Is Climate Action Worsening Nigeria’s Debt?

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Our Fordham University graduate course, “Contemporary Issues in Humanitarian Action” decided to investigate the relationship between internationally-driven climate action and debt in Nigeria. We read about the World Bank’s new loans for climate action in Africa and wondered how financing of climate action through loans influences the kinds of climate action being taken, how climate financing is affecting debt, and in turn, how indebtedness affects climate action. Nigeria is a particularly interesting example of the intersection of climate and debt concerns, and it’s on the African Sovereign

Debt Justice Network's list of priority countries.

Nigeria is harmed by climate change and contributes to it

Nigeria is responsible for less than 1% of global emissions. As an oil producer, however, Nigeria is implicated as a perpetrator of the climate crisis, both by contributing to fossil fuel production and in relation to oil spills that have harmed the land, livelihoods, food security and led to internal strife. Carbon Brief reports that in 2015, Nigeria was the second highest emitter of greenhouse gases in Africa in 2015 and 17th in the world. Nigeria is among the seven top countries responsible for gas flaring, which releases carbon dioxide, methane and black carbon into the atmosphere.

The rapidly increasing effects of climate change are felt in Nigeria's agriculture, biodiversity, water sources, socio-economic activities, and human security, including on indigenous communities. Research (2017) by Ologunorisa and Ologunorisa suggests that agricultural production will be severely compromised by rainfall variation, drought periods, wildfires, and insect infestations. Widespread famine has been recorded in Nigeria following climate events, with food scarcity periods occurring more frequently. Studies observed indicate that Nigeria lacks the necessary institutional and technological means to combat and adapt to these climate changes, raising questions about where responsibility for addressing climate change lies.

Additionally, with regard to health, exposure to malaria and other diseases otherwise contained to warmer-temperature regions will increase for Nigerians. These conditions will lead to malnutrition, an increase in cardio-respiratory diseases, and altered spatial distribution for various disease vectors, like malaria. Nigeria's National Adaptation Plan Framework (2020) cites DFID's conclusion: "The impact of these changes without adaptation could cost between 6% and 30% of Nigeria's GDP by 2050, amounting to between USD 100 billion and USD 460 billion," (vii). In addition to the obvious impact on agriculture, the UNDP notes the long-term impact of climate change on other income sources such as tourism.

National action on climate change is crucial; Nigerian leadership falls short

Nigeria’s international obligations in relation to climate change and corresponding mechanisms for compliance are complicated and informed by a range of overlapping international, regional, national, and institutional policy frameworks and initiatives. These include the United Nations Framework Convention on Climate Change (UNFCCC) to which Nigeria became a party in 1994, the Kyoto Protocol signed by Nigeria in 2004, the Sustainable Development Goals, the African Union’s Agenda 2063, the Nigerian Federal Executive Council’s 2012 Climate Change Policy Response and Strategy, the National Policy on Climate Change (2013), Nigeria’s Intended Nationally Determined Contribution (INDC) of 2015, and the previously cited National Adaptation Programme of Action (2020), among many others. As a signatory to the Paris Agreement, Nigeria pledged to reduce its greenhouse gas emissions by 20% by the year 2030, with an increase to 45% conditioned on the availability of international climate finance.

Nigeria's INDC is supported by Vision 20:2020 (written in 2010), a strategy focused on economic growth that set target goals on the use of renewable energy and construction of solar and hydro plants. Under Vision 2020, the Nigerian Federal Government proposed an increase in the usage of renewable energy by 20% by 2020 (p. 4) and a reduction in greenhouse emissions by 20% by 2030. The Transformation Agenda of 2011-2015 converted Nigeria’s climate change priorities into 1613 development projects over 20 ministries (p. 4). While these projects are underway, the reality of climate change in Nigeria continues to evolve.

For example, during the recent virtual conference called “Leaders Dialogue on the Africa COVID-Climate Emergency,” Nigerian President Muhammadu Buhari proclaimed climate change has led to rising armed conflict and insurgency. He further stressed the situation of Lake Chad Basin as a growing climate problem. As of 2020, 12.8 million individuals in the region required humanitarian assistance, and water within Lake Chad Basin has decreased by 90% since the 1960s. The COVID-19 pandemic has only intensified matters. Due to these conditions, Nigeria has proven unable to address its humanitarian, climate, and development challenges without international support. Utilizing an environmental justice lens would ask some key questions about Nigeria's situation. For example, should we accept all too easily that responsibility lies at the individual nation state level and only when an individual nation state is unable to meet the costs of mitigating climate change is international support triggered? And why are we only discussing international support rather than something more binding on the countries most responsible for the warming climate?

The role of Nigerian debt

Nigeria addresses the climate crisis as one of the poorest countries in the world, despite having oil. Nigeria never had full, independent control of its oil, and weak governance and corruption divert public funds from public interests like climate action. In fact, one could argue that Nigeria's oil actually increased its susceptibility to ongoing colonial intervention and, accounting for an estimated 90% of national gross earnings, has maintained Nigeria's vulnerability in the global economy.

Nigeria's poverty is related to its status as severely indebted. According to the Debt Management Office of Nigeria, Nigeria paid a total of $1,556,211,630 in external debt payments in 2020. The burden of Nigeria's immense debt and repayment obligations prevent the country from responding effectively to current and developing crises. This is best exemplified by Nigeria's lack of investment in healthcare, which inhibited the country's response to COVID-19. In 2018, health care expenditures were only 3.4% of Nigeria's GDP. 2018 data also reflected a figure of .0381 physicians per 1000 people in Nigeria, foreshadowing the strain on Nigeria's limited healthcare capacity to respond effectively to the pandemic. As of March 2020, Nigeria had only 350 intensive care unit beds to address the needs of a population of about 200 million. Nigeria ultimately had to rely on a $3.4 billion IMF loan in April 2020 to mitigate the economic hit of decreased oil prices due to COVID-19. Although this loan was meant to bolster Nigeria's COVID-19 response, there is no apparent paper trail of how this money was spent. Without debt relief to address Nigeria's unsustainable level of debt servicing, critical investment in key infrastructure will continue to be underfunded, diminishing Nigeria's ability to handle humanitarian crises and develop further.

The African debt crisis

When the African debt crisis emerged, Africa's total debt stock stood at US $140 billion, but by the end of 1990 the region's debt had skyrocketed to

$271.9 billion, representing a staggering 95% debt to GNP ratio. African debt is characterised by a growing obligation to bilateral and multilateral creditors as well as to private lenders and a stagnant set of terms and conditions of borrowing. The spectre of unacceptably high debt service payments became such a concern that the African Common Position on Africa's External Debt Crisis (1987) specified that each country should devote no more than 30% of its export earnings to debt servicing.

Countries were forced to often reschedule their debt, which pushed back repayment deadlines but did not reduce the amounts owed. After almost a decade of debt rescheduling and cancellations of some bilateral debt, Africa's key debt indexes pointed to a worsening trend. Many countries pursued other policies that weakened their external positions. They also borrowed against exports to maintain consumption levels. Additionally, most African countries did not depreciate their currencies to offset the rise in inflation. As a result, their currencies became overvalued, which hurt exports and prevented the formation of parallel exchange markets (p. 38). Debt obligations prevented them from improving their credit rating, re-establishing their much eroded capacity to meet current and future debt-service obligations, and resuming reasonable growth.

Debt reduction can be brought about through negotiated changes in the terms and conditions of contracted debt. Steps such as debt rescheduling and re-timing of interest payments may reduce the amount of interest to be paid in any given year. Other debt reduction mechanisms include debt conversion, debt-equity swaps, and debt buyback. Africa seemed to largely only utilize debt rescheduling, which helps in the short-term but hurt in the long-term.

Some analysts consider Nigeria's use of a debt conversion scheme successful. The program was instituted in 1988, paused, then resumed in 1991. Between 1992 and 1998 Nigeria reduced its debt to GDP ratio from over 70% to below 23%. Their program allows them to sell their debt to private bidders at auction. Before purchasing, the applicant must request the approval of the Nigerian government to authorize the conversion of a global amount of debt to benefit a specific project or program (p. 14).

In Africa, the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) wiped out most of the remaining external debts of the HIPC countries to the World Bank, African Development Bank, and IMF. According to the World Bank, multilateral creditors, bilateral aid organizations, export credit agencies, and private creditors have all played their part, as debt relief delivered about $100 billion to African economies since 2000.

According to the same World Bank article, African governments bear some responsibility since receiving debt relief at least through 2021. In the 26 African countries that benefited from HIPC/MDRI, nominal public debt fell from a GDP-weighted average of 104% of GDP before debt relief to 27% after irrevocable debt relief (in most cases around 2006); by 2011 the ratio had risen only to 34%. According to UNCTAD’s 2004 report, “Debt Sustainability: Oasis or Mirage?” Nigeria's poverty index is 34.0, which is far below the average “highly indebted poor country,” yet Nigeria is not classified by the World Bank as an IDA-PRGF-only country due to its oil resources (p. 47). As a result, Nigeria has been left out of many debt relief schemes. The lending rates and fees available to Nigeria do not include concessional loans or grants.

Still, as non-economists we have found it difficult to develop a definitive understanding of the nature and degree of Nigeria’s debt situation because different figures are used to describe different aspects of Nigeria’s financial situation. For example, Jubilee Debt Campaign says that Nigeria is not in “debt crisis,” which they define as “either a net international investment position of -30% of GDP or worse, or a current account deficit averaging over 3% per year for three years…. and…. government external debt payments are greater than 15% of government revenue.” In support of their classification, they say Nigerian government external debt payments as a proportion of revenue is only 7.1 in 2020; but the Africa Economic Outlook for 2021 (p. 161) says: "High debt service payments, estimated at more than half of federally collected revenues, pose a major fiscal risk to Nigeria." For their part, AfSDJN member, BudgIt, in their quick review of the 2021 proposed budget (available here), cites Nigeria’s debt service to revenue ratio as 94% but debt-to-GDP as still (only) 29% (p. 4). Notably, the IMF's debt sustainability analysis is not stringent. They allow countries that are highly indebted to continue borrowing. Even the IMF itself considers this problematic.

Implications of debt on climate action in Nigeria

Our colleagues at the Bretton Woods Project confirmed that, in general, most climate financing are offered in the form of loans which, in their words, "does have implications for climate justice." There are also concerns about greenwashing, the practice of misrepresenting environmental impact for the sake of profit.

In Nigeria, a key sector that has failed to receive adequate investment is the power sector. This has left an estimated 1 in 3 people in Nigeria without access to electricity. This vulnerability creates an opening for the international community to attempt to fund energy projects, and especially green energy projects. However, it also creates more opportunities for Nigerian external debt to increase if the Nigerian government does not strategically decide which projects to fund through loans from international partners. If Nigeria does not have the capacity to maintain and profit from the green energy projects the international community is funding, the debt servicing will far exceed the value of these green energy initiatives.

International support for Nigerian climate action

Like the World Bank press release announcing $5 billion in new climate investment in Africa that originally caught our attention, there is no shortage of journalistic coverage of international support for climate action in Africa and specifically in Nigeria.

Just recently, US President Joe Biden invited Nigerian President, Muhammadu Buhari, along with 39 other heads of state, to a summit on global climate action. UNDP is also committed to supporting Nigeria through its UNDP-NDC (Nationally Determined Contributions) Support Programme, with a target of increased mobilization of both the government and private sector to achieve the country's climate goals. In light of a limited commitment of national financial resources, private sector participation, regional-level support from ECOWAS and AU related funding, Nigeria will remain reliant upon resources under the support of UNFCCC, resources from the carbon market, concessional funding (ODA) from the DAC specifically for mitigation/adaptation initiatives, non-climate specific ODA from the DAC community, and non-DAC donor support.

In 2018, Former Prime Minister Theresa May announced that Nigeria would be the first beneficiary nation of the UK government-backed Climate Finance Accelerator Program, which aims to help countries shift their climate pledges into "Climate Investment Plans." Under the initiative, 14 projects, most of which involve Nigeria developing more solar power, were identified that could help Nigeria reach its pledge at a cost of $500M. Carbon Brief's climate finance analysis shows that Nigeria received $136M in international climate finance in 2016, more than half of which came from EU grants ($58M for energy policy development and $40M for Disaster Risk Reduction-related initiatives.) Other internationally financed projects in Nigeria include $25M toward "a credit system for renewable energy and energy efficiency projects, $5M for a sustainable fuelwood management system, and $3M for scaling up hydropower." Unfortunately, it is not clear from these reports about international support for climate action how much is being provided as loans, who the creditors are, and what the terms of the loans are.

Particular complexities of climate finance

Unpacking and understanding the specifics of this climate financing is not easy. The UNFCCC defines climate financing as "… local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change." Yet with all issues related to international aid, the implementation of climate finance is much more complex.

Oxfam's Climate Finance Shadow Report 2020 finds that climate finance reporting can be distorted. For example, the 2017 reported figure of $59.5bn/year in climate financing is overstated by a huge margin. They explain: "Most loans continue to be counted at their full face value, rather than as the amount of money given to a developing country once repayments, interest and other factors are accounted for (the grant equivalent)" (p. 2). In the period of the study, funding for adaptation increased by 5% per year, but climate mitigation still got 75% of all financing, but only 20% of climate finance went to the least developed countries (p. 3). Oxfam calls the reliance on non-concessional loans for climate finance an "overlooked scandal." They say: "The world's poorest countries and communities should not be forced to take out loans to protect themselves from the excess carbon emissions of rich countries.

Finance that should be helping countries respond to climate change should not be harming them by contributing to rising – and in many countries, unsustainable – debt levels" (p. 2). Moreover, this presentation by Professor Carmen Gonzalez points to the international nature of climate change and highlights how the UNFCCC process is trying to nationalize the response even though countries like Nigeria are the lowest contributors to climate change.

In our research, the most basic questions of "where is Nigeria's money coming from" and "where is it going" reveal a labyrinth of broken hyperlinks, missing information, overwhelming raw-data, and unnecessary jargon that keeps the average person from understanding what is happening. So what is easy to figure out? From press releases, articles, and blogs it is easy to find who is working with Nigeria and some of what they are funding. But once you start looking closer at where exactly the money is going, it gets complicated.

For example, the World Bank is funding various projects in Nigeria through loans, credits, and grants. These loans,credits, and grants are restricted to specific, World Bank-approved projects located within Nigeria meant to help build a more robust Nigerian economy and push the country further along the path of economic development. After several 404-Error pages due to broken hyperlinks on the World Bank website, several emails between one of us and several World Bank associates and tech support professionals, We were given a link that shows what loans, credit, and grants are being dispersed/ going to be dispersed by the WB in Nigeria. This information was nearly inaccessible without the help of World Bank staff. On top of its inaccessibility, it is not complete. These pages only show from 2012 through 2021, haven't been updated since February 2021 (nearly two months prior to the writing of this article), and don't include "Trust Funds, Financial Intermediary Funds (FIFs) Commitments, loans to IFC nor IBRD/IDA guarantees". There is a list of projects by country with a breakdown by sector and theme, including for Nigeria. Only 13 projects are marked with the "climate" theme, however, even though other projects are clearly climate related. Also, when drilling down to the project level, other details get lost, for example, the names of the creditors.

In the case of bilateral exchanges, like the relationship between Nigeria and China, there is even less accessible information. In order to gain a glimpse into how China is investing in Nigeria, we rely primarily on press releases, for example, about the growing relationship between Nigeria and China, the increased presence of Chinese infrastructure projects, and the increase in trade between the two largely sum-up the accessible information. But, because China and Nigeria are still both public actors, there is still some information available. The public can see some of the trade agreements, laws, policies, and conferences between China and Nigeria. The normative procedures are public and accessible, but these agreements in practice are harder to study. One reason for this is the role of private corporations in the financial supply chains. Corporations have minimal duty to be transparent to an audience larger than their stakeholders, making following their money nearly impossible for the public.

Following the money is never an easy task even with organizations that brand themselves as transparent, accountable institutions (like the World Bank). The lack of transparency and gatekeeping of financial information have larger implications for Nigerians; people deserve access to understanding where their money is going and better transparency between Nigeria and its financiers is a vital aspect of allowing others to understand these hidden-in-plain-sight relationships.

Conclusion

Although we tried to determine if and how internationally-financed climate action may be worsening Nigeria's debt crisis, we weren't able to find data that would lead us to a definitive analysis. It is logical that any borrowing, especially on non-concessional terms, that will not pay for itself through productivity, will contribute to Nigeria's debt, and in that way, further undermine Nigeria's ability to take much-needed climate action (or any humanitarian or development objectives). As Oxfam says, "Against a backdrop of rising debt, the overwhelming provision of climate finance in the form of loans and other non-grant instruments (a significant and increasing number of which are non-concessional) risks contributing to the unsustainable debt burdens of many low-income countries. Finance that should be helping countries respond to climate change is likely to be harming them in other ways" (p. 15).

It would be especially insidious if international financing continues to support expansion of Nigeria's infrastructure for fossil fuels even while purchasers of oil are looking for clean alternatives. Not only would that be bad climate policy, but given international commitments to replace fossil fuel reliance with clean energy, it would mean doubling down on a Nigerian investment that is likely to quickly go bad. Like the US and many developed countries, Nigeria is dependent on fossil fuels and if it stops exploiting oil, the economy would suffer greatly. Unlike developed countries, Nigeria lacks the substantial resources it needs to transform its economy from one dependent on fossil fuels to one that is not only clean, but also positioned to provide the kind of energy that the rest of the world will buy. Who is responsible for helping Nigeria and others to transition their economies? How does responsibility for causing climate change figure into the equation about who is considered most responsible for addressing it?

We believe that future analyses should not only seek to specify the amount of climate finance provided as loans, but should also look beyond economic implications to consider alternative approaches to development. It seems possible, if not likely, that green growth is not only good for the climate and for ticking off the boxes of compliance with international demands, but is also good for Nigeria’s economy and quality of life.

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