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Statement by Mr. Kiekens and Mr. Crelo on Nigeria
(Preliminary)
Executive Board Meeting 07/55
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When the Policy Support Instrument (PSI) was established in 2005, there was a distinct understanding that it should, like the PRGF and other Fund arrangements, deliver clear signals about the strength of the policies being implemented by the authorities. For the purpose of this review of Nigeria's economic policies under the PSI, the authorities have requested waivers for two missed quantitative criteria and five structural assessment criteria. Besides these missed criteria, five structural benchmarks were also missed and the contraction of a non-concessional loan was not communicated to the staff, triggering the misreporting procedure.

PSI reviews follow fixed schedules and the Board conducts reviews irrespective of the status or prospects of the program implementation. Against this background, the request for seven waivers entails a serious problem of signaling. However, while fixed schedules are compulsory under a PSI, under a PRGF Nigeria would have received additional time to complete its reforms, after which waivers could have been presumably granted with proper justification. Given the progress made with structural reforms since the test dates, we reluctantly support the completion of the review. Our reluctance is because even the delayed progress in implementing structural reforms is still not as advanced as it would have been needed under a PRGF. Today's experience highlights some drawbacks of the PSI. The fixed schedule of reviews forces the Board to signal "go or stop" at a time that it would be preferable to wait a little longer in order to give a country extra time and to enable a clear "go" signal on more solid grounds. Today's experience also strengthens our long held conviction that it was not the best option to create with the PSI a new signaling device distinct from established Article IV Consultations – possibly on a six-monthly basis – for low-income countries that do not need or want a PRGF arrangement. In any case, the publication of a comprehensive and candid Staff Report should enable the markets to assess the performance of the Nigerian authorities.

External debt

Given that Nigeria had to embark on a PSI in order to benefit from Paris Club debt relief, we consider that the staff's attitude is excessively lax towards the breach of non-concessionality in external borrowing. The argument that the loan was initiated before the PSI is not relevant, as its terms were finalized during the PSI. This is exactly why a misreporting procedure was initiated. Also, accepting the argument of oversight would offer an easy exit strategy for any misreporting case in the future. The authorities were involved in the negotiation of this loan for two years. While we believe that it would be disproportionate to change fundamentally the Fund's assessment of program performance, a clear signal should be sent that no slippage in this area will be tolerated in the future.

We note that the authorities are committed to improving debt management. In para. 14 of their Policy Statement, the authorities announce that they are committed to seeking only concessional financing in the period ahead. However, they also clarify that an "exceptional loan" of US$ 2.5 billion is being taken from China, hinting to the potential non-concessional nature of this loan. We would like to get additional information about the Memorandum of Understanding (MoU) signed with China.

No new loan with China seems to have been signed yet. Therefore, the mere possibility of this loan cannot be linked to the current review. However, we would like to stress that another non-concessional loan under the PSI would not be acceptable to us. We would like to know from the staff when the authorities are expected to take up the loan and what the final terms of the contract would be. We also believe that the focus should not be exclusively on whether or not the non-concessional loan affects debt-sustainability. Contravening the principle of not contracting non-concessional loans creates a problem of free riding and frustrates the expectations of donors and concessional lenders. Given that Nigeria has benefited from significant debt relief, we would expect staff to take a tougher stance on the non-concessional nature of loans and to deal with such major issues in the core of the Staff Report, rather than leaving it uncommented in an annexed Policy Statement by the authorities.

Structural reforms

The text table 3 of the Staff Report lists the main accomplishments of the structural reform program under the PSI. While these achievements are commendable, the third review should focus on the associated assessment criteria. In this regard, the fact that five out of six structural assessment criteria were missed gives a much more mixed picture, even though in the mean time progress was made on that front. Could the staff tell us when they expect the final steps of all the pending reforms to be completed? The fact that key economic legislation was enacted is also good news, in particular, concerning the Fiscal Responsibility Bill, the Public procurement Bill and the Nigeria Extractive Industries transparency Initiative

(NEITI). However, we note that the Fiscal Responsibility Bill still needs to be signed into law. We would like to learn from the staff if this Bill encompasses the necessary safeguards required for prudent management and use of oil savings. In addition, we would be interested in learning whether the recommendations emanating form the workshop on *"Oil Savings and the Infrastructure Gap"* were taken on board by the authorities.

Monetary and fiscal policy

We are very concerned by the ineffective monetary policy implemented by the central bank. While inflationary pressures have been muted thus far, there is a possibility that they could still emerge. Against this background, the measures taken to improve the effectiveness of monetary policy are of utmost importance. We would like to know whether the authorities have given up their commitment to exchange rate flexibility.

Fiscal policy

In 2006, the non-oil primary deficit was 3 percent above the target of non-oil GDP. While footnote 4 indicates that the composition of state spending for 2006 will become available with a considerable lag, we believe that the staff should have some knowledge as to why this additional spending was incurred by the state and local governments. Supplementary information would be welcome. Although the authorities intend to reduce the deficit of non-oil GDP by 3 percent during the 2007 fiscal program, it would still remain 2 percent above the program target. We take note of the President's statement that the government will continue to focus on fiscal discipline.