

Debt relief: 'How Nigeria saved \$8bn in interest payment'

Nigeria on Friday exited the \$31-billion Paris Club debt. The Director-General of the Debt Management Office in the Presidency, Dr. Mansur Muhtar, spoke to our correspondent, OLUYINKA AKINTUNDE, on how the debt deal was struck and other issues. EXCERPTS:

CAN you give us an insight into how the journey to exiting the Paris Club debt began and the challenges that confronted you?

The long and short of it is that when President Olusegun Obasanjo was elected, even before he was sworn in, he had prioritised securing debt relief from creditors as a cardinal objective of the administration and essentially because of the debilitating effect of this debt burden on the economy in terms of the resources available to service the debt.

He saw this clearly as constituting a serious threat to the consolidation of Nigeria's nascent democracy. I think that is fundamental. Beyond that, the president also appreciated that in order for us to receive serious sympathetic hearing from the creditors; we needed to demonstrate that we deserved debt relief.

As you know, he took over at a time when the country was facing a serious reputational overhang of a corrupt nation that had not managed her resources her economy well.

There were also rules laid down for getting debt relief from creditors, which we had not met. So constituted an Economic Management Team under his able leadership and direction and provided the vision for us to go forward. The team crafted an economic reform programme because that was the key issue really and that involved anti-corruption and improved governance.

So, if you are getting debt relief you have to demonstrate that you have a credible economic programme. But one of the challenges we faced was that traditionally, you have to subject yourself to an International Monetary Fund programme with all the conditionalities. And it took a long time to demonstrate the credibility, coherence and strength of our economic reform programme, with a view to getting the creditors to agree that this would constitute the basis for granting us debt relief. So, that was a major journey itself.

Secondly, the effort that was put in overcoming this negative perception of Nigeria's anti-corruption crusade helped to smoothen the grounds for getting debt relief from our creditors. That notwithstanding, also because of the unusual request we were making Mr. President wanted a complete and permanent exit, which is not consistent with the rules of the games in Paris Club. Members of the club always want to continue to keep you indebted. Even if they give you debt relief, they would want you to spread the payments over 20 years.

But we calculated that even with the debt relief we received we would pay interest of about \$8billion over and above what we would have paid if we secured a permanent exit. And again that was another battle to get them to accept that. We had to really try hard to make them bend their rules and agree on this permanent exit. This coincided with the period of growing revenue and excess crude oil, which the president in collaboration with the National Assembly and the governors chose to deploy to exit the Paris Club debt. And this was a tough twist for Mr. President. He put the long term interest above the short term political gains that we would have received by spending all these monies or giving out contracts to party supporters.

The president decided that we had to make a collective sacrifice so that our children would be free from this debt. So, that we don't have to continue to pay interest to Paris Club and also that we would liberate international politics from this debt. Because once you are indebted to a country, it also constrains your action in the international arena. That again was a reason for getting the permanent exit from our creditors.

How much exactly did Nigeria owe the Paris Club creditor-countries?

At the time we negotiated the debt relief, the debt owed to Paris Club amounted to about \$31billion. One thing to



•Muhtar

point out here is that this debt had grown progressively because we were not able to allocate enough resources to service it. Secondly, because the debt was denominated in different currencies we suffered foreign exchange risk that resulted in increase in the debt stock by \$5billion, without any real transfer of asset.

What was done was to reach an agreement to give out debt relief amounting to 60 per cent, which is \$18billion. This is the largest ever debt deal in Africa and the second largest in the world, second to Iraq. Because we wanted a permanent exit we had to commit ourselves to paying the remaining 40 per cent. And the way this was structured is that about \$6.4billion, which represented arrears, would have to be paid upfront when the deal was signed. And once that was paid to the creditors, then they gave us half of the cancellation they promised.

So, about \$9billion was cancelled at the point when we made this payment of arrears. Now, the second payment was conditional on our meeting continued progress in our reforms. We had reached an agreement using our home-grown reform that the IMF will evaluate some of Policy Support Instruments, which would be used to monitor our performance. And overtime we have agreed with the IMF to monitor and track our progress.

At the last meeting they held, they were able to endorse and recommend to their board and on Monday, April 17, the IMF board met and gave an endorsement to this. This was like giving us the green light to consummate or actualise the final stage of the deal with Paris Club. And going forward, what has happened since then was that we instructed the CBN to go ahead and make the outstanding payment to the creditors, having signed all the bilateral agreements with them during the interim period.

The payments are on course, some of the countries have already received their amounts, others because they need a correspondent bank. Right now I am going to the CBN to work on the details and as soon as the creditors receive their payments and send confirmation to the Paris Club that they have indeed received these payments, we would receive a letter from Paris Club chairman telling us and confirming formally that we are free of this debt, the sum of \$31billion off our books. The club is expected to send us letter stating that having received confirmation from the member-creditors, it is pleased to announce to us that the debt has been cancelled off our books. And I think that is a monumental achievement for this country.

Critics of the debt relief believe that it does not make any economic sense for an improvised country like Nigeria to pay \$12.4billion at a go. They noted that no country had ever done that before. Is it worthwhile to take \$12.4billion from economy that seeks to meet the Millennium Development Goals by 2015?

That is not true. Several countries such as Brazil, Argentina, Peru and Russia, in the last couple of months had pursued this strategy. All these four countries had paid off their creditors. Even though they did not get any discount, they went ahead to pre-pay their creditors. This is on record. Russia paid Paris Club \$15billion of her debt; despite the fact that Paris Club refused the country any

discount whatsoever. Peru did the same and Brazil and Argentina had also done the same. So, it is common practice across the globe because it makes economic sense to do it. For us as I said really, it has to be appreciated. We had choices- whether we want to pay now or pay later.

Obviously, paying later has its consequences. You have to pay the interests. If we had not paid the \$12.4billion now, we would have ended up paying an additional \$8billion on this amount over the years in interest payment. We would have subjected ourselves to risk in terms of exchange rate. As I told you, we lost \$5billion in the last couple of years to depreciation of dollar to other currencies. There is a risk that in the future if any government reneges on this payment then that accumulates penalty again. So, that \$12.4billion even with the debt relief would have been multiplied in the next couple of years to twice that amount. I think this debt deal makes the best sense for Nigeria at the time when we have excess crude.

The crux of the matter is that there is still a lot of this excess crude that would allow the government to embark on massive interventions that would revitalise the economy, as in the power sector for example and the social sector. The savings that we have made from this debt relief, including the fact that we don't have to allocate \$1billion annually to service Paris Club debt, are now being channeled to finance poverty related initiatives across the country. N100billion was earmarked for some priority sectors of the economy. Getting this permanent exit from the creditors will strengthen Nigeria's ability to play its role as an African leader without any encumbrance from some of these creditors. The Nigerian president can now talk about more strategic issues that will help Nigeria and Africa grow, rather than the issue of debt. I think the payment of \$12.4billion by Nigeria to exit Paris Club makes economic sense and political sense.

If we hadn't paid the \$12.4billion, how much exactly would we have paid in the coming years?

There are two issues. One, this exit strategy was also one of the things that were used to entice some of the creditors to agree to this deal. If any member of the Paris Club did not agree with the deal there won't be any deal. They operate by 100 per cent consensus. Secondly, even if they had given us the debt relief of 60 per cent, we had opted to stretch the payment of \$12.4billion over the period of time, which is normally 21 years rescheduling at about 5.5 per cent interest rate. We had calculated that we would have had to pay additional \$8billion in interest payment. That is what is involved. That is what is being saved by making the payment now.

With the exit of Nigeria from the Paris Club debt, what are you doing regarding the multilateral and London Club debts?

On the outstanding \$5billion debt owed to London Club and multilateral institutions like World Bank and African Development Bank, the Federal Ministry of Finance and the DMO is also working towards getting relief on the debt. We are looking at the London Club debt and the commercial debt to see if there is possibility for exchange or some transactions that will lead to positive benefits for the country. But this is still at the preliminary stage. We will certainly look at it and see if there is hope of getting relief for that category.

With respect to the London Club debt, we are looking at various possibilities. We have been looking at the implications of each approach because we are looking for the most cost effective manner of debt service payment. There are several possibilities. One possibility is to exchange the existing stock of debt and issue a new debt instruments to take advantage of the market opportunities. The other possibility is to exercise the call back option, meaning we will now ask those holding London Club debt instruments, par bonds particularly, to tender them and we will be willing to pay the amount that is due. It will certainly be at a discount.

Obviously, we have to build consensus on the way forward with all the stakeholders, the National Assembly and the states, once we have all the technical details available. There are various possibilities as I told you and we have to look at the cost and benefit as well as the financing of this exit strategy for London debt.