. Improve Maternal Health				
Maternal mortality ratio (per 100,000 births)	800	800	800	545*
Births attended to by skilled health personnel (%)	36.3	43.5	43.5	38.9**

Table A5.8 MDG achievement status, 2003-2008				
Goal	**2003**	**2005**	**2007**	**2008**
6. Combat HIV & AIDs, Malaria and other Diseases				
HIV prevalence among pregnant young women aged 15 to 24 (%)	5.0	4.3	4.3	4.2*
Young people aged 15-24 with comprehensive correct knowledge of HIV/AIDS (%)	18.3	25.9	25.9	
Young people aged 15-24 reporting the use of a condom during sexual intercourse with non-regular sexual partner (%)	43.9	63.8	63.8*	
Children orphaned by HIV & AIDS (million)		1.97	1.97	1.97
Prevalence and death rates associated with malaria (%)	0.19	0.16	0.16	
Prevalence and death rates associated with tuberculosis (%)	2.5	1.5	1.5*	
7. Ensure Environment Sustainability				
Land area covered by forest (%)	13	12.6	-	9.9[2] ***
Gas flared (%)	43	40	34*	
Energy use (kg oil equivalent) per US$ 1 GDP (PPP)			1.5	
Carbon dioxide emissions (per capita)	3776.2	2500.4	2500.4*	
Total population with access to safe drinking water (%)	66.25	60.0	49.1	
Total population with access to basic sanitation (%)	49.8	33.0	42.9*	
People with access to secure tenure (%)	31.0 (2004)		43.6 (2006)*	
Residential housing construction index (ACI) (Proxy)				

[1] *Provisional figures.*
[2] *Figure for 2010.*

* *Improvement.*
** *Initial improvement dampened after 2007. But 2007 and 2008 figures are often provisional (education) and are not always comparable with each other, for example in the case of U-5 mortality: 2003 and 2008 data are from the same reliable source (DHS), 2007 from NBS or Federal Ministry of Health (Government of FRN, MDG Report 2010).*
*** *Deterioration.*

Source: OSSAP-MDG 2008, 'MidPoint Assessment of the Millennium Development Goals in Nigeria', and Government of the Federal Republic of Nigeria (FRN) 2010, MDG Report 2010.

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The agreement between the 15 creditors united in the Paris Club and Nigeria in 2005 was the second biggest debt cancellation deal ever. The IMF and the World Bank both played a key role. Nigeria repaid US$ 12 billion and introduced economic reforms in return for debt cancellation to the tune of US$ 18 billion. This evaluation, which was organised and funded by Belgium and the Netherlands, first explains how the deal came about between 2000 and 2005. It goes on to reveal the consequences for the Nigerian economy, and the impact on poverty reduction in Nigeria, with more than 150 million inhabitants the country with the biggest population in Africa.

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