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# DMO

## DEBT MANAGEMENT OFFICE

**ANNUAL REPORT AND**
**STATEMENT OF ACCOUNTS | 2006**

UNITY & FAITH, PEACE & PROGRESS

# DEBT MANAGEMENT OFFICE

2006 ANNUAL REPORT AND STATEMENT OF ACCOUNTS

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KEY

| | |
|---|---|
| PMD | Portfolio Management Department |
| PSRM | Policy, Strategy and Risk Management |
| DRS | Debt Recording and Settlement |
| ORD | Organizational Resource Department |

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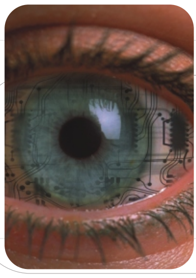
## GLOSSARY

| | |
|---|---|
| ADB | African Development Bank |
| ADF | African Development Fund |
| BADEA | Arab Bank for Economic Development in Africa |
| BOF | Budget Office of the Federation |
| BMSC | Bond Market Steering Committee |
| BSC | Bond Sub-Commitee |
| CBN | Central Bank of Nigeria |
| CHF | Swiss Franc |
| CPIA | Country Policy and Institutional Assessment |
| CPL | Currency Pool Loans |
| CSCS | Central Securities Clearing System |
| DAS | Dutch Auction System |
| DCP | Debt Conversion Programme |
| DCU | Debt Conversion Unit |
| DFI | Development Finance Institution |
| DFID | Department For International Development |
| DMO | Debt Management Office |
| DSA | Debt Sustainability Analysis |
| DSF | Debt Sustainability Framework |
| EDF | European Development Fund |
| EFCC | Economic and Financial Crimes Commission |
| EIB | European Investment Bank |
| EITI | Extractive Industries Transparency Initiative |
| EOI | Expression of Interest |
| EU | European Union |
| EUR | Euro |
| FAAC | Federation Accounts Allocation Committee |
| FDI | Foreign Direct Investment |
| FGN | Federal Government of Nigeria |
| FMF | Federal Ministry of Finance |
| FRL | Fiscal Responsibility Law |
| FUA | African Development Fund Unit of Account |
| GBP | British Pound Sterling |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| HIPC | Highly Indebted Poor Countries |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Corporation |
| IFEM | Inter-bank Foreign Exchange Market |
| IMF | International Monetary Fund |
| IS | Information Systems |
| IT | Information Technology |
| JPY | Japanese Yen |
| KRW | Korean Won |

| | |
|---|---|
| LIC | Low Income Country |
| LIBOR | London Inter-bank Offered Rate |
| MDG | Millennium Development Goals |
| MDU | Market Development Unit |
| MMR | Minimum Rediscount Rate |
| MTEF | Medium Term Economic Framework |
| NARSDA | National Space Research and Development Agency |
| NEEDS | National Economic Empowerment and Development Strategy |
| NGN | Nigerian Naira |
| NHIS | National Health Insurance Scheme |
| NITEL | Nigeria Telecommunication |
| NNPC | Nigerian National Petroleum Corporation |
| NPV | Net Present Value |
| NSE | Nigerian Stock Exchange |
| NTB | Nigerian Treasury Bill |
| ODA | Official Development Assistance |
| OPEN | Overview of Public Expenditure in NEEDS |
| ORD | Organisational Resource Department |
| OTC | Over the Counter |
| PDMM | Primary Dealer Market Maker |
| PHCN | Power Holding Company of Nigeria |
| PSI | Policy Support Instrument |
| RMAFC | Revenue Mobilisation Allocation and Fiscal Commission |
| SDR | Special Drawing Right |
| SEC | Securities and Exchange Commission |
| UNCTAD | United Nations Conference on Trade and Development |
| USD | United States Dollar |
| VPF | Virtual Poverty Fund |
| WAIFEM | West African Institute for Financial and Economic Management |



# VISION & MISSION

## VISION OF THE DEBT MANAGEMENT OFFICE

To build a world-class Debt Management Office
capable of making Nigeria's debt sustainable by 2006

## MISSION OF THE DEBT MANAGEMENT OFFICE

To transform Nigeria's debt portfolio
into an asset for growth and development

# CORE VALUES AND MANDATE OF THE DEBT MANAGEMENT OFFICE

## EXCITE

EXCELLENCE

COMMITMENT

INTEGRITY

TEAMWORK

EFFICIENCY

## MANDATE OF THE DEBT MANAGEMENT OFFICE

The mandate of the Debt Management Office as articulated in Part III, Section 6 of the Debt Management (Establishment) Act 2003, specifies that the DMO shall:

a. Maintain a reliable database of all loans taken or guaranteed by the Federal or State Governments or any of their agencies;
b. Prepare and submit to the Federal Government a forecast of loan service obligations for each financial year;
c. Prepare and implement a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels compatible with desired economic activities for growth and development, and participate in negotiations aimed at realising these objectives;
d. Verify and service external debts guaranteed or directly taken by the Federal Government;
e. On an agency basis, service external debts taken by State Governments and any of their agencies, where such debts are guaranteed by the Federal Government;
f. Set guidelines for managing Federal Government financial risks and currency exposure with respect to all loans;
g. Advise the Federal Government on the re-structuring and re-financing of all debt obligations;
h. Advise the Minister on the terms and conditions on which monies, whether in the currency of Nigeria or in any other currency, are to be borrowed;
i. Submit to the Federal Government for consideration in the annual budget, a forecast of borrowing capacity in local and foreign currencies;
j. Prepare a schedule of any other Federal Government obligations such as trade debts and other contingent liabilities, both explicit and implicit and provide advice on policies and procedures for their management;
k. Establish and maintain relationships with international and local financial institutions, creditors and institutional investors in Government debts;

l. Collect, collate and disseminate information, data and forecasts on debt management with the approval of the Board;

m. Carry out such other functions which may be delegated to it by the Minister or by Act of the National Assembly; and

n. Perform such other functions which in the opinion of the Office are required for the effective implementation of its functions under the Act.

### The DMO Act also provides that the Office shall:

- Administer the debt conversion programme of the Federal Government;
- Perform the functions of the Minister with regard to the development fund rules; and
- Supervise the operation of the development fund under the Finance (Control and Management) Act, as amended.

## DIRECTOR-GENERAL'S STATEMENT

It is with great honour and pleasure that I present Nigeria's Debt Management Office Annual Report and Statement of Accounts for the 2006 financial year. It is envisaged that the general public will find it illuminating in terms of explaining how the sovereign debt portfolio was managed during the period under review. The document is also expected to provide our supportive clients with a clearer picture of the dynamics of Nigeria's domestic debt market and what to expect in the future. As has always been the case, we equally expect this report to provide an easy and useful learning material for persons interested in this new, challenging area.

Building on the successes recorded in the 2005 financial year, the DMO, with the unprecedented support of Mr. President, the Honourable Minister of Finance and members of the National Assembly, kept the momentum of maintaining the nation's debt portfolio on a fundamentally sustainable path. Externally, the focus was on two fronts: paying the last tranche of the Paris Club debt deal and resolving the remaining excruciating component of the external debt portfolio, specifically the London Club debt of US$2.038 billion plus liabilities associated with Oil Warrants. The last tranche of payment to Paris Club creditors amounting to US$4.520 billion was made on schedule in April, 2006 to secure a permanent exit. With that out of the way, attention was switched to redeeming the London Club debt, which presented different kinds of challenges.

In respect of the London Club debt redemption process, the country faces a scenario fundamentally different from what it faced with Paris Club creditors. Under this scenario, the country is confronted with numerous faceless creditors holding instruments whose ownership may have changed several times through trading in the international capital markets. Given the nature of the complex arrangements involved, we worked closely with the Emerging Markets Traders Association (EMTA) and the Institute of International Finance (IIF), especially in an effort to reconcile the positions of Oil Warrants. After carefully scrutinizing several strategic options, we have assiduously pursued its resolution and the whole process is presently nearing completion. Some of the options considered included voluntary debt-for-debt exchange and the redemption of Par Bonds and Promissory Notes through the issuance of new instruments in the international capital market. We eventually settled on a strategy that we consider optimal for the country. This involved issuing a Call Notice, as the instruments had embedded Call options, and redeeming US$1.584.58 billion worth of Par Bonds on November 15, 2006. The remaining component of Promissory Notes worth

US$509.01 million would be retired by Exiting London Club debt would provide Nigeria with an annual savings of US$260.00 million on Par Bonds and the Promissory Notes. During the first quarter of 2007, a strategy to exit debt service payments associated with Nigeria's 1.76 million units of Oil Warrants would also be implemented to redeem the country from all obligations with respect to these instruments, which does not however constitute parts of the London Club debt stock.

On the domestic front, two major challenges were faced in 2006. The first challenge was to develop a vibrant and efficient domestic debt market in order to reduce heavy reliance on external financing and also achieve other macroeconomic objectives. In this regard, we have succeeded in sustaining the bond issuance calendar on a monthly basis. To assist with secondary market development, the DMO appointed ten banks and five discount houses (following a rigorous and competitive selection process) as Primary Dealers and Market Makers (PDMMs). Operational guidelines were developed. These innovative guidelines can be reviewed regularly and provide scope for expanding the horizon of institutional participation as the market grows and deepens. The primary objective is to create a liquid secondary market for government securities and continue the process of developing a benchmark yield curve that allows other financial instruments to take their bearings in terms of pricing. The DMO has achieved a remarkable milestone in this regard with the issuance of relatively longer-tenored bonds of seven years maturity in two trenches under the 3rd FGN Bond Series.

A total of N261 billion was raised from the market to finance the budget deficit and fund the restructuring of the 91-day Treasury Bills into longer-tenored fixed income instruments utilizing a combination of instruments. Both the deepening of the market and the restructuring exercise yielded good results. The level of 90-day Treasury Bills was reduced from its December 2005 level of 26.30 percent of the domestic debt stock to only 21.00 percent as at December 2006. Stability in major macroeconomic aggregates, especially inflation, helped the DMO's effort to extend government securities beyond short-term maturities with minimal cost. Another important achievement on the domestic debt front was the successful resolution of the accumulated pension and local contractor arrears to the tune of N75.00 billion and N91.65 billion respectively. This was done through an innovative process of direct payment and securitization of these arrears within specified thresholds defined by the Budget Office of the Federation.

In the financial year under review, the DMO also contributed to a major pillar of the reform process. As the secretariat for the Working Group of the Fiscal Responsibility Bill, the DMO led major initiatives to rally support for the legislation. Stakeholder consultations were organized which facilitated the National Assembly public hearing process with respect to the Bill.

In recognition of all these, Mr. President wrote a letter of commendation to the Director-General, the management as well as the entire staff of the Debt Management Office. In the letter, recognizing the efforts of the organization, Mr. President stated: "I commend the tireless efforts, selfless service and outstanding commitment deployed by the management and staff in executing the organization's mandate."

While urging the DMO to continue its good work, Mr. President also asserted: "I encourage you to continue the excellent work. I expect that you would continue to deploy your efforts towards addressing the challenges posed by our domestic and London Club debt portfolio, with a view to securing a sustainable debt profile for our country and ensuring a better future for Nigerians". At this point we are pleased to state that the DMO, in collaboration with other stakeholders, has recorded a remarkable success in resolving domestic debt issues, while London Club debt will be exited by March, 2007. Also, from within the continent, the DMO continues to provide an exemplary role for other countries. We hosted officials of the Bank of Uganda in October 2006 on a tour to study the modalities of establishing and managing a debt management office.

As interest rate spreads in both industrial and emerging markets remain close to historic lows in 2006 - reflecting both improved fundamentals and a search for yield in an environment of easy liquidity, accompanied by buoyant inflows to emerging markets - developing a vibrant fixed-income securities market remains a major challenge. Hence, issuing a larger volume of instruments and longer-tenored ones, establishing an appropriate market-driven trading platform, continued cooperation and coordination with various stakeholders and adopting policies that enhance investor-base heterogeneity are some of the issues we will focus on in 2007 on the domestic debt market front.

On the external front, efforts will continue to be made to develop a framework and guidelines for external borrowing. The terms of borrowing will be given special importance as forward-looking debt sustainability analysis shows that - post-debt relief - if Nigeria continues to borrow on non-concessional terms, debt sustainability indicators will deteriorate rapidly, resulting in a high and unsustainable debt stock and associated debt service.

At the sub-national level, we will intensify efforts to encourage the establishment of Debt Management Units in all States beyond the four (4) pilot States we had in 2006. This is to ensure proper coordination of debt management activities at that level of governance. Equally, efforts to assist the units with capacity building shall be sustained.

As always, I will end this statement by expressing sincere appreciation to the outstanding team of dedicated staff in the DMO, without whose effort the successes recorded above would not have been realized. Collectively, also, we owe a debt of gratitude to Mr. President and the Honourable Minister of Finance for the support given to the DMO in the discharge of its mandate.

Mansur Muhtar

# CHAPTER ONE

## NIGERIA'S TOTAL DEBT

### 1.1 ECONOMIC CONTEXT

### 1.1.1 GLOBAL ENVIRONMENT

As in 2005, sustained global economic growth led to high energy demand by fast-growing economies, particularly China and India. High demand, as well as supply shocks and bottlenecks, maintained crude oil prices at very high levels throughout 2006, averaging US$61.33 per barrel for the year. Thanks to the strict adherence to a prudent oil price based fiscal rule, this allowed Nigeria to build up historically high foreign exchange reserves, closing the year with an estimated US$41,893.34 billion. The latter afforded the country 24.67 months of import cover. This resulted in a current account balance of US$27,055.80 million, with an overall balance of payments position of US$13,607.32 million. This puts Nigeria in a position to be able to finally exit Paris Club debt obligations and start the exit from London Club debt.

The year 2006 saw fast-growing economies focusing on the African continent, by intensifying bilateral relations. This allowed some resource-rich countries in the region to enjoy new business opportunities, accumulating trade surpluses and engaging in infrastructure and business development. Nigeria was no exception. FDI inflows surged, particularly in the oil and gas sectors, and put Nigeria among the five biggest recipients of such inflows in the African continent. Nigeria also continued to be the largest trading partner of India in the African continent. It contracted a new loan from China to build a new railway system and also participated in the Africa-China Summit hosted in Beijing in November 2006. The involvement of fast-growing economies, like China and India, in Nigeria is expected to increase dramatically in the near future in an effort of these countries to maintain their high growth level, which could be dangerously hindered by the lack of energy resources.

### 1.1.2 DOMESTIC ECONOMY

Nigeria's GDP growth has doubled in the last five years compared with the previous two decades. 2006 has again confirmed the fast growth of the non-oil sector in particular, while the overall GDP growth for the year was 5.63 percent.

In 2006, Nigeria was the greatest recipient of FDI inflows in West Africa. While most inflows came from the Western World, the recent trend showing a surge in FDI inflows from China, India and other Asian countries was confirmed. Inflows obviously concentrated on the oil and gas sectors, particularly in petroleum exploration, extraction and related activities, due to the buoyant global demand for oil. The country's oil-generated wealth has, indeed, increased over the past year. Fiscal surpluses are now high and expected to maintain considerable levels in the medium-term.

Headline inflation declined to single digits in 2006, closing with a year-on-year figure of 8.5 percent at December 2006. This fall was largely driven by supply-side factors. More specifically, the effect of decreasing food prices was not fully offset by the rise in energy prices. During the year, a wholesale Dutch Auction System and other measures to increase the supply of foreign currency and extend official market access to Bureaux de Change (BDC) were undertaken. In this way, the parallel and official exchange rates largely converged, following an appreciation of the former. The latter remained, instead, largely stable, reflecting the building up of foreign reserves and averaging N127.4 per US Dollar. However, liquidity management resulted in undue interest rate volatility. The CBN Minimum Rediscount Rate (MRR) was stably at 13.0 percent until May 2006 and increased by 100 basis points to 14.0 percent up until November, only to fall to 10.0 percent in December. The Monetary Policy Rate (MPR) was introduced in December 2006 as the nominal anchor of all interest rates, in a bid by the Central Bank of Nigeria (CBN) to move to a market-driven interest rate regime and enhance efficiency in the conduct of monetary policy. Broad money surged from mid-2006, with an average monthly expansion of 19.0 percent for the second-half of the year, thus highlighting emerged inflationary pressures. The M2 displayed the same trend with an average monthly increase of 30.4 percent in the second-half of 2006.

For the first time ever, the Government invited international rating agencies (Fitch and Standard & Poor's) to undertake the ratings for the country. Both agencies came out with a BB- rating with a stable outlook. Building on the successful first Policy Support Instrument (PSI) review of December 2005 targets, the quantitative targets and structural measures agreed for end-June 2006 were largely met.

Nigeria's external debt position was stronger by the end of 2006, after the final exit from Paris Club debt obligations in April, 2006 and from the Par Bonds component of London Club debt in November, 2006. External debt ratios were sustainable and well thought-out strategies were drawn up for the maintenance of such sustainability in the medium and long-term. Nonetheless, it is undeniable that challenges will be faced in the future because of the planned higher capital spending to develop the country's infrastructure, particularly the power, gas and transportation sectors. To prevent the erosion of the country's wealth and to make sure infrastructure development occurs in tandem with single-digit core inflation and without the crowding out of private sector credit, a mix of well designed medium-term budget planning, public financial management, project evaluation and government borrowing is needed.

In an effort to avoid a relapse into a situation of debt overhang as well as to entrench effective public expenditure management at all tiers of government, the present administration introduced the proposed Fiscal Responsibility Law (FRL). As an integral part of the NEEDS reform process, the proposed FRL seeks to prevent imprudent use of the nation's resources and install a rule-based system for managing public expenditure, which has hitherto been lacking. When passed into law, it will promote wise management of public finances and good practice by all tiers of government, by increasing coordination and providing a set of common standards. This will facilitate better budgeting and monitoring of public expenditure; encourage price and exchange rate stability; reduce the risk and vulnerability associated with oil revenue instability; contain debt within sustainable levels; ensure transparency in public finance; and further institutionalise the fight against corruption.

## 1.1 Debt Stock

### 1.2.1 Total Public Debt Outstanding

Total public debt outstanding (total external debt and securitised domestic debt of the Federal Government) stood at US$17,349.69 million as at 31st December, 2006. This represents a decrease of US$14,957.04 million or 46.30 percent, as compared to the US$32,306.73 million recorded as at 31st December, 2005 (Table 1.1).

**Table 1.1: Total Public Debt Outstanding, 2001-2006 (US$ million[1])**

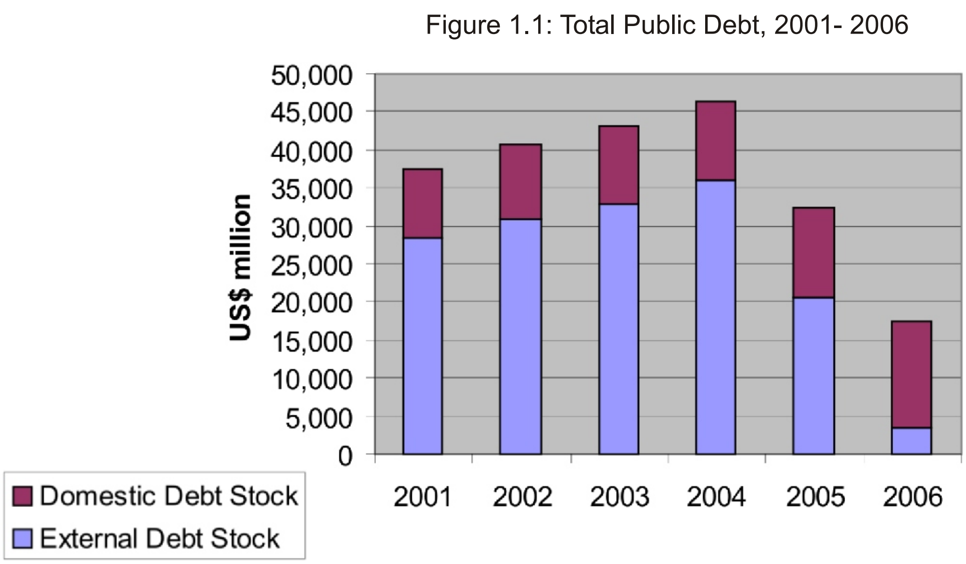
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| External Debt Stock | 28,347.00 | 30,991.87 | 32,916.81 | 35,944.66 | 20,477.97 | 3,544.49 |
| Domestic Debt Stock | 9,088.29 | 9,636.36 | 10,283.99 | 10,314.79 | 11,828.76 | 13,805.20 |
| TOTAL | 37,435.29 | 40,628.23 | 43,200.80 | 46,259.45 | 32,306.73 | 17,349.69 |
| | | Percentage Share (%) | | | | |
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| External Debt Stock | 75.70 | 76.28 | 76.19 | 77.70 | 63.39 | 20.43 |
| Domestic Debt Stock | 24.30 | 23.72 | 23.81 | 22.30 | 36.61 | 79.57 |
| TOTAL | 100 | 100 | 100 | 100 | 100 | 100 |

[1] Official DAS Exchange Rate As At 31/12/06
Source: Debt Management Office

Figure 1.1 shows the trend of total public debt stock over the period 2001 to 2006. During the period 2001 to 2005, external debt made up the bulk of total public debt. From 2001 to 2004, its share was rising yearly due to the accumulation of arrears, penalty charges and losses caused by exchange rate movements. A significant reduction in the external debt stock was registered in 2005, after the signing of the Paris Club debt deal. On 20th October 2005, a historic debt deal was signed with Paris Club creditors. This agreement has allowed Nigeria to exit Paris Club debt obligations permanently in April 2006, by following several stages of repayments and debt cancellations and satisfactorily performing in the implementation of the IMF's PSI. The registered reduction in external debt stock in 2006 also occurred due to the early redemption of the Par Bonds of London Club debt, as part of the permanent exit strategy from such debt obligations. Thus, total public debt has displayed a decreasing trend since 2005, mainly due to a reduction in the external debt stock.

On the contrary, domestic debt stock kept rising throughout the period 2001 to 2006. For the first time in years, as at 31st December 2006, the country's securitised domestic debt stock was higher than its external debt stock. Figure 1.1 clearly displays a gradual increasing trend of the stock of domestic debt since 2001, with substantial increases occurring particularly in the last two years. This was due to the renewed attention paid to the development of the domestic debt market as an avenue for financing budget deficits, deepening and developing the financial market, and raising investment funds. Indeed, 2006 witnessed a substantial increase in the amount of FGN Bonds issued and the Federal Government's active involvement in restructuring short-term debt instruments into longer-tenured ones. As a result, the domestic debt stock increased by US$1,976.43 million or 16.71 percent, between 31st December 2005 and 31st December 2006. Chapter three of this report discusses these issues in detail.

FIGURE 1.1 TOTAL PUBLIC DEBT, 2001 -2006




Source: Debt Management Office

## 1.2.2 Total Public Debt by Creditor

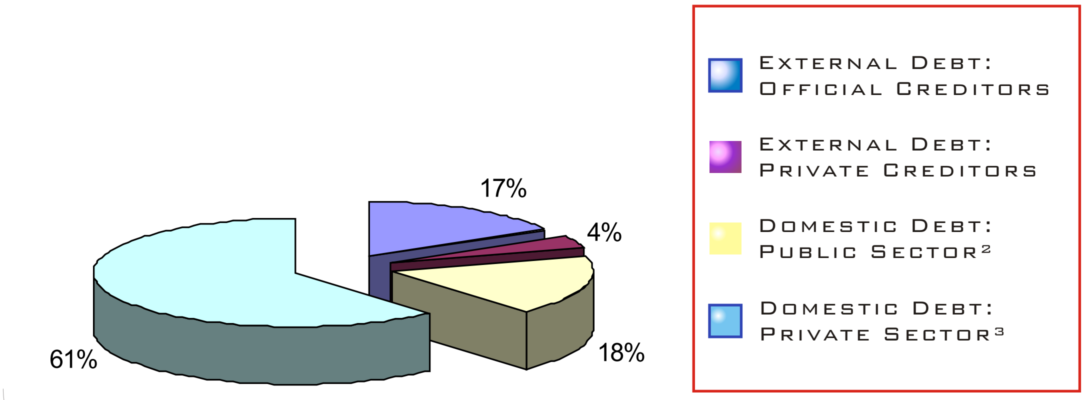
As at 31st December 2006, 79.57 percent of total public debt stock outstanding consisted of domestic debt obligations, while external debt obligations made up the remaining 20.43 percent. Figure 1.2 shows the share of total public debt by creditor type as at 31st December 2006. External debt obligations to official creditors were 16.91 percent of total debt stock, indicating a fall by 40 percentage points compared to 31st December 2005 figures. External debt owed to private creditors also declined to 3.51 percent of total debt stock at the end of December 2006. Conversely, the proportion of domestic debt owed to both the public and the private sector increased. The latter, in particular, became the largest share of total public debt - making up 61.79 percent of it and revealing the efforts of the Federal Government to develop the domestic debt market. This is further discussed in Chapter Three of this report.

### Table 1.2: Total Public Debt by Creditor, 2001-2006 (US$ million[1])

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| External Debt: Official Creditors | 25,012.01 | 28,396.89 | 30,563.63 | 33,719.63 | 18,386.38 | 2,934.38 |
| External Debt: Private Creditors | 3,334.99 | 2,594.97 | 2,353.18 | 2,225.03 | 2,091.59 | 610.11 |
| Domestic Debt: Public Sector[2] | 6,077.84 | 4,400.41 | 4,747.25 | 3,139.71 | 5,383.10 | 3,085.65 |
| Domestic Debt: Private Sector[3] | 3,010.46 | 5,235.95 | 5,536.74 | 7,175.08 | 6,445.66 | 10,719.55 |
| TOTAL | 37,435.29 | 40,628.23 | 43,200.80 | 46,259.45 | 32,306.73 | 17,349.69 |
| | | | Percentage Share (%) | | | |
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| External Debt: Official Creditors | 66.81 | 69.89 | 70.75 | 72.89 | 56.91 | 16.91 |
| External Debt: Private Creditors | 8.91 | 6.39 | 5.09 | 4.81 | 6.47 | 3.51 |
| Domestic Debt: Public Sector | 16.24 | 10.83 | 10.99 | 6.79 | 16.66 | 17.79 |
| Domestic Debt: Private Sector | 8.04 | 12.89 | 12.82 | 15.51 | 19.96 | 61.79 |
| TOTAL | 100 | 100 | 100 | 100 | 100 | 100 |

[1] Official DAS Exchange Rate as at 31/12/06
[2] Public Sector comprises CBN and parastatals.
[3] Private Sector comprises banks, discount houses, sinking fund, brokers and non-banks.
Source: Debt Management Office

Figure 1.2: Total Public Debt by Creditor Type as at 31st December 2006




Source: Debt Management Office

### 1.2.3 Total Public Debt by Maturity

Total public debt stock by maturity for the period 2001 to 2006 is displayed in Table 1.3. This shows all external debt was long-term, i.e. longer than one year maturity, throughout the period under review. The most important change occurred between 2005 and 2006 and concerned domestic debt. While at 31st December 2005, long-term domestic debt made up the smallest proportion of total public debt stock, it became the largest share of total public debt at 31st December 2006. More precisely, at end-2006, long-term domestic debt constituted 48.03 percent of total public debt, while the share of short-term domestic debt was 31.54 percent. This change testifies to the efforts of the government to concentrate on lengthening the maturity structure of domestic debt.

### TABLE 1.3: TOTAL PUBLIC DEBT OUTSTANDING BY MATURITY, 2001-2006 (US$ MILLION)[1]

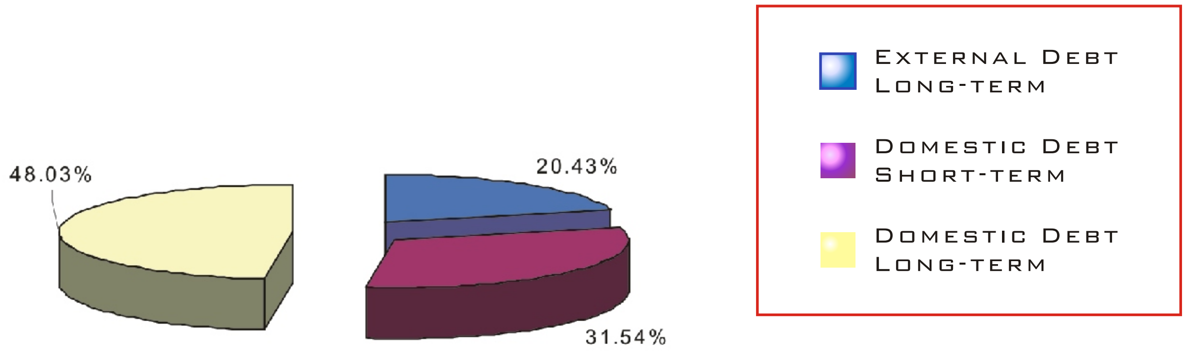
| | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| External Debt Stock | Short term | | - | - | - | - | - |
| | Long term | 28,347.00 | 30,991.87 | 32,916.81 | 35,944.66 | 20,477.97 | 3,544.49 |
| | Sub-total | 28,347.00 | 30,991.87 | 32,916.81 | 35,944.66 | 20,477.97 | 3,544.49 |
| Domestic Debt Stock | Short term term | 5,223.77 | 6,064.13 | 6,380.90 | 6,560.56 | 6,626.59 | 5,472.44 |
| | Long term | 3,864.52 | 3,572.23 | 3,902.86 | 3,754.23 | 5,202.17 | 8,332.75 |
| | Sub-total | 9,088.29 | 9,636.36 | 10,283.99 | 10,314.79 | 11,828.76 | 13,805.20 |
| TOTAL | | 37,435.29 | 40,628.23 | 43,200.80 | 46,259.45 | 32,306.73 | 17,349.69 |

PERCENTAGE SHARE (%)

| | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| External Debt Stock | Short term | - | - | - | - | - | - |
| | Long term | 75.72 | 76.28 | 76.19 | 77.70 | 63.39 | 20.43 |
| | Sub-total | 75.72 | 76.28 | 76.19 | 77.70 | 63.39 | 20.43 |
| Domestic Debt Stock | Short term | 13.95 | 14.93 | 14.77 | 14.18 | 20.51 | 31.54 |
| | Long term | 10.32 | 8.79 | 9.03 | 8.12 | 16.10 | 48.03 |
| | Sub-total | 24.28 | 23.72 | 23.81 | 22.30 | 36.61 | 79.57 |
| TOTAL | | 100 | 100 | 100 | 100 | 100 | 100 |

¹ Official DAS Exchange Rate as at 31/12/06
² Short-term external debt is debt with less than 1 year original maturity.
³ Short-term domestic debt consists of 91,182 and 364 days Treasury Bills. Long-term domestic debt consists of Treasury Bonds, FGN Bonds and FRN Development Stock.
Source: Debt Management Office

FIGURE 1.3 TOTAL PUBLIC DEBT BY ORIGINAL MATURITY
AS AT 31ST DECEMBER 2006




Source: Debt Management Office

## 1.3 DEBT FLOWS

### 1.3.1 Total Debt Service Payments

Total debt service payments for the year 2006 amounted to US$8,042.90 million and registered a decrease of US$2,066.84 million, or 20.46 percent, as compared to 2005 figures. US$1,313.70 million of the total constituted domestic debt principal and interest repayments, while US$6,729.20 were external debt service payments. Of the latter, US$4,519.87 million constituted the final exit payment of the Paris Club debt and US$1,584.74 million were used to pay London Club creditors.

### 1.3.2 Disbursements and New Issues

Total disbursements of external debt and new issues of domestic debt for 2006 equalled US$15,719.85 million (Table 1.4). This constituted a substantial increase of US$13,049.85 million, or 488.76 percent, as compared to the 2005 figure. Of the US$15,719.85 million, US$381.64 million, or 2.43 percent, were disbursements from external creditors, while US$15,338.21 million, or 97.57 percent, were new issues of domestic debt. This large share of domestic debt issues was due to the issuance of Nigerian Treasury Bills (NTBs) as well as 3rd FGN Bonds, as part of the DMO debt restructuring and domestic market development programme discussed in Chapter Three of this report. More precisely, the bulk of domestic debt new issues for the year 2006 was constituted by NTBs, amounting to US$111,804.07 million, while the 3rd FGN Bonds issued amounted to US$3,534.14 million.

### Table 1.4: External Debt New Disbursements and Domestic Debt New Issues, 2001-2006 (US$ million)[1]

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| External Debt Disbursements | 38.85 | 51.83 | 106.23 | 185.23 | 2642.70 | 381.64 |
| Domestic Debt New Issues | 1,060.95 | 1,231.65 | 1,267.90 | 350.17 | 2,405.19 | 15,338.21 |
| FGN Bonds | - | - | 571.30 | - | 1,403.73 | 3,534.14 |
| Others[2] | 1,060.95 | 1,231.65 | 696.60 | 350.17 | 1001.46 | 11,804.07 |
| TOTAL | 1,099.79 | 1,283.48 | 1,374.13 | 535.40 | 2,670.00 | 15,719.85 |

[1]Official DAS Exchange Rate as at 31/12/06
[2] These include NTBs, FRN Development Stock and Treasury Bonds.
Source: Debt Management Office

# CHAPTER TWO

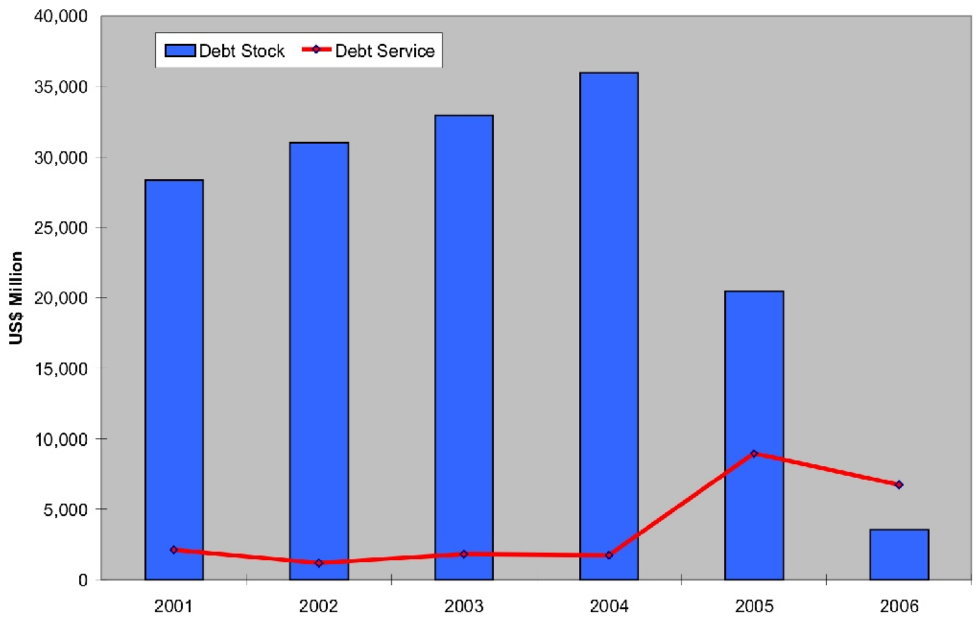
## EXTERNAL DEBT ISSUES

### 2.1 EXTERNAL DEBT STOCK

Total external debt outstanding at 31st December 2006 was US$3,544.49 million as against US$20,477.97 million in 2005. This corresponds to a decrease of US$16,933.48 million or 82.70 percent. This significant reduction was as a result of the implementation of the third phase of the Paris Club debt deal. After the clearance of all arrears totalling US$7,574.15 million in 2005, Nigeria enjoyed a 67 percent debt cancellation as per "Naples Terms" and finally exited all debt obligations with the Paris Club of creditors in April 2006, with the last payment of US$4,519.87 million.

Since the principal balance (disbursed outstanding debt) and all arrears to the Paris Club have been paid, no arrears are outstanding to any other external creditor. This is the first time in twenty years that Nigeria has no arrears outstanding in its external debt stock (Table 2.1).

FIGURE 2.1: EXTERNAL DEBT STOCK AND DEBT SERVICE, 2001-2006




Source: Debt Management Office

Figure 2.1 displays the trend in Nigeria's external debt stock and debt service payments over the six-year period 2001 to 2006. The external debt stock increased significantly between 2001 and 2004, despite the fourth rescheduling agreement with Paris Club creditors in 2000. The fall between 2005 and 2006 was, instead, a result of the Paris Club deal signed in 2005 and completed on 16th April 2006, when Nigeria made its final payment. This resulted in a significant decrease in the debt stock.

TABLE 2.1: EXTERNAL DEBT STOCK OUTSTANDING BY CREDITOR TYPE AS AT 31 ST DECEMBER,2006 (US$MILLION)[1]

| Creditor | | Principal Balance 1 | Total Arrears 2 | Total 3 | Percentage(%) 4 |
|---|---|---|---|---|---|
| **MULTILATERAL** | | | | | |
| World Bank Group | | | | | |
| | IBRD | 417.53 | 0.00 | 417.53 | 11.78 |
| | IDA | 1,405.69 | 0.00 | 1,405.69 | 39.66 |
| IFAD | | 39.94 | 0.00 | 39.94 | 1.13 |
| African Dev. Bank Group | | | | | |
| | ADB | 434.13 | 0.00 | 434.13 | 12.25 |
| | ADF | 179.85 | 0.00 | 179.85 | 5.07 |
| Fund ECOWAS | | 0.00 | 0.00 | 0.00 | 0.00 |
| EIB | | 2.03 | 0.00 | 2.03 | 0.06 |
| EDF | | 129.14 | 0.00 | 129.14 | 3.64 |
| SUB | | 2,608.30 | 0.00 | 2,608.30 | 73.59 |
| PARIS CLUB | | 0.00 | 0.00 | 0.00 | 0.00 |
| NON PARIS | | 326.08 | 0.00 | 326.08 | 9.20 |
| LONDON CLUB | | 0.00 | 0.00 | 0.00 | 0.00 |
| PROMISSORY NOTES | | 509.01 | 0.00 | 509.01 | 14.36 |
| OTHER COMMERCIALS | | 101.10 | 0.00 | 101.10 | 2.85 |
| GRAND TOTAL | | 3,544.49 | 0.00 | 3,544.49 | 100.00 |

1. Exchange rate of US$ vis-à-vis other currencies at 31/12/2006
2. Total arrears are the sum of arrears of principal, arrears of interest/commission and late/penalty interest arrears.
Source: Debt Management Office

As at 31st December 2006, nothing was owed to Paris Club creditors and Par Bond holders of the London Club of creditors. In terms of creditor categorisation, the external debt stock in 2006 comprised US$2,608.30 million or 73.59 percent of total external debt stock owed to multilateral institutions; US$509.01 million or 14.36 percent owed to the Promissory Note holders; US$326.08 million or 9.20 percent owed to non-Paris Club creditors; and US$101.10 million or 2.85 percent owed to other commercial creditors (Table 2.2).

Table 2.2 and Figure 2.2 display Nigeria's external debt outstanding by creditor over the period 2001 to 2006. The former shows that the proportion of external debt owed to the Paris Club increased from 77.94 percent in 2001 to 85.82 percent in 2004. However, it started decreasing in 2005, by falling to 75.26 percent, and was cleared by the end of 2006. With the final exit from Paris Club debt in 2006, the largest proportion of the external debt stock became that owed to multilateral creditors, with 73.59 percent. The latter experienced a 61.32 percentage point increase. Lastly, after the exit from the Par Bonds portion of London Club debt in 2006, Promissory Notes holders became the second largest category of creditors with 14.36 percent of the external debt outstanding.

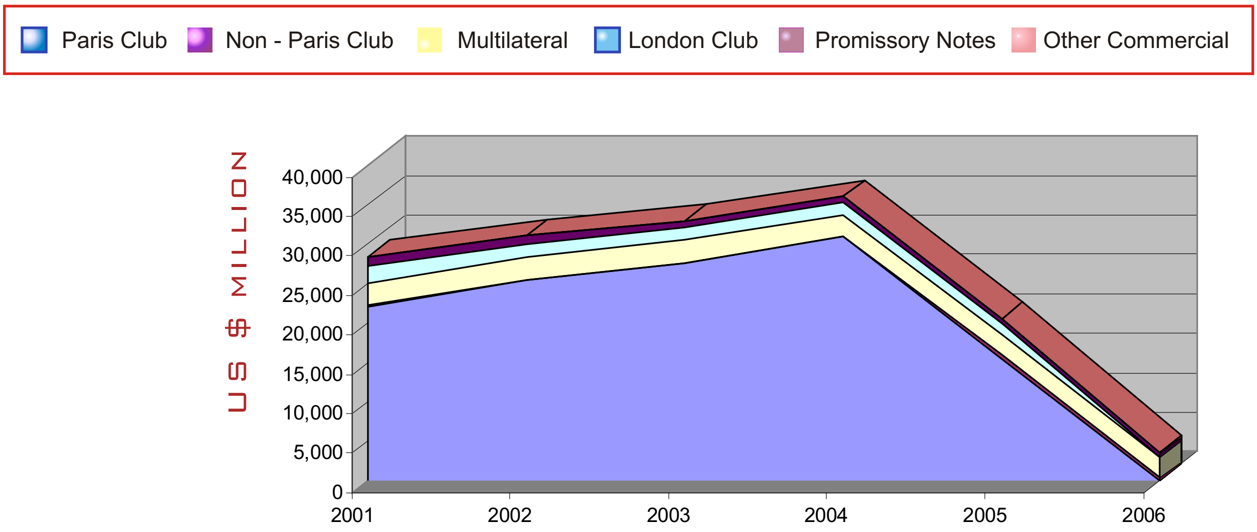
### Table 2.2: External Debt Outstanding By Creditor, 2001-2006 (US$ Million)

| CREDITOR CATEGORY | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| A. Official: | | | | | | |
| 1. Bilateral | | | | | | |
| Paris Club | 22,092.93 | 25,380.75 | 27,469.92 | 30,847.81 | 15,412.40 | 0 .00 |
| Non-Paris Club | 121.21 | 55.55 | 51.63 | 47.5 | 461.79 | 326.08 |
| 2. Multilateral | 2,797.87 | 2,960.59 | 3,042.08 | 2,824.32 | 2,512.19 | 2,608.30 |
| Sub-Total | 25,012.01 | 28,396.89 | 30,563.63 | 33,719.63 | 18,386.38 | 3,035.48 |
| B. Private: | | | | | | |
| 1. London Club | 2,043.21 | 1,441.79 | 1,441.79 | 1,441.79 | 1,441.79 | 0 .00 |
| 2. Promissory Notes | | 1,153.18 | 911.39 | 783.23 | 649.8 | 509.01 |
| 3. Other Commercial[1] | - | - | - | - | - | 101.10 |
| Sub-Total | 3,334.99 | 2,594.97 | 2,353.18 | 2,225.02 | 2,091.59 | 509.01 |
| Grand Total | 28,347.00 | 30,991.86 | 32,916.81 | 35,944.65 | 20,477.97 | 3,544.49 |
| | | | Percentage Share (%) | | | |
| CREDITOR CATEGORY | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| A. Official: | | | | | | |
| 1. Bilateral | | | | | | |
| Paris Club | 77.94 | 81.89 | 83.45 | 85.82 | 75.26 | 0 .00 |
| Non-Paris Club | 0.43 | 0.18 | 0.16 | 0.13 | 2.26 | 9.20 |
| 2. Multilateral | 9.87 | 9.55 | 9.24 | 7.86 | 12.27 | 73.59 |
| Sub-Total | 88.24 | 91.63 | 92.85 | 93.81 | 89.79 | 85.64 |
| B. Private: | | | | | | |
| 1. London Club | 7.21 | 4.65 | 4.38 | 4.01 | 7.04 | 0.00 |
| 2. Promissory Notes | 4.56 | 3.72 | 2.77 | 2.18 | 3.17 | 14.36 |
| 3. Other Commercial | - | - | - | - | - | 2.85 |
| Sub-Total | 11.76 | 8.37 | 7.15 | 6.19 | 10.21 | 14.36 |
| Grand Total | 100 | 100 | 100 | 100 | 100 | 100 |

[1]Data for "Other Commercial" is not available for the period 2001-2005, due to the use of different recording methods.

Source: Debt Management Office

Figure 2.2: External Debt outstanding by creditor, 2001 - 2006




Source: Debt Management Office

## 2.2 External Debt Stock by Creditor Category

### 2.2.1 Official Creditors

#### 2.2.1.1 Multilateral

Table 2.3 displays external debt stock outstanding by creditor type and concessionality from 2001 to 2006. Multilateral debt outstanding as at 31st December 2006 amounted to US$2,608.30 million or 73.59 percent of the total external debt stock. Of this amount, US$1,754.62 million was owed to concessional multilateral creditors and US$853.69 million to non-concessional multilateral creditors. Concessional creditors were International Development Association (IDA) with US$1,405.69 million; International Fund for Agricultural Development (IFAD) with US$39.94 million; African Development Fund (ADF) with US$179.85 million; and European Development Fund (EDF) with US$129.14 million. Non-concessional creditors consisted of International Bank for Reconstruction and Development (IBRD) with US$417.53 million; African Development Bank (ADB) with US$434.13 million; and European Investment Bank (EIB) with US$2.03 million. Nothing was owed to the Economic Community of West African States (ECOWAS) Fund. The breakdown by multilateral creditor is given in Table 2.1.

In 2006, total multilateral debt increased by US$96.11 million or 3.83 percent, compared to the value as at 31st December 2005, due to new disbursements exceeding repayments during the year.

#### 2.2.1.2 Bilateral

Paris Club Debt: All debts owed to the Paris Club had been cleared as at 31st December, 2006. On June 29, 2005, the Paris Club of creditors announced the decision in principle to grant a debt relief package to Nigeria amounting to US$18,745.98 million, out of the US$30,847.81 million debt stock outstanding as at 31st December, 2004. According to the agreement, outstanding arrears were to be cleared before any debt cancellation. This was done over two payments made in October and December 2005, under the first two phases of the debt deal, for a total of US$7,574.15 million. Subsequently, 67 percent of the total debt stock was written off under the "Naples Terms". What remained after such cancellation qualified for a "buy back" at an appropriate discount rate. The final payment of US$4.52 billion to Paris Club creditors was made in April 2006. Total exit payments according to the deal were, thus, worth US$12,094.02 million.

Non-Paris Club Bilateral Debt: The amount owed to non-Paris Club bilateral creditors, as at 31st December, 2006, was US$326.08 million compared to US$461.79 million in 2005. This represents a fall of 29.39 percent and is due to the repayment of some loans as well as the downward revision of amounts disbursed following the reconciliation exercise.

### 2.2.2 Private Creditors

#### 2.2.2.1 London Club Debt

London Club debt stock is made up of Par Bonds and Promissory Notes. In addition, Oil Warrants were issued in association with Par Bonds and subsequently stripped from them in 2002. As such, they are not part of the London Club debt stock. However, they solicit debt service payments contingent on crude oil prices being above US$28 per barrel over six consecutive months.

Nothing was outstanding to Par Bonds holders as at 31st December, 2006, reflecting a significant change from the previous year as a result of the final exit strategy adopted. The Par Bonds portion of London Club debt, which stood at $1,441.79 million, was repaid in November, 2006.

As at 31st December, 2006, Nigeria was left with Promissory Notes amounting to $509.01 million and planned to seek Promissory Notes holders' approval for the substitution of a first class international bank in place of CBN as the sole obligor for all remaining instalments due. At the time of publishing this report, this exit strategy had successfully been implemented.

At the end of 2006, 1.76 million units of Oil Warrants, amounting to US$400 million, were also outstanding and the country planned to exit these debt service obligations by launching a tender offer for the Oil Warrants in the form of a modified Dutch auction with a floor price to be specified. At the time of publishing this report, this exit strategy had also been implemented.

By exiting obligations on Par Bonds and Promissory Notes, Nigeria has finally exited London Club debt.

## 2.3 External Debt by Concessionality, Currency Composition and Maturity

### 2.3.1 Concessionality of External Debt

Table 2.3 displays external debt outstanding by creditor type and for the period 2001 to 2006. The sudden drop registered in the external debt stock from 2005 to 2006 was primarily the result of the final exit from Paris Club debt obligations. Multilateral assistance, instead, increased between 2005 and 2006, although this rise is mostly accounted for by disbursements being higher than repayments for the year 2006.

### TABLE 2.3: EXTERNAL DEBT OUTSTANDING BY CREDITOR TYPE AND CONCESSIONALITY 2001-2006 (US$ MILLION)[1]

| Creditor Type | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| Official | | | | | | |
| Bilateral | 22,214.14 | 25,436.30 | 27,521.55 | 30,895.31 | 15,874.19 | 326.08 |
| ODA | 533.93 | 587.32 | 655.23 | 682.26 | 113.61 | 0.00 |
| Non-ODA | 21,680.21 | 24,848.98 | 26,866.32 | 30,213.05 | 15,760.58 | 326.08 |
| Multilateral | 2.797.87 | 2,960.59 | 3,042.08 | 2,824.33 | 2,512.19 | 2,608.30 |
| Concessional | 789.72 | 907.94 | 1,083.82 | 1,129.30 | 1,296.70 | 1,754.61 |
| Non-concessional | 2,008.15 | 2,052.65 | 1,958.26 | 1,695.03 | 1,215.49 | 853.69 |
| Private | | | | | | |
| London Club | 2,043.21 | 1,441.79 | 1,441.79 | 1,441.79 | 1,441.79 | 0.00 |
| Promissory Notes | 1,291.78 | 1,153.18 | 911.39 | 783.23 | 649.80 | 509.01 |
| Other Commercial[2] | - | - | - | - | - | 101.10 |
| TOTAL | 28,347.00 | 30,991.86 | 32,916.81 | 35,944.66 | 20,477.97 | 3,544.49 |

PERCENTAGE SHARE (%)

| Creditor Type | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| Official | | | | | | |
| Bilateral | 78.37 | 82.07 | 83.61 | 85.95 | 77.52 | 9.20 |
| ODA | 1.88 | 1.90 | 1.99 | 1.90 | 0.55 | 0.00 |
| Non-ODA | 76.48 | 80.18 | 81.62 | 84.05 | 76.96 | 9.20 |
| Multilateral | 9.87 | 9.55 | 9.24 | 7.86 | 12.27 | 73.59 |
| Concessional | 2.79 | 2.93 | 3.29 | 3.14 | 6.33 | 50.96 |
| Non-concessional | 7.08 | 6.62 | 5.95 | 4.72 | 5.94 | 24.79 |
| Private | | | | | | |
| London Club | 7.2 | 4.65 | 4.38 | 4.01 | 7.04 | 0.00 |
| Promissory Notes | 4.56 | 3.73 | 2.77 | 2.18 | 3.17 | 14.36 |
| Other Commercial | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2.85 |
| TOTAL | 100 | 100 | 100 | 100 | 100 | 100 |

[1] Exchange rate at 31/12/06
[2] Figures were not available for the period 2001-2005, due to the use of different classification methods .
Source: Debt Management Office

### 2.3.2 CURRENCY COMPOSITION OF EXTERNAL DEBT

Table 2.4 and Figure 2.3 display the currency composition of the external debt stock as at 31st December, 2006. Special Drawing Rights (SDRs) have the largest share in the portfolio, constituting 44.04 percent of the external debt stock. This is followed by the US Dollar with 42.34 percent of the total, then the Euro with 9.21 percent, the Japanese Yen with 3.90 percent, and other currencies (British Pound Sterling, Swiss Franc, Nigerian Naira and Korean Won) accounting for the balance of 0.52 percent.

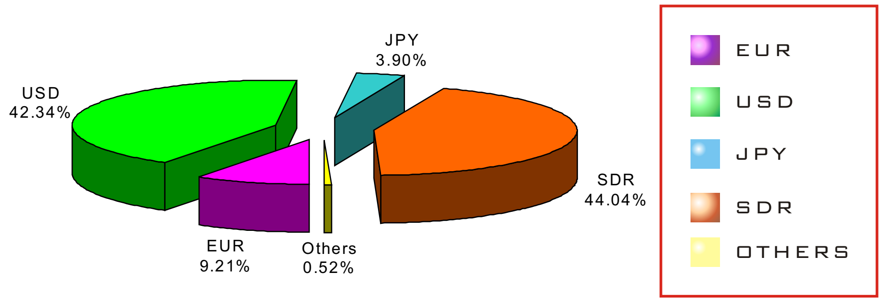
With almost half of the portfolio denominated in US Dollars, Nigeria needs to carefully analyse the risk implications of this situation. On one hand, it should be noted that the US Dollar has been on a depreciating trend over the past few years and the Naira has been appreciating in recent times. Hence, servicing US Dollar denominated debt would be cheaper. On the other hand, it must be remembered that most of Nigeria's revenues accrue from crude oil and are thus in US Dollars. With production shortfalls, civil unrest in the oil-rich Niger Delta region and a depreciating US Dollar, a drop in revenues could have implications for debt servicing.

Table 2.4: External Debt by Currency Composition as at 31st December, 2006

| S/No | Currency | Debt Stock as at 31.12.06 | US$ Exch. Rate as at 31.12.06 | US$ (million) Equivalent | Percent of Total |
|---|---|---|---|---|---|
| 1 | EUR | 247,721,421.00 | 0.76 | 326.55 | 9.21 |
| 2 | USD | 1,500,682,009.00 | 1.00 | 1,500.68 | 42.34 |
| 3 | GBP | 344,941.00 | 0.51 | 0.68 | 0.02 |
| 4 | JPY | 16,439,202,000.00 | 119.56 | 138.14 | 3.90 |
| 5 | CHF | 14,753,040.00 | 1.30 | 11.39 | 0.32 |
| 6 | SDR | 01,054,703,648.0 | 0.68 | 1,560.91 | 44.04 |
| 7 | NGN | 32,275,324.00 | 127.00 | 0.25 | 0.01 |
| 8 | KRW | 5,670,545,000.00 | 964.40 | 5.88 | 0.17 |
| TOTAL | USD | | | 3,544.49 | 100 |

Source: Debt Management Office

Figure 2.3: External Debt by Currency Composition as at December 31, 2006




Source: Debt Management Office

### 2.3.3 External Debt by Original Maturity

Table 2.5 shows that all external debt stock contracted has a maturity longer than one year and hence is considered long-term debt.

**Table 2.5: External Debt Outstanding by Original Maturity, 2001-2006 (US$ million)**

| | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | % of total in 2006 |
|---|---|---|---|---|---|---|---|---|
| External Debt Stock | Short-term | - | - | - | - | - | - | - |
| | Long term | 28,347.00 | 30,991.87 | 32,916.81 | 35,944.66 | 20,477.97 | 3,544.39 | 20.43 |
| | Total | 28,347.00 | 30,991.87 | 32,916.81 | 35,944.66 | 20,477.97 | 3,544.39 | 20.43 |

Source: Debt Management Office

## 2.4 State Debt Issues

### 2.4.1 Disaggregated Debt Stock: Federal and State Governments

Table 2.6 shows the disaggregated debt stock for the Federal Government and the 36 State Governments for the year 2006. The table reveals that out of US$3,544.49 million of external debt stock, US$2,131.32 million or 60.13 percent was owed by the Federal Government, while the remaining US$1,413.17 million or 39.87 percent was owed by State Governments. Only the Federal Government owed the non-Paris Club creditors and Promissory Note holders. The amounts owed were US$427.18 million and US$509.01 million respectively. State governments were indebted only to multilateral creditors. The data reveals that Lagos State owed the largest debt amounting to US$190.25 million or 5.37 percent of total external debt, followed by Oyo State with US$113.85 million or 3.21 percent, Cross-River State with US$93.51 million or 2.64 percent, Kaduna State with US$84.99 million or 2.40 percent and Katsina State with US$66.95 million or 1.89 percent. The least indebted States were Borno with US$11.02 million or 0.31 percent of the total, Gombe with US$10.59 million or 0.30 percent and FCT with US$10.05 million or 0.28 percent (Figure 2.4).

### 2.4.2 State Debt Service and Sustainability

Table 2.7 displays total debt service payments made by each state during 2006, gross allocations from the Federation Account for the year, net income after the debt service deduction and the ratio of debt service to gross allocation for each State.

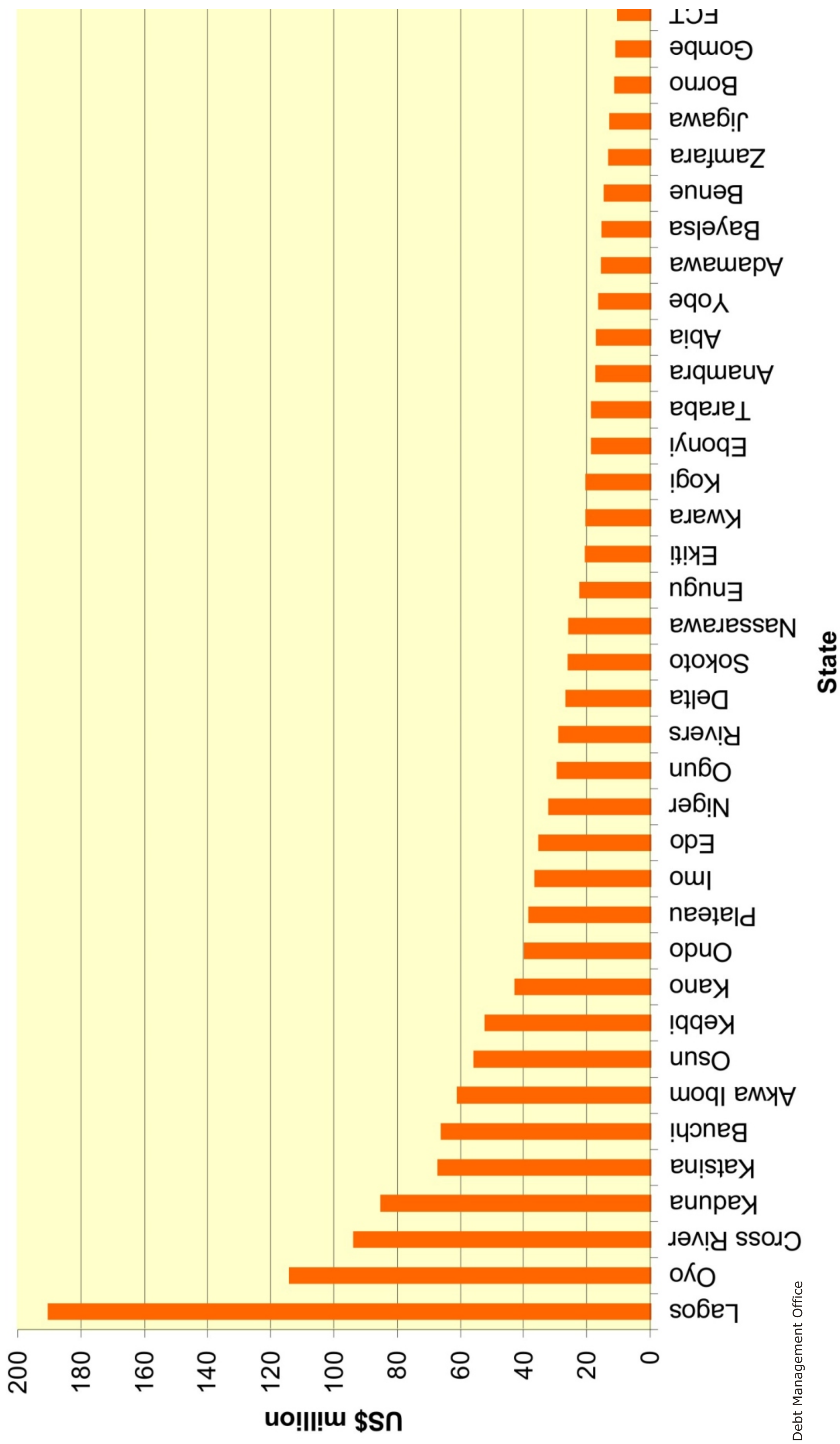
Figure 2.5 ranks the 36 States by the ratio of their external debt service to gross allocation. This provides an indication of the sustainability of the external debt of each State. Abia has the highest debt service to revenue ratio at 10.88 percent, followed by Imo State with 8.52 percent and Enugu with 6.31 percent. There is a huge variation across the States, and those with the lowest debt service ratios are Kaduna with 0.48 percent, Zamfara with 0.47 percent, and Katsina with 0.40 percent.

Studies by Debt Relief International (DRI) show that external debt service to budget revenue ratios over 12 percent are historically unsustainable. Abia, Imo and Enugu States have the highest ratios but they are all below the sustainability threshold. However, Abia in particular, should keep its 10.88 percent ratio under control to avoid lapsing into an unsustainable position in the future.

TABLE 2.6: FEDERAL AND STATE GOVERNMENT EXTERNAL DEBT STOCK AS AT 31ST DECEMBER 2006 (US$)

| S/No | State | Multilateral | Non-Paris Club Bilateral | P/Notes | Total | Share |
|---|---|---|---|---|---|---|
| 1 | Abia | 16,819,547.44 | - | - | 16,819,547.44 | 0.47% |
| 2 | Adamawa | 15,198,434.09 | - | - | 15,198,434.09 | 0.43% |
| 3 | Akwa Ibom | 60,786,550.13 | - | - | 60,786,550.13 | 1.71% |
| 4 | Anambra | 16,869,398.15 | - | - | 16,869,398.15 | 0.48% |
| 5 | Bauchi | 65,946,061.32 | - | - | 65,946,061.32 | 1.86% |
| 6 | Bayelsa | 15,124,568.34 | - | - | 15,124,568.34 | 0.43% |
| 7 | Benue | 14,385,302.00 | - | - | 14,385,302.00 | 0.41% |
| 8 | Borno | 11,026,100.78 | - | - | 11,026,100.78 | 0.31% |
| 9 | Cross River | 93,517,688.00 | - | - | 93,517,688.00 | 2.64% |
| 10 | Delta | 26,396,622.18 | - | - | 26,396,622.18 | 0.74% |
| 11 | Ebonyi | 18,377,798.72 | - | - | 18,377,798.72 | 0.52% |
| 12 | Edo | 34,999,425.89 | - | - | 34,999,425.89 | 0.99% |
| 13 | Ekiti | 20,365,791.77 | - | - | 20,365,791.77 | 0.57% |
| 14 | Enugu | 22,030,886.47 | - | - | 22,030,886.47 | 0.62% |
| 15 | Gombe | 10,592,230.88 | - | - | 10,592,230.88 | 0.30% |
| 16 | Imo | 36,164,550.08 | - | - | 36,164,550.08 | 1.02% |
| 17 | Jigawa | 12,577,477.79 | - | - | 12,577,477.79 | 0.35% |
| 18 | Kaduna | 84,995,475.40 | - | - | 84,995,475.40 | 2.40% |
| 19 | Kano | 42,628,858.09 | - | - | 42,628,858.09 | 1.20% |
| 20 | Katsina | 66,951,327.28 | - | - | 6,951,327.28 | 1.89% |
| 21 | Kebbi | 52,020,484.42 | - | - | 52,020,484.42 | 1.47% |
| 22 | Kogi | 20,033,747.87 | - | - | 20,033,747.87 | 0.57% |
| 23 | Kwara | 20,052,186.70 | - | - | 20,052,186.70 | 0.57% |
| 24 | Lagos | 190,253,168.29 | - | - | 190,253,168.29 | 5.37% |
| 25 | Nassarawa | 25,597,811.95 | - | - | 25,597,811.95 | 0.72% |
| 26 | Niger | 31,838,442.49 | - | - | 31,838,442.49 | 0.90% |
| 27 | Ogun | 29,230,134.40 | - | - | 29,230,134.40 | 0.82% |
| 28 | Ondo | 39,512,633.29 | - | - | 39,512,633.29 | 1.11% |
| 29 | Osun | 55,408,177.93 | - | - | 55,408,177.93 | 1.56% |
| 30 | Oyo | 113,853,345.29 | - | - | 113,853,345.29 | 3.21% |
| 31 | Plateau | 38,124,982.00 | - | - | 38,124,982.00 | 1.08% |
| 32 | Rivers | 28,621,122.42 | - | - | 28,621,122.42 | 0.81% |
| 33 | Sokoto | 25,631,088.66 | - | - | 25,631,088.66 | 0.72% |
| 34 | Taraba | 18,334,983.89 | - | - | 18,334,983.89 | 0.52% |
| 35 | Yobe | 16,050,053.91 | - | - | 16,050,053.91 | 0.45% |
| 36 | Zamfara | 12,799,242.92 | - | - | 12,799,242.92 | 0.36% |
| 37 | FCT | 10,058,582.91 | | | 10,058,582.91 | 0.28% |
| | Total | 1,413,174,284.15 | - | - | 1,413,174,284.15 | 39.87% |
| 38 | FGN | 1,195,125,715.85 | 427,180,000.00 | 509,010,000.00 | 2,131,315,715.85 | 60.13% |
| | Grand Total | 2,608,300,000.00 | 427,180,000.00 | 509,010,000.00 | 3,544,490,000.00 | 100.00% |

**Figure 2.4: External Debt Stock by State Government as at 31st December, 2006**



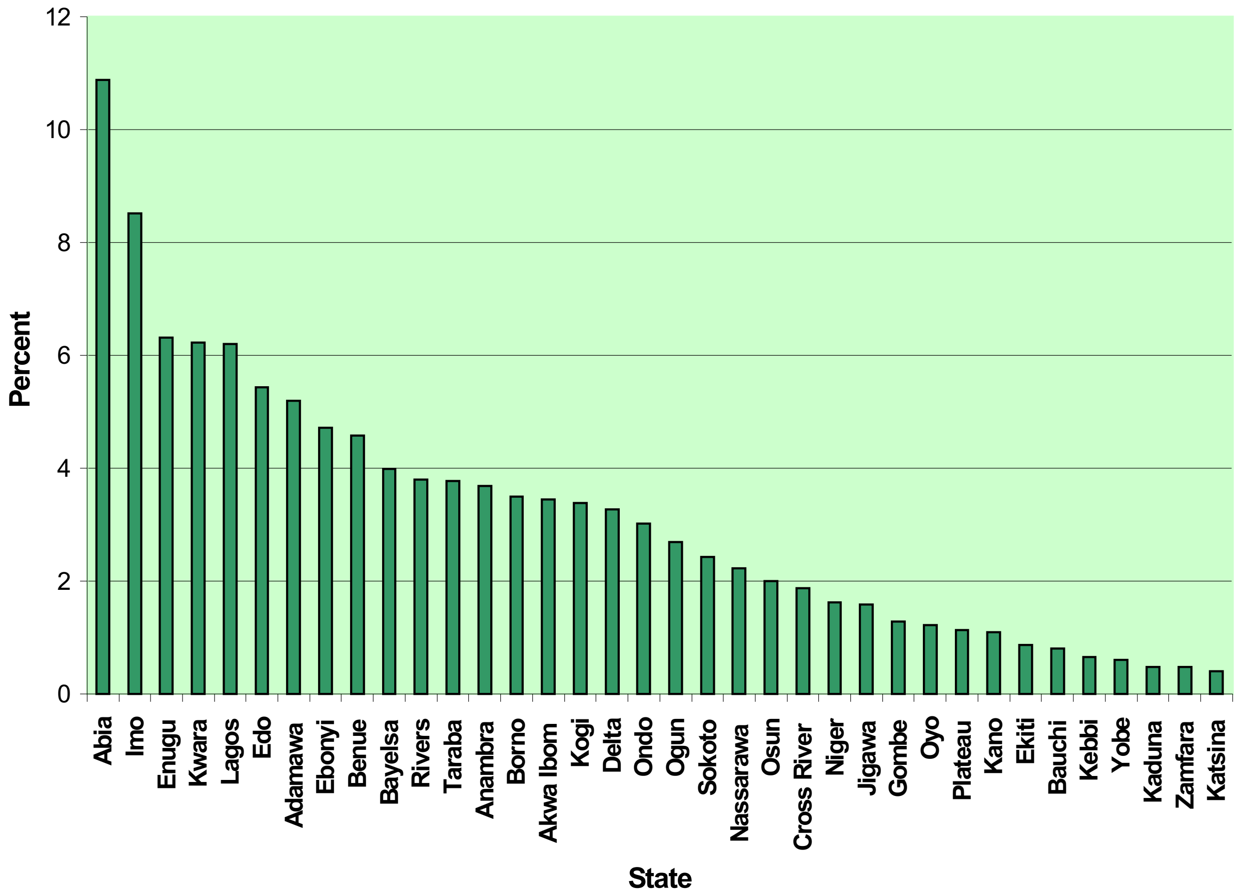

Source: Debt Management Office

## TABLE 2.7: GROSS ALLOCATION AND EXTERNAL DEBT SERVICE BY STATE, 2006 (US$ MILLION)[1]

| S/No | State | Gross Allocation | External Debt Service[2] | Net Income after Debt Service | External Debt Service as % of Gross Allocation |
|---|---|---|---|---|---|
| 1 | Abia | 134.42 | 14.63 | 119.79 | 10.88 % |
| 2 | Adamawa | 149.95 | 7.79 | 142.16 | 5.20 % |
| 3 | Akwa Ibom | 148.09 | 5.11 | 142.98 | 3.45 % |
| 4 | Anambra | 150.14 | 5.53 | 144.61 | 3.68 % |
| 5 | Bauchi | 169.18 | 1.37 | 167.81 | 0.81 % |
| 6 | Bayelsa | 116.49 | 4.65 | 111.84 | 3.99 % |
| 7 | Benue | 161.79 | 7.42 | 154.37 | 4.59 % |
| 8 | Borno | 171.75 | 6.00 | 165.75 | 3.49 % |
| 9 | Cross River | 140.44 | 2.63 | 137.81 | 1.87 % |
| 10 | Delta | 149.99 | 4.91 | 145.08 | 3.27 % |
| 11 | Ebonyi | 126.87 | 5.99 | 120.88 | 4.72 % |
| 12 | Edo | 149.24 | 8.10 | 141.14 | 5.43 % |
| 13 | Ekiti | 126.16 | 1.09 | 125.07 | 0.86 % |
| 14 | Enugu | 139.59 | 8.81 | 130.78 | 6.31 % |
| 15 | Gombe | 128.43 | 1.65 | 126.78 | 1.28 % |
| 16 | Imo | 147.97 | 12.61 | 135.36 | 8.52 % |
| 17 | Jigawa | 164.29 | 2.61 | 161.68 | 1.59 % |
| 18 | Kaduna | 183.81 | 0.89 | 182.92 | 0.48 % |
| 19 | Kano | 223.59 | 2.45 | 221.14 | 1.10 % |
| 20 | Katsina | 175.32 | 0.71 | 174.61 | 0.40 % |
| 21 | Kebbi | 145.79 | 0.95 | 144.84 | 0.65 % |
| 22 | Kogi | 146.23 | 4.94 | 141.29 | 3.38 % |
| 23 | Kwara | 133.13 | 8.29 | 124.84 | 6.23 % |
| 24 | Lagos | 211.29 | 13.11 | 198.18 | 6.20 % |
| 25 | Nassarawa | 125.96 | 2.81 | 123.15 | 2.23 % |
| 26 | Niger | 169.38 | 2.75 | 166.63 | 1.62 % |
| 27 | Ogun | 142.68 | 3.84 | 138.84 | 2.69 % |
| 28 | Ondo | 140.22 | 4.24 | 135.98 | 3.02 % |
| 29 | Osun | 137.12 | 2.75 | 134.37 | 2.01 % |
| 30 | Oyo | 171.13 | 2.09 | 169.04 | 1.22 % |
| 31 | Plateau | 145.94 | 1.65 | 144.29 | 1.13 % |
| 32 | Rivers | 161.44 | 6.14 | 155.38 | 3.80 % |
| 33 | Sokoto | 154.44 | 3.75 | 150.69 | 2.43 % |
| 34 | Taraba | 144.34 | 5.45 | 138.93 | 3.78 % |
| 35 | Yobe | 140.26 | 0.84 | 139.42 | 0.60 % |
| 36 | Zamfara | 145.37 | 0.69 | 144.68 | 0.47 % |
| | TOTAL | 5,472.23 | 169.24 | 5,303.11 | |

1/ Exchange rate as at 31/12/06
2/ External Debt service stopped in July since the government stopped deductions from States for the year.
*Source: Debt Management Office*

FIGURE 2.5: EXTERNAL DEBT SERVICE AS A SHARE OF GROSS ALLOCATION BY STATE, 2006




Source: Debt Management Office

## 2.5 External Debt Flows

### 2.5.1 Debt Service Payments

Total external debt service payments for the year 2006 were US$6,729.20 million, compared to US$8,940.93 million in 2005, reflecting a decrease of US$2,211.73 million or 24.74 percent (Table 2.8 and Figure 2.6). The final exit payment from Paris Club debt obligations constituted the bulk of debt service payments, which amounted to US$4,519.87 and was paid in April 2006.

Tables 2.8 and 2.9 show that the largest debt service payment for US$4,519.87 million was made to the Paris Club as the final exit payment. The second largest payment amounting to US$1,584.58 million or 72.11 percent was made to the London Club. Payments to multilateral creditors amounted to US$426.80 million or 19.10 percent of the total. US$170.85 million or 7.65 percent was paid to Promissory Note holders; US$25.56 million or 1.14 percent to non-Paris Club bilateral creditors; and US$0.02 million or 0.00 percent to other creditors.

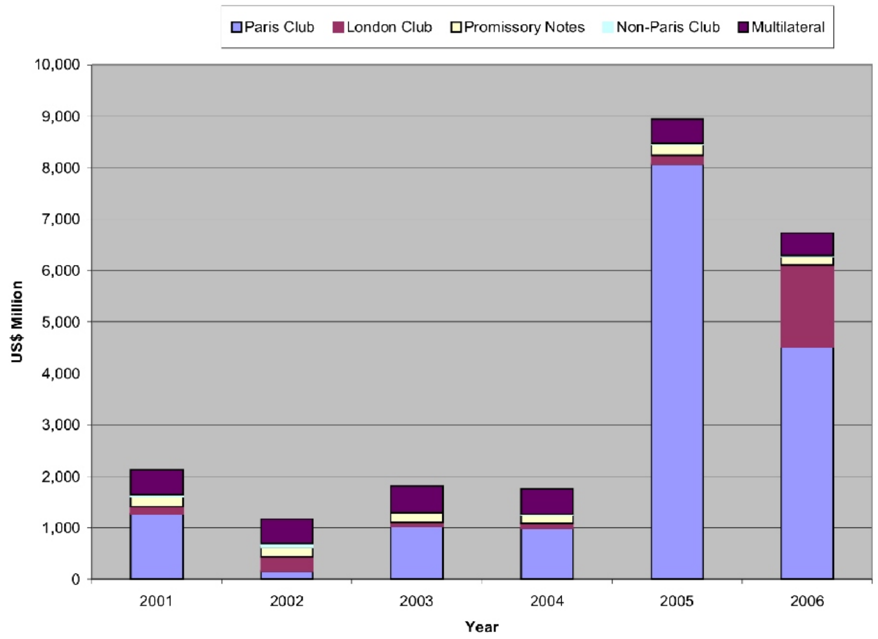
### 2.5.2 External Debt Disbursements

Table 2.10 displays disbursements of external debt by creditor for the period 2001 to 2006. External disbursements (excluding grants) totalled US$501.41 million for 2006, an increase of US$236.60 million or 89.35 percent, from the level in 2005. The rise in total disbursements is largely due To an increase In Disbursements from IDA over the years, which maintained its position as the largest provider of new credit to Nigeria.

### 2.5.3 Net Flows and Net Transfers on External Debt

Table 2.11 shows net flows (which are disbursements less principal repayments) and net transfers (which are net flows less interest payments) in 2006 by creditor type. Net flows stood at negative US$1,733.01 million, while the net transfers - an indication of the total resources actually flowing into or out of a country - recorded an outflow of US$1,660.37 million.

Figure 2.6: External Debt Service Payments, 2001-2006




Source: Debt Management Office

### Table 2.8: External Debt Service Payments, 2001-2006 (US$ million)

| CREDITOR CATEGORY | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| A. Official: | | | | | | |
| 1. Bilateral | | | | | | |
| Paris Club | 1,273.62 | 161.55 | 1,020.18 | 994.45 | 8,070.79 | 4,519.87 |
| Non-Paris Club | 33.81 | 56.87 | 13.26 | 11.65 | 11.39 | 25.6 |
| 2. Multilateral | 491.48 | 472.12 | 509.23 | 487.28 | 471.67 | 426.62 |
| Sub-total | 1,798.91 | 690.54 | 1,542.66 | 1,493.38 | 8,553.85 | 4,972.05 |
| B. Private: | | | | | | |
| 1. London Club | 134.08 | 266.75 | 90.21 | 90.15 | 169.86 | 1,584.58 |
| 2. Promissory Notes | 195.18 | 192.12 | 176.42 | 171.23 | 213.55 | 170.84 |
| 3. Others | 0.00 | 18.99 | 0.00 | 0.00 | 3.67 | 1.60 |
| Sub-total | 329.26 | 477.86 | 266.62 | 261.38 | 387.08 | 1,757.1 |
| Grand Total | 2,128.17 | 1,168.40 | 1,809.28 | 1,754.76 | 8,940.93 | 6,729.20 |

Source: Debt Management Office

### Table 2.9: External Debt Service Payments by Creditor, January-December 2006 (US$ million)

| CATEGORY | PRINCIPAL | INTEREST/ SERVICE FEE | DEFERRED PRINCIPAL | DEFERRED INTEREST | LATE INTEREST | WAIVER | COMMTTMENT CHARGES | OTHER CHARGES | TOTAL | % OF TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| MULTILATERAL | 341.39 | 80.74 | 0.78 | 0.3632 | 0.29 | 1.31 | 5.12 | 0.57 | 426.80 | 6.34 |
| IBRD | 210.10 | 32.78 | 0.46 | 0.33 | 0.23 | -1.17 | 0.00 | -1.17 | 241.56 | 3.59 |
| ADB | 100.50 | 35.24 | 0.00 | 0.00 | 0.00 | 0.00 | 0.53 | 0.13 | 136.40 | 2.03 |
| IFAD | 1.44 | 0.35 | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 1.80 | 0.03 |
| EIB | 4.67 | 0.31 | 0.03 | 0.00 | 0.03 | 0.00 | 0.00 | 0.00 | 5.03 | 0.07 |
| ECOWAS FUND | 0.39 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.40 | 0.00 |
| ADF | 1.61 | 1.24 | 0.00 | 0.00 | 0.00 | 0.00 | 0.81 | 0.00 | 3.66 | 0.05 |
| IDA | 18.72 | 8.81 | 0.28 | 0.03 | 0.00 | -0.13 | 3.78 | 0.47 | 31.96 | 0.48 |
| EDF | 3.97 | 1.99 | 0.01 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 5.99 | 0.09 |
| PARIS CLUB | 4,519.87 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4,519.87 | 67.18 |
| LONDON CLUB | 1,441.79 | 90.12 | 7.54 | 1.76 | 0.00 | 0.00 | 0.00 | 52.82 | 1,584.74 | 23.55 |
| Int on Par Bonds/Bank of Eng | 0.00 | 90.12 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 52.82 | 142.94 | 2.12 |
| Buy-back of Par Bonds | 1,441.79 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,441.79 | 21.43 |
| PROM. NOTES | 142.21 | 28.61 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.03 | 170.85 | 2.54 |
| NON PARIS BILATERAL | 14.39 | 11.04 | 3.77 | 0.88 | 0.00 | 0.00 | 0.13 | 0.00 | 25.56 | 0.38 |
| OTHERS | 0.02 | 0.00 | 0.78 | 0.36 | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | 0.00 |
| TOTAL | 6,459.69 | 210.52 | 0.78 | 0.36 | 0.29 | -1.31 | 5.25 | 52.28 | 6,727.84 | 100.00 |

Table 2.10: Disbursements[1] by Creditor, 2001-2006 (US$ million)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| Official | | | | | | |
| Multilateral | | | | | | |
| IDA | 9.07 | 18.83 | 63.18 | 156.19 | 244.95 | 337.36 |
| IFAD | 0.30 | - | 5.17 | 2.43 | 2.46 | 5.20 |
| ADB | 16.73 | 32.60 | 21.45 | 26.26 | 10.42 | 5.53 |
| ADF | 2.75 | 0.40 | 16.43 | 0.35 | 6.98 | 10.11 |
| Bilateral | - | - | - | - | - | 119.77 |
| Private | - | - | - | - | - | 23.44 |
| TOTAL | 38.85 | 51.83 | 106.23 | 185.23 | 264.81 | 501.41 |

[1]Disbursements exclude grants.
Source: Debt Management Office

## 2.6 Waivers

In 2006, Nigeria obtained waivers amounting to US$1.17 million from IBRD, and US$0.13 million from IDA, bringing the total waivers received during the year to US$1.31 million.

### Table 2.11: Net Flows and Net Transfers on External Debt by Creditor, 2006

| | Disbursements (A) | Principal re-Payments (B) | Net Flows (C=A-B) | Interest Payments (D) | Net Transfers (E=C- D) |
|---|---|---|---|---|---|
| Official Creditors | 477.97 | 452.36 | 25.61 | 97.03 | -71.42 |
| Bilateral | 119.77 | 25.56 | 94.21 | 11.17 | 83.04 |
| Multilateral | 358.20 | 426.80 | -68.60 | 85.86 | -154.46 |
| Private Creditors | - | 1,782.04 | -1,782.04 | 73.67 | 1,708.37 |
| Promissory Notes | - | 170.85 | -170.85 | 28.61 | -199.46 |
| Bond Holders | - | 1,611.19 | -1,611.19 | 45.06 | -1,656.25 |
| Others | 23.44 | 0.02 | 23.42 | 0.00 | 23.42 |
| Total | 501.41 | 2,234.42 | -1,733.01 | 170.70 | 1,660.37 |

1. Figures for disbursements include ADB, ADF, IFAD and IDA.
Source: Debt Management Office

## 2.7. Currency Pooling of IBRD Loans

On the 2nd of May 2006, the IBRD introduced a proposal to convert fixed-rate Currency Pool Loans (CPLs) to a market based interest rate. The Honourable Minister of Finance's approval was obtained to convert the nineteen eligible Currency Pool Loans (CPL), which totalled about US$446 million, to US$ LIBOR based variable rate. Eighteen loans were converted by the end of 2006, of which sixteen loans were for Federal Ministry of Finance and one loan each for NITEL and PHCN. The remaining loan is for NNPC. The conversion of the latter will occur at its eligible date, in April 2007, after having received NNPC's and Ministry of Finance's approval. The potential financial benefit expected from this conversion would be a saving of about USD 17.9 million.

## 2.8 External Loans Negotiation

The main concern of negotiation was for Nigeria's borrowing to be in line with subsisting Federal Government's borrowing policy. This states that all borrowing should be at concessional terms, i.e. with at least a 35% grant element. The low cost of such loan facilities as reflected in a high grant element and favourable terms (low interest cost, long maturity and long grace period) was a huge saving on debt servicing to the economy.

Another concern was that eligible projects were assessed on the basis of cost-benefit analysis. This was to ensure that projects yield a real economic and social rate of return on the investment.

In 2006, Nigeria continued to enjoy a substantial credit facility from multinational institutions such as the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Fund for Agricultural Development (IFAD). The World Bank Group was the major supplier of concessional credit to Nigeria. DMO participated in various World Bank negotiation meetings for credit totalling US$400 million. These comprised loans of US$50 million for Avian Influenza Control and Human Pandemic, US$200 million for Lagos Metropolitan Development and Governance, US$125 million for Malaria Control Booster Project as well as supplementary credit of US$25 million for the IBRD Assisted Community Based Poverty Reduction Project.

Nigeria also acquired credits of US$45.58 million and US$44.25 million from the African Development Bank (ADB) and the African Development Fund (ADF) respectively. The ADB loan facility was to finance Fadama Development II Critical Ecosystem Management Project estimated at US$57.03 million. ADF loan facility comprised US$42 million to finance Skill, Training and Vocational Education and US$2.25 million to fund the Integrated Management of Invasive Aquatic Weed.

Bilateral loans were also negotiated in 2006. A significant inflow of US$2.5 billion came from Export-Import Bank of China. This consisted of US$500 million Preferential Buyers Credit earmarked for the communication project, i.e. US$300 million for National Rural Telephony and US$200 million for e-governance. The remaining US$2.0 billion is a commercial credit with a concessional element to be shared between a railway project and a power generation project (Mambila Power Generation) in equal proportion. Nigeria also secured a US$200 million loan facility from Export Import Bank of China to finance NIGCOMSAT -1, the communication satellite project of the National Space Research and Development Agency (NARSDA).

Other bilateral credit negotiated include: US$ 8.0 million facility from the Arab Bank for Economic Development in Africa (BADEA) to finance a small dams project, and US$30 million facility from the Islamic Development Bank to finance the National Programme for Food Security Expansion Phase in Anambra State, Gombe State and Yobe State.

### 2.9 Nigeria Loans to other Countries

The securitised balances (in Dollar and Naira) of outstanding principal and interest due to Nigeria by other countries, as at December 2006, were USD74.3 million and N103.2 million. Between 1979 and 2004, Nigeria signed various loan agreements with other countries. The Federal Executive Council resolution of 2004 has mandated DMO to collate and streamline the records of such loans. Records show that Nigeria granted loans to eight countries (Trinidad & Tobago-Caribbean Development Bank, Republic of Chad, Republic of Ghana, Republic of Niger, Sao-Tome & Principe, Republic of Sudan, Republic of Uganda and Equatorial Guinea) totalling US$84.26 million. The loan of US$40 million to Ghana alone represented about 47 percent of total loans in US Dollars to other countries. Over the years, there has been a deterioration in the profile of these loans due to the inability of these countries to meet their debt service obligations.

## Table 2.12: Summary of Loans Granted to other Countries by the Federal Government (in millions)

| S/N | Beneficiaries | Purpose | Loan | | Amt Disbursed | | Principal Arrears | | Interest Arrears | | Repayments | | Balance | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Naira | USD | Naira | USD | Naira | USD | Naira | USD | Naira | USD | Naira | USD |
| 1 | Caribbean Dev. Bank* | As contribution to the "Special Funds Resources" of the Bank To finance the improvement of the | - | 5.00 | - | 5.00 | - | 4.60 | - | 1.90 | - | 0.11 | - | 6.39 |
| 2 | Chad | Production capacity of Chadian Electricity & Water Corporation | - | 2.50 | - | 2.50 | - | 2.50 | - | - | - | - | - | 2.50 |
| 3 | Equatorial Guinea** | Purchase of essential goods from Nigeria Assistance for Financing Ghanaian | 10.00 | - | 9.92 | - | 9.92 | - | 6.35 | - | - | - | 16.27 | - |
| 4 | (a).Ghana | share of West African Gas Pipeline Project Assistance for procurement of 50 units | - | 40.00 | - | 40.00 | - | 32.00 | - | - | - | - | - | 32.00 |
| | (b). Ghana | of Peugeot 306 from (PAN) for Ghanaian security | 86.95 | - | 86.95 | - | 86.95 | - | - | - | - | - | 86.95 | - |
| 5 | Niger | For utilisation of the Sudanese Government | - | 6.00 | - | 6.00 | - | 3.00 | - | - | - | - | - | 3.00 |
| 6 | Sao Tome & Principe | Assistance towards financing Public Investment Program between 2002 and 2004 | - | 15.00 | - | 15.00 | - | 15.00 | - | - | - | - | - | 15.00 |
| 7 | Sudan | For the supply of fertiliser from (NAFCON) For establishing a Pharmaceutical | - | 6.00 | - | 1.70 | - | 1.70 | - | 0.97 | - | - | - | 2.68 |
| 8 | Uganda | Factory as well as an Enterprise for Manufacturing Hardware Products | - | 9.00 | - | 9.00 | - | 9.00 | - | 3.82 | - | - | - | 12.82 |
| | Total | | 96.95 | 83.50 | 96.87 | 79.20 | 96.87 | 67.80 | 6.35 | 6.70 | 0.00 | 0.11 | 103.22 | 74.40 |

* Subject to Reconciliation with the Caribbean Development Bank
** The total outstanding in USD equivalent is USD129,117.46, representing Principal of USD78,730.16 and interest of USD50,387.30 . Conversion was made using the exchange rate of N126 / 1USD as at January 29, 2006.

# CHAPTER THREE

## DOMESTIC DEBT ISSUES

### 3.1 DOMESTIC DEBT STOCK

The securitised domestic debt stock outstanding as at 31st December 2006 amounted to N1,753.26 billion, compared with N1,525.91 billion as at 31st December 2005. This figure represents an increase of N227.35 billion or 14.89 percent, over the previous year's figure. This growth exceeded the 11.35 percent increase recorded between 2004 and 2005 (Table 3.1; Figure 3.1).

The increase of N227.35 billion was due to the following factors:

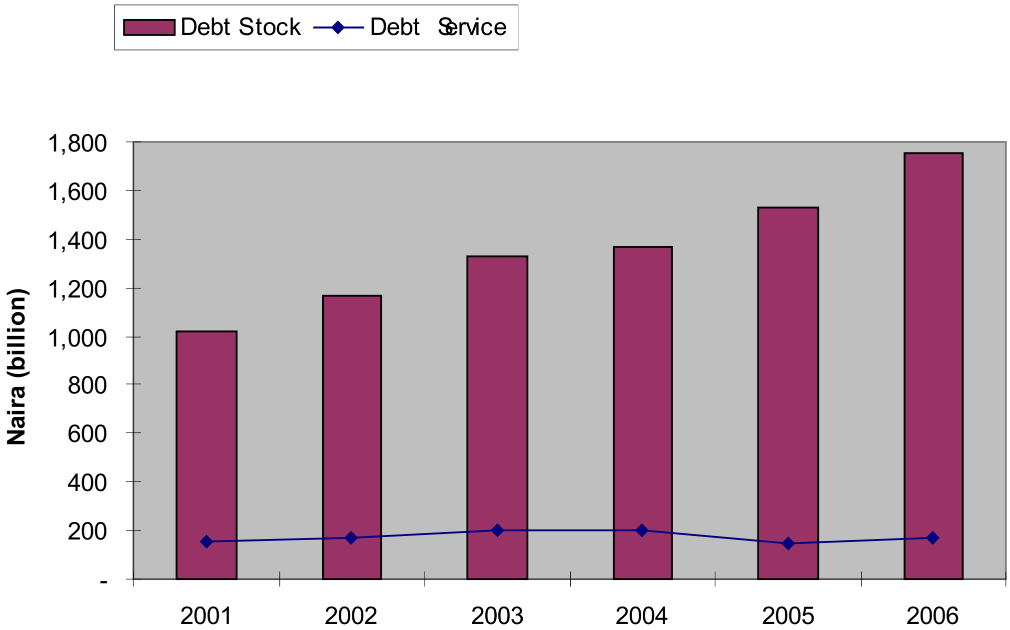
- part of the proceeds of the January issuance (N15 billion) was loaned to three Development Finance Institutions (DFIs) at a concessional rate of 8 percent per annum;
- special FGN Bonds were issued in July to pay off N75 billion Pension Arrears;
- N91.65 billion was securitised between September and December to pay off Local Contractors' debt;
- FGN bonds amounting to N45 billion were issued to finance the 2006 budget deficit;
- FGN bonds amounting to N55.7 billion were issued to roll over the maturing 1st tranche of 2003 1st FGN bond;
- FGN bonds amounting to N165 billion were issued to develop the domestic financial market and restructure the domestic debt portfolio. The proceeds of these issues were used to refinance maturing 91-day and 182-day Treasury Bills. Hence, they did not impact on the volume of the domestic debt stock.

TABLE 3.1: DOMESTIC DEBT STOCK AND DEBT SERVICE, 2001- 2006 (N BILLION)

| Year | Debt Stock | Debt Service | Debt Service/Debt Stock (%) |
|---|---|---|---|
| 2001 | 1,016.97 | 155.40 | 15.28 |
| 2002 | 1,166.00 | 170.64 | 14.63 |
| 2003 | 1,329.72 | 200.00 | 15.04 |
| 2004 | 1,370.32 | 203.64 | 14.86 |
| 2005 | 1,525.91 | 150.45 | 9.86 |
| 2006 | 1,753.26 | 166.84 | 9.52 |

Source: Debt Management Office

**Figure 3.1: Domestic Debt Stock and Debt Service, 2001-2006**




Source: Debt Management Office

## 3.2 DOMESTIC DEBT SERVICE

Table 3.1 shows the magnitude of securitised domestic debt stock and domestic debt service payments from 2001 to 2006. The table shows that the cost of domestic debt service increased from N150.45 billion in 2005 to N166.84 billion in 2006, representing an increase of 10.89 percent. This rise is due to the higher interest rates registered during the year as well as the increase in the debt stock. In addition, the average cost of debt (i.e. debt service as a proportion of debt stock) decreased marginally from 9.86 percent in 2005 to 9.52 percent in 2006, due to the lengthening of the maturity profile of the portfolio. This has allowed servicing costs to increase at a slower rate than the debt stock.

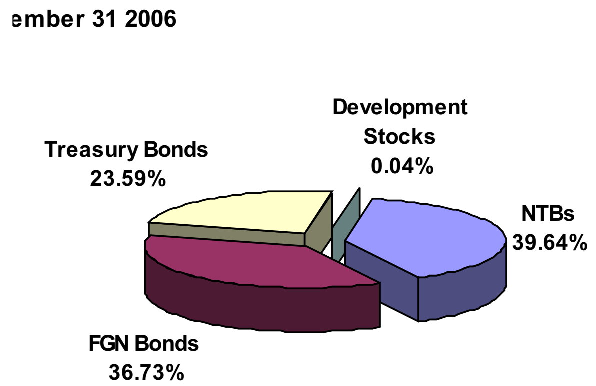
## 3.3 COMPOSITION OF DOMESTIC DEBT BY INSTRUMENT

Figure 3.2 illustrates the structure of domestic debt by instrument as at end-2006. Treasury Bills constituted the dominant instrument, accounting for N695 billion or 39.64 percent of the total domestic debt stock. This represents a decrease from their share of 56 percent as at 31st December 2005 and is due to the restructuring of T-Bills into instruments of longer maturities. It should be noted that the maturity structure of the T-Bills has been lengthened from 91-days to include 182 and 364-day tenors. FGN Bonds accounted for N643.94 billion or 36.73 percent of the debt stock. This represents an increase by 20.89 percentage points, compared with the 16.44 percent of the previous year. Treasury Bonds amounted to N413.60 billion or 23.59 percent of the total domestic debt stock, while FRN Development Stocks comprised N0.72 billion or 0.04 percent.

## 3.4 HOLDINGS OF DOMESTIC DEBT

In terms of holdings of government securities, the banking sector remained the major holders, accounting for N882.85 billion or 50.35 percent, followed by the non-bank public, which accounted for N366.22 billion or 20.89 percent. The Central Bank of Nigeria (CBN) had a share of N335.53 billion or 19.14 percent of the total holdings, while Parastatals held the remainder of N168.65 billion or 9.62 percent. Both the banking sector and the non-bank public have been retaining an increasing share of debt since 2001. Table 3.2 displays the holdings of domestic debt by instrument as at 31st December, 2006.

FIGURE 3.2: COMPOSITION OF DOMESTIC DEBT BY INSTRUMENT, AS AT DECEMBER 31ST 2006




Source: Debt Management Office

TABLE 3.2: HOLDINGS OF DOMESTIC DEBT INSTRUMENTS AS AT 31ST DECEMBER 2006 (N BILLION)

| Instruments | Banks/Discount Houses | CBN | Parastatals[1] | Non-Bank | Total |
|---|---|---|---|---|---|
| NTBs | 520.57 | 33.69 | - | 140.74 | 695.00 |
| FGN Bonds | 362.28 | - | 56.34 | 225.32 | 643.94 |
| Treasury Bonds | - | 301.74 | 111.85 | - | 413.60 |
| FRN Development Stocks | - | 0.10 | 0.46 | 0.16 | 0.72 |
| Total | 882.85 | 335.53 | 168.65 | 366.22 | 1,753.26 |

[1] Includes the Sinking Fund
Source: Debt Management Office

## 3.5 DOMESTIC DEBT BY REMAINING MATURITY

Table 3.3 displays the domestic debt stock by remaining maturity and instrument. Each instrument has been separated into debt with less than two year maturity (i.e. that will fall due on or before 2008); debt with medium term maturity (over two years but less than five years); and debt with over five years maturity. The lion's share of the domestic debt stock consists of short-term debt - N897.09 billion or 51.15 percent, which is debt with less than two years maturity. Of this short term stock, N695 billion are Treasury Bills and N190.55 billion are FGN Bonds. Maturities of between two and five years constitute N435.26 billion or 25 percent of the domestic debt portfolio - with FGN bonds accounting for N390.73 billion, followed by Treasury Bonds with N44.01 billion. The next category of over five year maturities makes up 24 percent of the domestic debt stock. The bulk of it is Treasury Bonds amounting to N358.25 billion, while the rest is FGN Bonds worth N62.66 billion.

#### TABLE 3.3 DOMESTIC DEBT ISSUED TO DATE BY YEAR TO MATURITY. DECEMBER 2006 (N BILLION)

| Composition of Debt | Up to 2 Years | 2 Years to 5 Years | 5 Years and Over | Total |
|---|---|---|---|---|
| Treasury Bills | 695.00 | - | - | 695.00 |
| Treasury Bonds | 11.34 | 44.01 | 358.25 | 413.60 |
| Development Stocks | 0.20 | 0.52 | - | 0.72 |
| FGN Bonds | 190.55 | 390.73 | 62.66 | 643.94 |
| Total | 897.09 | 435.26 | 420.91 | 1,753.26 |

Source: Debt Management Office

## 3.6 SECURITIES ISSUANCE

### 3.6.1 2006 BOND ISSUANCE/RESTRUCTURING PROGRAMME

The DMO designed the 2006 bond issuance programme for the flotation of N282 billion bonds with tenors of 3, 5, and 7 years. The proceeds were applied as follows:

a. Refinancing of N120 billion 91-day NTBs;
b. Refinancing of N45 billion 182-day NTBs;
c. Special funding of three development finance institutions: the Federal Government lent N15 billion (N5 billion each) to the Bank of Industry (BOI); Federal Mortgage Bank of Nigeria (FMBN) and Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB) at a concessional rate of 8 percent per annum to be repaid at the end of 3 years;
d. Financing the 2006 budget deficit with N45 billion;
e. Redeeming the maturing trenches of the 2003 First FGN Bonds with N55.70 billion;
f. Securitising N75 billion of Pension Arrears; and
g. Securitising N91.75 billion of Local Contractors' debt.

### 3.6.2 CHALLENGES FACED IN 2006

Several challenges were faced during the monthly issuance of FGN Bonds:

a. A laborious bidding process led to the slow processing of the auction results. This was characterised by:
   - Submission of application forms manually by authorized dealers;
   - Manual input of data by Central Bank of Nigeria (CBN) staff from the

Government Securities System (GSS), currently used for processing by CBN.

b. The release of results and information dissemination to stakeholders after an auction could take up to 48 hours;

c. The re-opening of existing maturities to increase liquidity and create benchmark issues was not possible, due to the limitations of the CBN's FGN Bond Auction Platform - the T24 - which could not accommodate the re-opening of existing issues;

d. The issuance of physical certificates for most retail investors, who requested them instead of the less cumbersome electronic system;

e. The absence of a framework on Repo and other securities lending transactions; and

f. The volatile interest rate structure hindered the development of the bond market.

### 3.6.3 PROSPECTS

To address the above challenges, the following measures have been put in place:

a. CBN/DMO introduced an automated trading/bidding process to facilitate a versatile and robust primary bond issuance programme, which has currently solved all problems associated with annual processing.

B. Auction results and information are disseminated on a same day basis.

c. Existing issues are yet to be re-opened, due to technological constraints. When the proposed platform is obtained by DMO, re-opening shall commence.

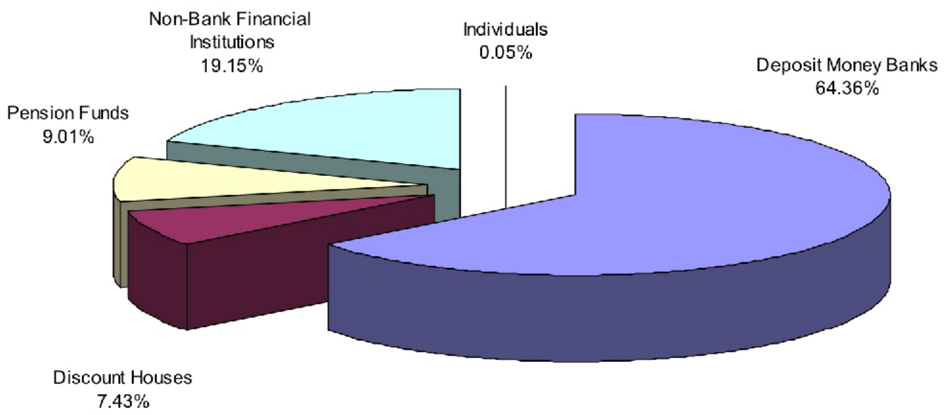
d. A framework on Repo is being developed in collaboration with various stakeholders.

e. Interest rates have currently stabilized. This has helped immensely in deepening the bond market.

### 3.6.4 ANALYSIS OF ALLOTMENT

In 2006, the total amount of Third FGN Bonds allotted to successful subscribers was N282.08 billion, i.e. 13.15 percent more than the offered amount of N245 billion. Deposit money banks accounted for a significant portion of the total, constituting N114.73 billion or 64.36 percent. They were followed by non-bank financial institutions with N34.14 billion or 19.15 percent; pension funds with N16.07 billion or 9.01 percent; discount houses with N13.25 billion or 7.43 percent; and individuals with N0.084 billion or 0.05 percent of the total (Figure 3.5).

Figure 3.3 Allotment of Third FGN Bonds as at 31st December, 2006




Source: Debt Management Office

### 3.6.5 ANALYSIS OF SUBSCRIPTION

The 2006 bond issuance programme was highly successful with fifteen out of the sixteen tranches over-subscribed. A total of N245 billion Third FGN Bonds was offered between January and December 2006. Total subscription was N612.98 billion, despite the total offered amount being N245 billion. In other words, subscription was N367.98 billion over the offered amount, i.e. 150.2 percent over the amount on offer. Total allotment of N282.08 billion was thus 46.02 percent of total subscription. The coupons for the sixteen tranches ranged between 10.98 and 16.00 percent.

## Table 3.5 Analysis of the Allotments of the Third FGN Bond 2006 Series ( N million)

| SERIES | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| DATE OF AUCTION | 28-01-06 | 24-02-06 | 24-02-06 | 31-03-06 | 31-03-06 | 28-04-06 | 28-04-06 | 26-05-06 | 26-05-06 | 30-06-06 | 28-07-06 | 25-08-06 | 29-09-06 | 27-10-06 | 24-11-07 | 22-12-06 |
| TENOR | 3-YEAR | 3-YEAR | 5-YEAR | 3-YEAR | 5-YEAR | 3 - YEAR | 5 - YEAR | 5 YEAR | 7 - YEAR | 7 - YEAR | --3 YEAR | 3 - YEAR | 5 - YEAR | 7-YEAR | 7-YEAR | 7-YEAR |
| ISSUE AMOUNT | 25,000 | 10,000 | 20,000 | 10,000 | 20,000 | 10,000 | 20,000 | 10,000 | 10,000 | 20,000 | 20,000 | 20,000 | 20,000 | 10,000 | 10,000 | 10,000 |
| **TOTAL SUBSCRIPTION** | **73,149.03** | **29,449.94** | **45,591.43** | **15,783.27** | **13,387.03** | **34,344.54** | **43,853.00** | **33,962.00** | **16,587.00** | **28,944.56** | **45,854.37** | **53,898.68** | **64,697.13** | **41,506.12** | **43,031.35** | **28,940.20** |
| **TOTAL ALLOTMENT** | **36,704.82** | **12,612.19** | **23,481.21** | **8,163.30** | **8,087.03** | **15,406.13** | **26,905.00** | **12,515.20** | **10,361.80** | **21,697.56** | **20,007.27** | **29,279.30** | **26,862.03** | **10,000.00** | **10,000.00** | **10,000.00** |
| (a) Deposit Money Banks | 16,728.12 | 12,611.13 | 22,281.21 | 6,397.53 | 6,862.83 | 7,670.00 | 11,500.00 | 10,000.00 | 10,350.00 | 19,250.00 | 16,009.00 | 18,966.00 | 10,130.00 | 7,408.38 | 6,649.00 | |
| (b) Discount Houses | - | - | - | 250.00 | - | - | - | - | - | 1,000.00 | 2,720.00 | 3,500.00 | 1,500.00 | 700.00 | 3,000.00 | |
| (c) Pension Funds | 3,500.00 | - | - | 250.00 | 1.70 | - | 4.00 | 5.00 | 11.80 | 1,380.61 | 1,090.16 | 6,810.00 | 13,223.95 | 540.00 | 50.00 | |
| (d) Non-Bank Financial Institute | 16,453.00 | - | 1,200.00 | 1,265.00 | 1,215.00 | 7,735.00 | 15,400.00 | 2500 | - | 59.00 | 185.00 | 0.00 | 2,000.00 | 1,351.00 | 300.00 | |
| (d) Individuals | 23.7 | 1.06 | - | 0.77 | 7.5 | 1.13 | 1.00 | 10.2 | - | 7.95 | 3.11 | 3.30 | 8.08 | 0.62 | 1.00 | |
| Range of bids | 8.% - 25.% | 6.% - 20.% | 12.45 - 23.% | 8.% - 20% | 8.% - 23.% | 7% - 18% | 7% - 17% | 5% - 17% | 12% - 18% | 8% - 19.48% | 7% - 22% | 11% - 18% | 8% - 20% | 10.25% - 16% | - 14%9.00% | 8.5% - 16% |
| **MARGINAL RATE (COUPON)** | **15.00%** | **12.50%** | **14.50%** | **12.50%** | **14.50%** | **12.00%** | **13.50%** | **12.00%** | **15.00%** | **16.00%** | **12.50%** | **12.00%** | **12.99%** | **12.74%** | **10.98%** | **11.99%** |

Source: Debt Management Office

## 3.7 MARKET DEVELOPMENT

### 3.7.1 PRIMARY MARKET ACTIVITIES

The Primary Dealer Market Maker (PDMM) system in FGN Bonds was established on 7th July, 2006. The establishment of this system was to facilitate the emergence of a liquid and vibrant secondary market for government securities, in line with global best practices. Prior to the establishment of the system, DMO requested for Expressions of Interest (EOI) to be PDMMs in FGN Bonds from financial institutions. A total of thirty-two (32) EOIs were received.

In collaboration with various stakeholders, such as the Central Bank of Nigeria (CBN), Nigerian Stock Exchange (NSE), Securities and Exchange Commission (SEC), Bond Market Steering Committee (BMSC), DMO embarked on a rigorous and transparent selection process based on financial and non-financial parameters. At the end of this process, a total of fifteen (15) institutions comprising ten (10) banks and five (5) discount houses were given licenses to be PDMMs. The following are the licensed institutions:

TABLE 3.6: INSTITUTIONS GIVEN LICENCES TO BE PDMMs

| Banks | Discount Houses |
|---|---|
| Access Bank | Associated Discount House Ltd |
| Fidelity Bank Plc | Consolidated Discount House Ltd |
| First Bank Plc | Express Discount House Ltd |
| First City Monument Bank | First Securities Discount House Ltd |
| Nigeria International Bank(Citigroup) | Kakawa Discount House Ltd |
| Stanbic Bank Ltd | |
| Standard Chartered Bank Ltd | |
| United Bank for Africa | |
| Guarantee Trust Bank | |
| IBTC Chartered Bank | |

Source: Debt Management Office

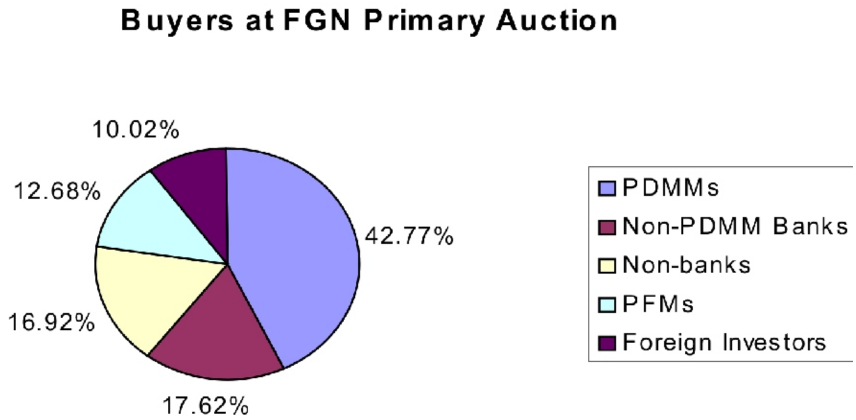
The purpose of the PDMM system is two-fold:

- to ensure the total take up at primary auctions of government bonds.
- to provide liquidity in the secondary bond market.

In the Primary Market, the establishment of the PDMM system has resulted in the following:

- A steady rise in public subscription for bonds and full take-up at primary auctions.
- Strong foreign investor participation in FGN Bond auctions, reflecting improved sovereign credit ratings (BB- given by Fitch and S&P's) and confidence in the bond market.

FIGURE 3.4: PRIMARY MARKET PARTICIPATION



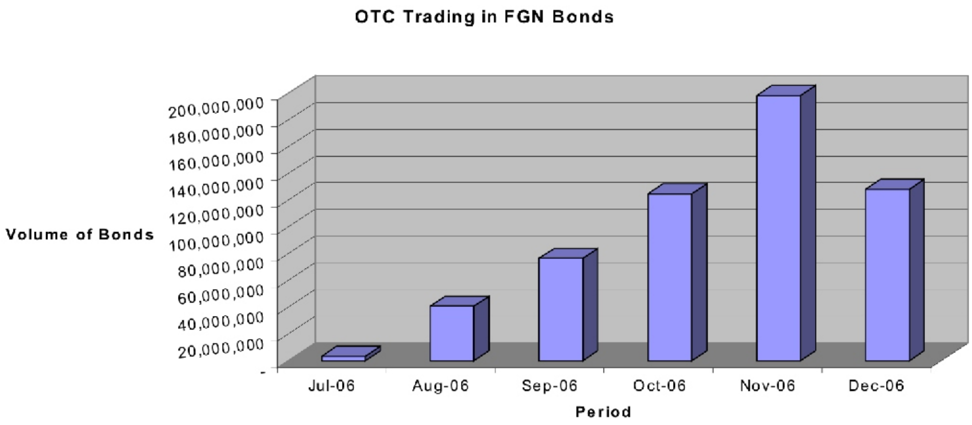

Source: Debt Management Office

Figure 3.4 shows the participation at primary auctions from July to December, 2006. A total sum of N106.15 million was allotted. Of this sum, 42.77 percent was taken up by PDMMs for their own portfolios. Non-PDMM banks and Pension Funds accounted for 17.62 percent and 12.68 percent respectively. The non-bank sector, which comprises corporate organisations, individuals and government agencies, accounted for 16.92 percent of the total amount allotted. The remaining 10.02 percent was taken up by foreign investors.

### 3.7.2 SECONDARY MARKET ACTIVITIES

The establishment of the PDMM system marked the commencement of a two-way price quote as PDMMs are obligated to make markets for FGN Bonds, thus creating a liquid secondary market for FGN Bonds. FGN bonds can be traded on the stock exchange or over-the-counter (OTC). However, trading on the stock exchange has not yet been active.

FIGURE 3.5: VOLUME OF OTC TRADING IN FGN BONDS JULY - DECEMBER, 2006

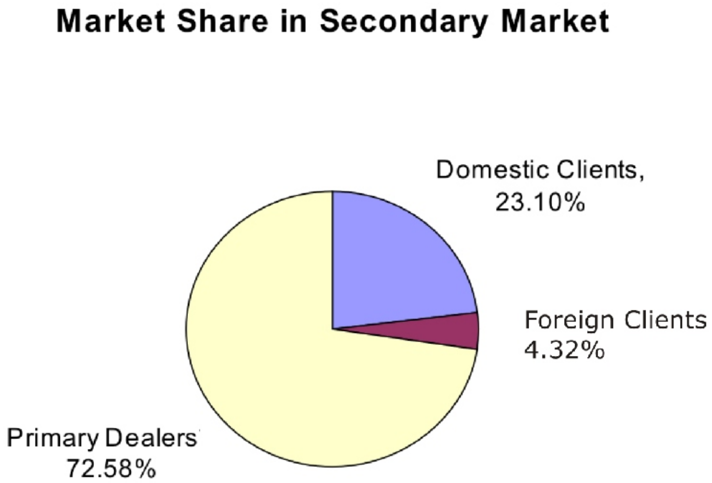



Source: Debt Management Office

Figure 3.5 charts the volume of over-the-counter FGN Bond transactions. The following secondary market trends were observed during the period:

- OTC trading showed a steady increase between the months of July and November, 2006 (Figure 3.5).
- The decline in trading activity during the month of December can be attributed to year end accounting and holidays.

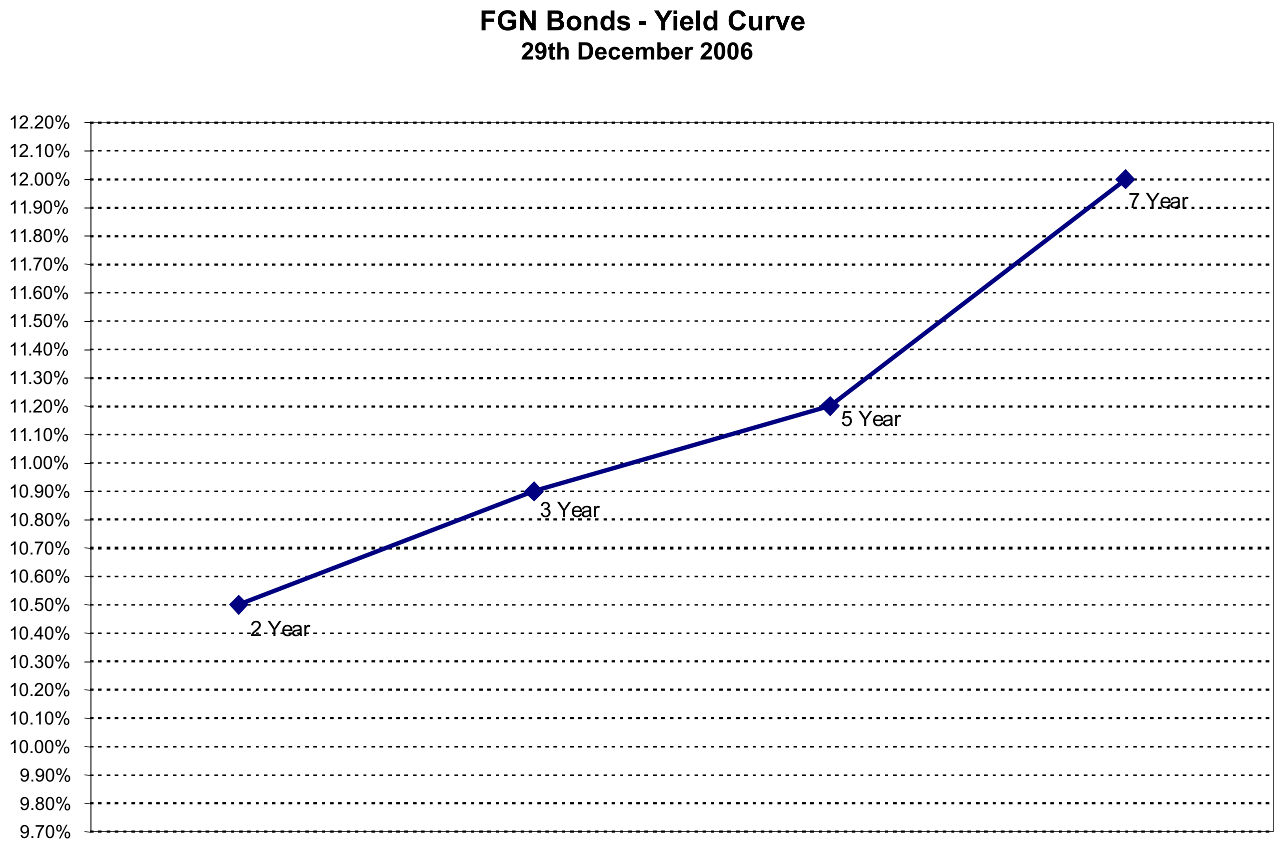
FIGURE 3.6: SECONDARY MARKET PARTICIPATION




Source: Debt Management Office

- There was strong foreign investor participation in the market, due to the liquidity created by the establishment of the PDMM system
- Securities traded within this period were mainly those that had been issued after the inauguration of the PDMM system as PDMMs are only obligated to make two-way-quotes on these.
- The majority of trades were in instruments with tenors of 3 years or less. Clients and dealers expressed a greater comfort level with the less price volatile securities in the front end of the market.

FIGURE 3.7: THE YIELD CURVE AS AT 29TH DECEMBER 2006




Source: Debt Management Office

Bond issuance and trading activity in instruments of up to seven years maturity has created benchmarks from which other instruments can be evaluated and priced. Figure 3.7 portrays the FGN Bonds yield curve as at 29th December, 2006. The curve has a fairly standard upward sloping shape, which will be extended to account for the yield of ten year instruments once the issuance of such FGN Bonds begins as planned in the 2007 issuance calendar.

### 3.7.3 CONSENSUS BUILDING

The DMO has engaged in consensus building by:

- Inaugurating the Bond Market Steering Committee (BMSC) on 27th February, 2006, which is a consensus building body comprising major public and private sector stakeholders in the bond market. Its principal objective is to ensure speedy development of the market by driving the implementation of collective decisions, coordinating and harmonising the activities of all stakeholders as well as determining the overall structure of the market. The Technical and Publicity/Enlightenment Sub-Committees of the BMSC have submitted reports on the development of the bond market.
- Conducting interactive sessions with PDMMs and other stakeholders, such as the Nigerian Stock Exchange (NSE), Central Securities Clearing System (CSCS) and the Central Bank of Nigeria (CBN) on a monthly basis to deliberate on issues affecting the bond market.

### 3.7.4 THE WAY FORWARD

During the year ahead, DMO aims to develop a repurchase (repo) and securities lending framework to further enhance the ability of the PDMMs to make two-way price quotes as well as install an integrated automated IT system capable of handling trading, auctioning, market surveillance and information dissemination.

CHAPTER FOUR

# NIGERIA'S DEBT SUSTAINABILITY

## 4.1 INTRODUCTION

Between 2004 and 2006, Nigeria's debt position underwent significant change. Its external debt stock changed from US$35,944.65 million in 2004 to US$20,477.97 in 2005, and to US$3,544.49 in 2006. The country thus moved from an unsustainable to a sustainable debt position, primarily thanks to the final exit from Paris Club debt obligations. On the contrary, the domestic debt stock increased over the same period from N1,370.32 billion in 2004 to N1,525.91billion in 2005, and to N1,753.26 billion in 2006. This raised the question of how to expand the domestic debt market, while maintaining domestic debt at sustainable levels,in order to avoid lapsing into unsustainability as was the case on the external debt front.

## 4.2 BACKGROUND OF THE DEBT SUSTAINABILITY ANALYSIS (DSA)

To record the present debt position of Nigeria and to forecast possible future trends in its development, the country carried out its first Debt Sustainability Analysis (DSA). Until recently, despite Nigeria being in a debt overhang situation, no DSA was ever carried out, mainly due to the lack of political will by successive governments to institutionalise effective debt management practices. This changed with the establishment of the Debt Management Office in 2000 and its vision to make Nigeria's debt sustainable by 2006.

A first attempt to carry out the DSA in January 2006, in collaboration with the West African Institute for Financial and Economic Management (WAIFEM) and Debt Relief International (DRI), revealed key challenges, like the lack of reliable data, unclear government policies and preferences over borrowing and unsound macroeconomic assumptions. To update such exercise, a "National Debt Strategy and New Financing Analysis Workshop" was carried out between 2nd and 6th October, 2006. The objectives of the workshop were to: 1) analyse the effects of debt relief, of new borrowings and inflows and of different macroeconomic and poverty reduction scenarios on debt sustainability; 2) provide qualitative information to policy makers on debt and new financing strategies; 3) establish a framework and a timetable for the regular update of Nigeria's debt strategy and new financing analysis; and 4) provide comprehensive training to government officials in the analysis of debt strategy and new financing options. The period under review was 2001 to 2005. The DSA captured Nigeria's debt situation as at 2005 and made forecasts for the following period up until 2024. Due to the importance of keeping the indicators of debt sustainability under close scrutiny, it was agreed that the DSA should be up-dated regularly and should guide Nigeria's national debt policy.

## 4.3 THE SUSTAINABILITY OF NIGERIA'S PUBLIC DEBT OVER THE NEXT TWENTY YEARS

### 4.3.1 EXTERNAL DEBT SUSTAINABILITY

The IMF and World Bank (IDA) have recently introduced a new framework for assessing external debt sustainability in low income countries (LICs). Empirical analysis underpins the framework, which provides indicative sustainability thresholds for both solvency and liquidity in LICs. These thresholds depend on the quality of policies and institutions of a country, as determined by the World Bank's annual Country Policy and Institutional Assessment (CPIA). Currently, Nigeria is ranked under the CPIA as a 'poor' performer, which means that the framework predicts that Nigeria can sustain lower levels of external debt when compared with a medium or strong performer. The CPIA indicative thresholds are presented in Table 4.1.

TABLE 4.1: THRESHOLDS FOR DEBT INDICATORS BASED ON INSTITUTIONAL STRENGTH AND QUALITY OF POLICIES[1]

| | Strong Performers | Medium Performers | Poor Performers |
|---|---|---|---|
| Solvency Indicators | | | |
| NPV of Debt/GDP | 60 | 45 | 30 |
| NPV Debt/Exports | 300 | 200 | 100 |
| NPV Debt/ Government Revenue | 250 | 200 | 150 |
| Liquidity Indicators | | | |
| Debt Service/Exports | 35 | 25 | 15 |
| Debt Service/ Government Revenue | 40 | 30 | 20 |

[1]See www.worldbank.org for more details on CPIA, under "How IDA Resources are Allocated".

In order to calculate current debt sustainability ratios and forecast their future values, the scenario envisaged during the DSA was one where Nigeria would continue its present debt management efforts in the future. These would include: finally exiting Paris Club debt in 2006; exiting London Club debt; continuing servicing of all other external debts; adopting a new financing policy, which allows borrowing from concessional sources only; continuing the restructuring of the short-end of the domestic debt market and securitisation of local contractors debt and pension arrears; and ensuring efficient use of borrowed funds and the targeting of sectors specified in the NEEDS.The results of the simulations are presented and summarised in the Table 4.2.

### Table 4.2: Summary of External Debt Sustainability Ratios

| | 2005 | 2006 | 2010 | 2015 | 2024 |
|---|---|---|---|---|---|
| NPV/GDP | 17.62 | 4.28 | 3.28 | 3.02 | 2.87 |
| NPV/XGS | 39.79 | 15.79 | 13.66 | 14.30 | 14.46 |
| NPV/DBR | 155.01 | 28.79 | 26.21 | 30.14 | 35.77 |
| TDS/XGS | 16.59 | 20.05 | 0.76 | 0.57 | 0.41 |
| TDS/DBR | 64.62 | 36.56 | 1.45 | 1.20 | 1.02 |

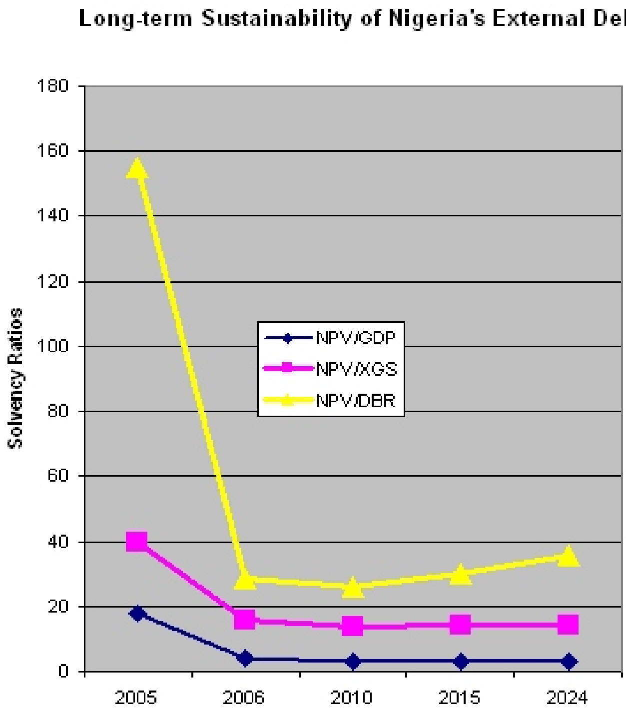
NPV: Net Present Value
GDP: Gross Domestic Product
XGS: Export Of Goods And Services
DBR: Domestic Budget Revenues
TDS: Total Debt Stock

Source: Debt Management Office

The simulations show how the present value of Nigeria's external debt decreases to sustainable levels from after 2006 onwards, i.e. the solvency ratios (NPV/GDP, NPV/XGS, NPV/DBR) would be below the threshold levels displayed in Table 4.1,with the exception of the TDS/XGS and TDS/DBR ratios in 2006. This is due to the positive impact of the Paris Club exit operation and it is clearly illustrated by the significant fall in the magnitudes of virtually all ratios between 2005 and 2006, when Nigeria was finally cleared from all Paris Club debt obligations. Sustainability would then appear to be maintained throughout the post 2006 period under review. The sustainability of Nigeria's solvency and liquidity ratios is clearly displayed in Figures 4.1 and 4.2, which show the change in the values of the ratios during the period under review as well as their benchmark levels for comparison.

The ratios of the net present value of debt to GDP (NPV/GDP) and exports (NPV/XGS) respectively would seem to be on a low, stable trend throughout the period under review, after the large initial drop occurred between 2005 and 2006. Although still below the threshold, the ratio of net present value of debt to domestic budget revenues (NPV/DBR) would seem, instead, to be on a rising trend from 2010 onwards (Figure 4.1). This could imply a higher incremental rate of borrowing as against the rate of growth in revenue. Nonetheless, this would appear to be fairly unrealistic, due to the questionable ability of the country to raise funds from the international community that will be so huge as to cause the ratio to invert its initial decreasing tendency. Otherwise, it could mean that after 2010, domestic budget revenues would fall considerably enough to produce this result. The latter would seem to be the most realistic between the two options, given the fact that Nigeria is essentially an oil-dependent economy and has recently suffered sizeable drops in crude oil production due to unrest in the oil-rich Delta region. This, as well as an oil price crush, could potentially cause the NPV/DBR ratio to move onto the rising trend displayed in Figure 4.1. Should this actually occur, some policy adjustment in the form of a budget benchmark oil price change - to increase revenue generation (DBR)- or a higher domestic relative to external borrowing - to decrease the NPV of external debt- would be needed.

FIGURE 4.1: LONG-TERM SUSTAINABILITY OF NIGERIA'S EXTERNAL DEBT - SOLVENCY RATIOS, 2005 -2024

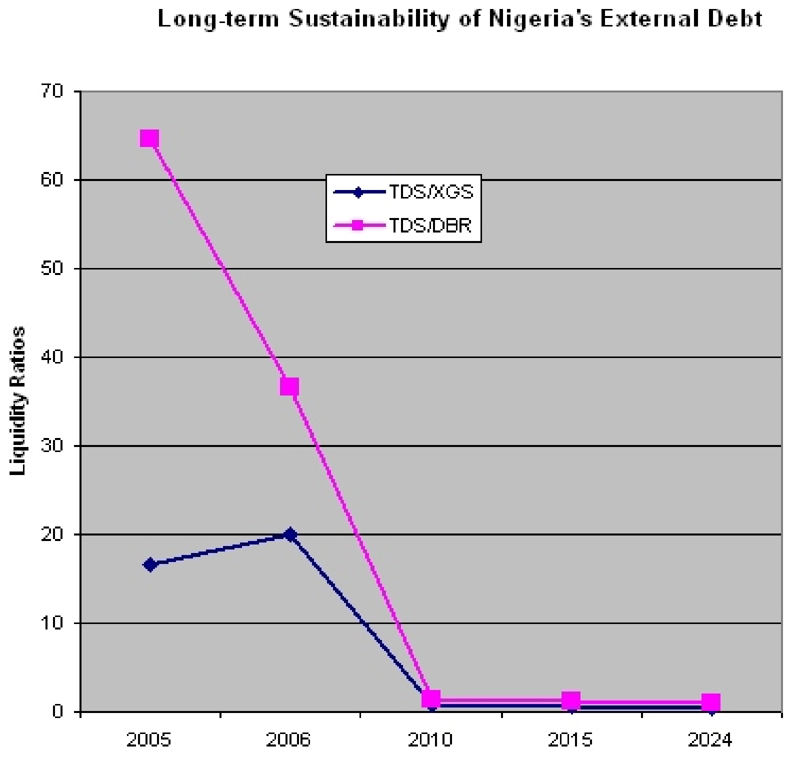



Source: Debt Management Office

The liquidity ratios (TDS/XGS and TDS/DBR) also remain well below the thresholds over the next twenty years (Figure 4.2). In 2006, they are both still above the thresholds, hence unsustainable. This is explained by Nigeria's large debt service payments for the year, due to the final exit from Paris Club debt obligations in April and the redemption of the Par Bonds portion of London Club debt in November. However, the values of TDS/XGS and TDS/DBR ratios drop considerably right after 2006 and remain below their benchmarks for the period under review, indicating that the country should not experience liquidity problems. Overall, the ratios fall from 16.59 percent and 64.62 percent respectively in 2005, to 0.41 percent and 1.02 percent respectively in 2024. This represents a fall of roughly 98 percent for both ratios over the period under consideration.

According to the above simulations, a sustainable external debt position would appear to be maintained throughout the post-2006 period, due to the combination of the country's adoption of a prudent borrowing policy (i.e. borrowing only on concessional terms), the implementation of a sound macroeconomic reform programme and the maintenance of a positive export outlook.

Figure 4.2: Long-term Sustainability of Nigeria's External Debt -liquidity ratios, 2005 - 2024




Source: Debt Management Office

During the DSA, the above baseline scenario was modified to assess what could likely happen to Nigeria's external debt position, should some underlying assumptions be different from those made under this case. All solvency and liquidity ratios seemed to remain sustainable throughout the period under consideration, both when an enhanced debt reduction/restructuring strategy and a non-concessional borrowing strategy were followed. The latter, however, was shown to be more costly for the country. The current policy of borrowing on concessional terms would seem to be the least costly to finance the country's poverty reduction programmes.

A scenario in which the current policy of exiting London Club debt, borrowing on concessional terms only, lengthening the maturity profile of the domestic debt portfolio and keeping in track with economic reforms was maintained, but then some macroeconomic shock hit the economy (e.g. an oil price shock), was also studied. The analysis showed that, even in this case, Nigeria's external debt position would remain sustainable throughout the period under review, although the ratios would have higher magnitudes. This indicates that it would be costlier to maintain a sustainable position and easier to spiral into an unsustainable one, if a macroeconomic shock occurred. Given that Nigeria's economic structure is predominantly skewed towards oil extraction and export, it is likely that such shock could be an oil price crush. This would confirm the importance of diversifying the country's export base and expanding the non-oil sector of the economy.

### 4.3.2 DOMESTIC DEBT SUSTAINABILITY

To date, there are no internationally agreed benchmarks for assessing the sustainability of domestic debt. However, preliminary analysis of the available data for Highly Indebted Poor Countries (HIPC) indicates that countries with debt ratios at or near the top of the threshold range, as set out in Table 4.3, have accumulated payments arrears and are facing an unsustainably high domestic debt burden; whereas, those with ratios below or near the bottom of the range do not have arrears and their debt can be considered sustainable. At the same time, countries with ratios falling within the range can be considered to have a potentially unsustainable domestic debt burden.

### TABLE 4.3: THRESHOLDS FOR DOMESTIC DEBT SUSTAINABILITY BASED ON DRI BENCHMARKS

| Domestic debt Indicator | Threshold Range ( %) |
|---|---|
| Debt/GDP | 20 - 25 |
| NPV of debt/Revenue | 88 - 127 |
| Total Debt Service/Revenue | 28 - 63 |
| Interest Payments/Revenue | 4.6 - 6.8 |

Source: Debt Relief International

Although the thresholds in Table 4.3 are not generally and internationally accepted, they provide a useful rule of thumb and are used to check Nigeria's domestic debt position. Assuming that the current practice of partially rolling over maturing short-term debt and reorganising the short-end of the market will continue for the next twenty years, the simulations carried out during the DSA produced the results summarised in Table 4.4.

### TABLE 4.4: SUMMARY OF DOMESTIC DEBT SUSTAINABILITY RATIOS (%)

| | 2006 | 2010 | 2015 | 2025 |
|---|---|---|---|---|
| Debt/GDP | 9.9 | 8.6 | 6.4 | 3.3 |
| NPV/DBR | 66.7 | 69.1 | 63.5 | 41.4 |
| TDS/DBR | 40.5 | 41.1 | 38.1 | 26.4 |
| INT/DBR | 5.2 | 8.2 | 8.1 | 5.9 |

Source: Debt Management Office

Evidently, the country would not seem to have any sustainability problems from 2006 to 2015. Both the Debt/GDP and the NPV Debt/ Domestic Budget Revenue ratios are below their lowest threshold as well as on a decreasing trend. This would represent a reduction of the present value of debt as a result of the effort to lengthen the maturity profile of the debt. The Total Debt Service/Domestic Budget Revenue ratio is, instead, generally between the thresholds, indicating the relative short-term nature of the domestic debt portfolio particularly in the medium-term. Its decreasing trend over the period under review would justify the attempt to lengthen the maturity structure of the portfolio.

Lastly, Interest Payments/Domestic Budget Revenue ratios are above the upper threshold during the central period 2010-2015, although they fall in the middle range by 2024. This could be explained with Nigeria's current strategy of lengthening the maturity structure of government securities. Since long-term instruments pay higher premiums compared to short-term ones, as the stock of long-term debt instruments increases, service charges on them also rise in the medium term. Once the progress of the domestic debt market reaches a more advanced stage and a yield curve is fully developed, interest rates should also stabilise and the Interest Payments/Domestic Budget Revenue ratio would expectedly decrease.

Since many values throughout the period under review are already in the middle range, it could be easy to lapse in an insolvency situation if sound debt management practices are not maintained. Given the increasing attention being paid to the domestic debt market, crafting a well thought-out programme to restructure the portfolio into longer tenure instruments and build a yield curve for benchmarking securities' prices would be a priority. By lengthening the maturity profile of the domestic debt stock, government's borrowing costs would decrease, long-term investments would be easier to undertake (e.g. in infrastructure) and the Nigerian capital market would develop into a deeper and more vibrant one.

## 4.4 ENSURING A SUSTAINABLE DEBT POSITION IN THE FUTURE - THE PROPOSED FISCAL RESPONSIBILITY LAW

As an integral part of NEEDS, the government introduced the proposed Fiscal Responsibility Law. This seeks to foster good practice in public expenditure management in the country at all tiers of government, thereby safeguarding Nigeria's resources and preventing their inefficient use. When passed into law, the proposed Fiscal Responsibility Law would, among other things, spur the maintenance of the nation's debt within sustainable levels and ensure transparency in debt management at all tiers of government. Combining prudent and efficient spending with the regular tracking of the country's current debt position and forecasts for the future, via exercises like the DSA, should prevent the relapse into unsustainable debt situations and allow the country to focus spending on priority sectors for, inter alia, the attainment of the MDGs.

# CHAPTER FIVE

## DMO INSTITUTIONAL ISSUES

### 5.1 CAPACITY BUILDING

In the area of training and staff development, several local and overseas courses were funded by both the DMO and the Crown Agents' managed DFID Capacity Building Support Project for the DMO. In programming these courses, special attention was paid to those courses that were core to the DMO's operations.

### 5.2 STAKEHOLDERS EVENTS

Several events involving major stakeholders on debt management matters also featured in the DMO's activities during the year under review. Some of the events organized are:

#### 5.2.1 DEBT SUSTAINABILITY ANALYSIS (DSA) WORKSHOPS

In a bid to truly ascertain the sustainability of Nigeria's debt portfolio and monitor the effects of debt relief and future new borrowings, a Workshop on National Debt Strategy and New Financing Analysis was organised in January and October 2006, with the support of West African Institute of Financial and Economic Management (WAIFEM) and Debt Relief International (DRI). The workshop was organised in collaboration with WAIFEM and Debt Relief International DRI. The workshop was aimed at: a) providing comprehensive training to government officials in the analysis of debt strategy and new financing issues, and b) establishing a sustainable government team capable of updating debt relief/new financing strategies.

#### 5.2.2 INAUGURATION OF THE BOND MARKET STEERING COMMITTEE

The Bond Market Steering Committee, which is a consensusbuilding body comprising major public and private sector stakeholders in the bond market, was inaugurated in February 2006. The main objective of the committee was to ensure speedy development of the market by driving the implementation of collective decisions, coordinating and harmonising the activities of all stakeholders, as well as determining the overall structure of the market, among other things.

#### 5.2.3 ROUNDTABLE ON FISCAL RESPONSIBILITY LEGISLATION

As the Secretariat for the Working Group on the Fiscal Responsibility Legislation, the DMO facilitated the hosting of the National Assembly Roundtable on Fiscal Responsibility Legislation in April 2006, in concert with the National Assembly. The Theme of the roundtable was "Fiscal Legislation in Nigeria - Issues and Challenges". This event was central to ongoing efforts at enthroning transparency, accountability and prudence in the management of our national resources, and in line with the gains of the debt relief.

### 5.2.4 Sub-National Debt Steering Committee Seminar/Workshop

In furtherance of the efforts to assist the 36 States of the Federation toward strengthening public debt management, the Debt Management Office in collaboration with WAIFEM and DRI organized a Seminar on State Government Debt Management and Development Financing Strategies. Held in July 2006, the seminar was aimed at addressing the process of capacity building on debt management at the state level, as well as developing policies and guidelines for managing sub-national debt and borrowing.

To consolidate on the gains of the July 2006 seminar, and in line with efforts to update the National Debt Sustainability Analysis, a week-long Workshop on National Debt Sustainability and New Financing Analysis was held in October 2006.

### 5.2.5 The Inauguration of the Primary Dealer Market Maker System in FGN Bonds

In line with the DMO's mandate and also in conformity with global consensus on the need to develop domestic government debt market, DMO in collaboration with relevant stakeholders - CBN, SEC, BMSC, BSC - embarked on the reactivation and rejuvenation of the FGN Bond market which had been moribund for about two decades. The development of the domestic bond market is seen as a major support for the reform objectives of the FGN as well as for making the private sector assume the status of a veritable engine of economic growth and development. In this context, the Primary Dealer/Market Maker (PDMM) system was inaugurated on July 7 2006, to help the bond market become more liquid, deep and vibrant.

### 5.2.6 DMO OFFICIAL STUDY TOUR

Some DMO Officials and other key stakeholders from the National Assembly and the Central Bank of Nigeria undertook a Study Tour to South Africa in August 2006 on Domestic Debt and Capital Market Development with a view to study the operations of the South-African domestic debt market for possible adoption by Nigeria.

### 5.2.7 UGANDA STUDY TOUR TO NIGERIA

In November 2006,the DMO hosted a fourman delegation of Senior Officials of the Bank of Uganda on a week-long study tour. The main objective of the study tour was to provide the Ugandan officials the opportunity to study debt management operations and how it could be effectively organised under an autonomous modern Debt Management Office. Nigeria's Debt Management Office was chosen as a model for the proposed establishment of a Debt Management Office in Uganda, because of the level of success Nigeria has achieved in obtaining the unprecedented debt relief from the Paris Club creditors, as well as the fact that the DMO has acquired tremendous practical experience in bilateral and multilateral negotiations.

### 5.2.8 Television Documentary Nigeria: The Journey to Debt Relief

A major media achievement during the year was the production of the Television documentary, "Nigeria: The Journey to Debt Relief". Executed in collaboration with the media production company OJ & T Ltd, the 60-minute documentary was aired on the network service of the Nigerian Television Authority, NTA, on Sunday, April 30, 2006.

## 5.3 AWARDS

### 5.3.1 CROWN AGENTS AWARD

During the year, Crown Agents, the project managers of the DFID sponsored- Capacity-Building project for the Debt Management Office (DMO), won the prestigious annual British Expertise International Award for Large Consultancy Firm of the Year 2006. This was on account of its contributions to the success of the DMO in securing the historic debt relief for Nigeria and in managing the country's exit from the Paris Club group of creditors, which led to the achievement of a huge debt cancellation worth $18 billion.

### 5.3.2 DG'S AWARD

The DMO continued to receive accolades for the historical debt relief granted to Nigeria by the Paris Club. In May, the Office received a letter of commendation from His Excellency, Chief Olusegun Obasanjo, President and Commander-in-Chief of the Armed Forces; and on December 21, 2006, the President conferred on the Director-General the prestigious National Award of 'Officer of the Order of the Federal Republic' (OFR).

## 5.4 INFORMATION TECHNOLOGY

### 5.4.1 IFEMIS PROJECT

The Integrated Finance and Economic Management Information System (IFEMIS) project, which is a vehicle for assessing, collecting, analysing and disseminating various Financial and Economic data between various stakeholder agencies - including DMO, CBN, FMF, Budget Office, OAGF, NPC, National Bureau of Statistics, was a major project embarked on during the year under review. The Federal Government, in conjunction with the EU and the World Bank, provided all the hardware, system installation, and training required for the take-off of the project planned for the first quarter of 2007.

## 5.5 STAFFING ISSUES

During the year under review, significant activities were undertaken which were aimed at strengthening and repositioning the Human Resource base and systems of the DMO.

### 5.5.1. RECRUITMENT OF NEW STAFF.

In order to fill the gaps created by the repositioning exercise and to implement one of the recommendations of the repositioning committee, a limited recruitment of officers to various positions was carried out in the year under review. The recruitment succeeded in bringing on board candidates who came from states that were hitherto not represented in the DMO.

### 5.5.2. REPOSITIONING EXERCISE

A comprehensive repositioning exercise was carried out which resulted in the disengagement of a few members of staff for various reasons and the identification and filling of some skill gaps. In the same vein, some members of staff were by the advice of the repositioning committee placed on six months Performance Improvement Plan (PIP) in order to monitor their efforts at attaining the performance benchmarks set by their respective departments.

### 5.5.3. SENIOR MANAGEMENT MOVEMENT

During the year under review, Mr. Yakubu Aliyu, formerly Deputy Director, Policy Strategy and Risk Management Department (PSRM) was appointed as an Acting Director, Portfolio Management Department to fill the gap created by the departure of Dr. Abraham Nwankwo, who was seconded to the World Bank for a period of three years. Also, the erstwhile Head of Finance & Accounts, Mr. A.A. Ayinla was appointed Head, Organizational Resourcing Department to oversee both the Finance and the administrative functions of the DMO.

### 5.5.4 TRAINING

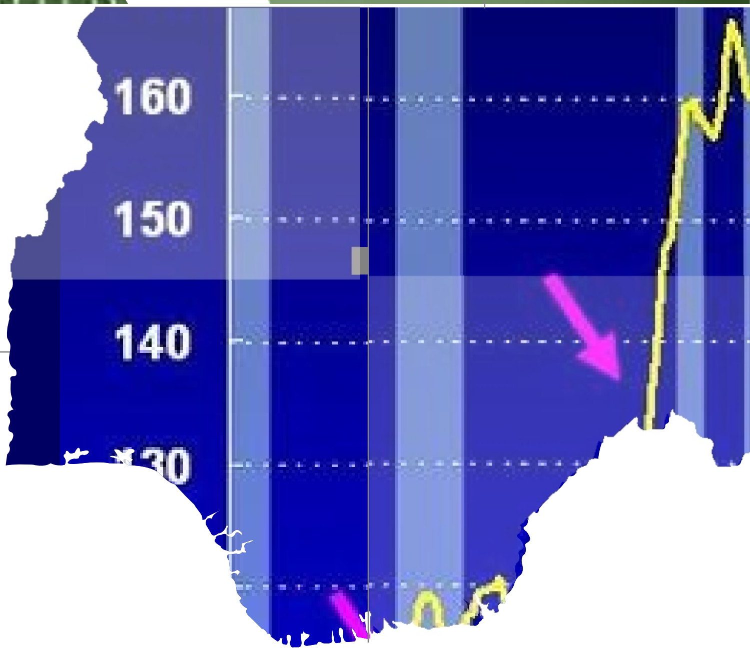
In the area of training and staff development, several local and overseas courses funded by both the DMO and the Crown Agents managed DFID support Project for the DMO were attended by staff. In programming these courses, special attention was paid to those courses that were core to DMO operations.

### 5.5.5. SCHOLARSHIP PROGRAMME (MASTER'S DEGREE SUPPORT PROGRAMME)

The above initiative commenced in 2003 following which some staff pursued (or are currently pursuing) graduate degree programmes locally and abroad with the aim of equipping themselves with requisite skills in areas relevant to the work of the DMO. So far, 6 members of staff have completed various graduate programmes in the United Kingdom and have returned to work. At present, 7 officers are at various stages of studies in universities in the same country. Also, several other officers have enrolled on similar programmes in universities across Nigeria.

### 5.5.6 ODI FELLOWSHIP PROGRAMME

In the year under review, the First Overseas Development Institute (ODI) fellow posted to DMO, Mr. Martin Alsop ended his assignment and was replaced by another fellow, Ms. Giulia Pellegrini. A befitting send-forth dinner was held for the departing fellow at Chida Hotel, in Abuja.




## FINANCIAL STATEMENTS AND ACCOUNTS

### 6.1 2006 BUDGET

Based on a pre-determined budget envelope of N466,679,896.00 given to it by the Budget Office of the Federation (BOF), the Debt Management Office submitted a budget proposal of N232,373,916.00 for Personnel Emolument, N224,705,980.00 for Overhead and N9.6 million for Capital. For the first time in recent years, the BOF released the full amounts budgeted for both personnel and overhead costs.

Because of the normal lag in the release of funds for capital projects and as a result of the processes involved in concluding due process certification, the Office could not access the Capital budget of N9.6 million for 2006. The Office has almost concluded all requirements for the issuance of "due process certificate of payment" for the 2006 Capital budget to be released to it in the first quarter of 2007. It is also worth mentioning that the Office received a total of N21,485,201.80 of the approved N27 million of 2005 Capital budget in the first quarter of 2006. This was a reduction of approximately 21 percent of the approved Capital budget.

CORPORATE INFORMATION

# DEBT MANAGEMENT OFFICE

CORPORATE INFORMATION
FOR THE YEAR ENDED 31ST DECEMBER, 2006.

## DIRECTORS

The following officers were responsible for running the affairs of the Debt Management Office for the period under review:-

| | | |
|---|---|---|
| Dr. Mansur Muhtar | - | Director - General |
| Dr. A. E. Nwankwo | - | Director (To July 2006) |
| Dr. Magaji Mahmoud | - | Director |
| Mrs. Ilamah Funmi | - | Director |
| Mr. Aliyu Yakubu | - | Acting Director |
| Mr. A. A. Ayinla | - | Head |

## REGISTERED OFFICE

NDIC Building (1st floor) Plot 447/448 Constitution Avenue
Central Business District, Garki - Abuja.

## EXTERNAL AUDITORS

Olamoju Babatunde & Co.
(Chartered Accountants)
150, Ikorodu Road,
Adebowale House
Onipanu - Lagos.

## BANKERS

(1) Central Bank Of Nigeria,
Garki, Abuja.

(2) Zenith Bank Plc,
Maitama Branch,
Abuja.

(3) United Bank For African Plc
Area 3, Garki, Abuja.

## 6.2.2 REPORTS OF THE AUDITORS

# Olamoju Babatunde & Co.

(CHARTERED ACCOUNTANTS)

Adebowale House
150, Ikorodu Rd, Onipanu,
Lagos State, Nigeria.

Plot 351,
Aminu Kano Crescent,
Wuse II, Abuja

Tel: 8968777
: 0802-320-5805
: 0805-506-2070

**DEBT MANAGEMENT OFFICE**
REPORTS OF THE AUDITORS
FOR THE YEAR ENDED 31ST DECEMBER, 2006.

We have audited the Financial statements of Debt Management Office (DMO), set out on pages 4 to 17 which have been prepared under the historical cost convention, and cash basis of accounting together with the accounting policies set out on page 7 .
We have obtained all the information and explanations which we considered necessary for the purpose of our audit.

### DIRCTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The Directors of Debt Management Office has decided to prepare the Statement of Receipts and Expenditure and Statement of Affairs for the period, which give a true and fair view of the state of affairs as at 31st December, 2006.

In preparing those Financial Statements of the Debt Management Office, in accordance with the best practice, it is required to: -

* Select suitable accounting policies and then apply them consistently,

* Make judgments and estimates that are reasonable and prudent.

* State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in financial statements, and

* Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the office will continue operations.

### AUDITORS' RESPONSIBILITY

It is our responsibility to form an independent opinion, based on our audit on the financial Statements prepared by the Directors and to report our opinion to them.

## BASIS OF OPINION

We conducted the audit in accordance with Accounting Standards issued by the Nigeria Accounting Standards .

Board with some adaptations as regard Public Service operations

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statement. It also includes an assessment of the significant estimates and judgements made by the DMO in the preparation of the Financial Statements, and whether the accounting policies are appropriate to the circumstances of the DMO, consistently applied and adequately disclosed.

We planned and performed the audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material mis-statement. In forming our opinion, we also evaluated overall adequacy of the presentation of information in the Financial Statements.

## OPINION

In our opinion, the Financial Statements give a true and fair view of the State of affairs of the Debt Management Office as at 31st December, 2006 and the surplus and changes in the Cash Flow for the year ended 31st December, 2006.

Olamoju Babatunde Co
OLAMOJU BABATUNDE & CO.
(CHARTERED ACCOUNTANTS)

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
266940

OLAMOJU BABATUNDE & CO.
(CHARTERED ACCOUNTANTS)

OLAMOJU BABATUNDE & CO.
(CHARTERED ACCOUNTANTS)

# DEBT MANAGEMENT OFFICE

## BALANCE SHEET
## AS AT 31ST DECEMBER, 2006.

| ASSETS EMPLOYED | NOTES | 2006 N | 2006 N | 2005 N | 2005 N |
|---|---|---|---|---|---|
| Fixed Assets | 2 | | 166,124,659 | | 158,603,460 |
| Current Assets | 3 | 83,741,903 | | 63,817,852 | |
| Deduct: - Current Liabilities | | - | | - | |
| Working Capital | | | 83,741,903 | | 63,817,852 |
| | | | 249,866,562 | | 222,421,312 |

| FINANCED BY: - | | 2006 N | 2006 N | 2005 N | 2005 N |
|---|---|---|---|---|---|
| **Accumulated Fund 31/12/05** | 4 | | 139,173,312 | | 109,530,506 |
| Excess of Income Over Expenditure | | | 110,693,250 | | 112,890,806 |
| | | | 249,866,562 | | 222,421,312 |

**Director - General** ------------------------------------------
**Dr. Mansur Muhtar**

**Asst. Director (Finance)** ------------------------------------------
**Mr. A. A. Ayinla**

The notes on pages 7 to 17 form an integral part of these Financial Statements.

**4.**

## 6.2.4STAEMENT OF INCOME AND EXPENDITURE AS AT 31ST DECEMBER 2006

| RECEIPT | NOTE | 2006 N | 2005 N |
|---|---|---|---|
| Votes | 5 | 436,665,693 | 389,713,584 |
| Additional Release from Budget Office | 5a | - | 23,068,130 |
| **SPECIAL ITEMS:** | | | |
| FGN Bond Floatation | 5aa | 990,618,000 | 237,296,798 |
| Debt Conversion Funding | 5b | 82,168,433 | 71,292,031 |
| **SPECIAL ITEMS:** | | | |
| Miscellaneous Account | 5c | 106,472,890 | 75,673,063 |
| Other Income | 6 | - | 208 |
| | | 1,615,925,016 | 797,043,814 |
| **EXPENDITURE** | | | |
| Recurrent Expenditure | 7a | 414,810,491 | 376,792,290 |
| SPECIAL ITEMS: | | | |
| FGN Bond Floatation | 7b | 946,217,357 | 199,096,967 |
| Debt Conversion Redemption | 7c | 49,042,776 | 41,913,754 |
| Miscellaneous Account | 7d | 95,161,142 | 66,349,996 |
| | | 1,505,231,766 | 684,153,007 |
| Excess of Income over Expenditure | 8 | 110,693,250 | 112,890,807 |

The Notes on pages 7-17 form an integral part of the Financial Statements.

## 6.2.5 Cash Flow Statement

| | 2006<br>N | 2005<br>N |
|---|---|---|
| Excess of Income over Expenditure | 110,693,250 | 112,890,806 |
| **Add: Ajustment for items Not Involving the movement of funds** | | |
| Accumulated Funds Adjustment | (63,817,852) | (120,396,799) |
| Depreciation | - | - |
| Income generated from operations | 46,875,398 | (7,505,993) |
| **Operating Income before working capital charges** | | |
| Tax Paid | - | - |
| | 46,875,398 | (7,505,993) |
| Cash from Investing Activities | | |
| Purchase of Fixed Assets | (26,951,347) | (49,072,954) |
| | 19,924,051 | (56,578,947) |
| Bank balances at the beginning of the year | 63,817,852 | 120,396,799 |
| Bank balances at the end of the year | 83,741,903 | 63,817,852 |

## 6.2.6 Notes to the Statement of Affairs

### ACCOUNTING POLICIES

**1.** The following are the significant policies which have been adopted by the Debt management Office.

#### A. BASIS OF ACCOUNTING

The Accounts are prepared under the historical cost convention of accounting and income and expenditure were recognized on the cash basis of accounting.

#### B. RECEIPT

Receipt represents the total votes received from the Federal Government during the year under review, and other special funds.

#### C. NATURE OF ACTIVITIES

The office was established solely to effectively manage the country 's foreign and domestic debt portfolio.

#### D. DEPRECIATION

Depreciation of fixed assets in order to write off the cost of the assets over their useful life is not practised in Government Accounting. Therefore, there was no depreciation provided for the purpose of preparation of this account. For management decision making purposes, annexure 111 page 23 would be of help.

#### E. STOCKS

Stocks of stationery are stated at lower of cost or net realizable value.

#### F. TAXATION

There was no provision for both Income and Education Taxes during the period ended 31st December, 2006 because the office is a non-profit making Organisation.

#### G. COMMENCEMENT OF ACTIVITIES

The Debt Management Office started operations in October, 2000.

## DEBT MANAGEMENT OFFICE
## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2006.

| | MOTOR VEHICLE AND CYCLE | COMPUTER | OFFICE EQUIPMENT | TOTAL |
|---|---|---|---|---|
| | N | N | N | N |
| **1. FIXED ASSETS (CAPITAL EXPENDITURE)** | | | | |
| Cost as at 01/01/06 | 36,975,720 | 32,556,292 | 89,071,448 | 158,603,460 |
| Additions | 13,438,997 | 6,910,000 | 6,602,350 | 26,951,347 |
| Disposal | (3,901,263) | (6,773,621) | (456,100) | (11,130,984) |
| Written Off | - | - | (8,299,164) | (8,299,164) |
| | 46,513,454 | 32,692,671 | 86,918,534 | 166,124,659 |
| **2. DEPRECIATION** | | | | |
| As at 01/10/06 | - | - | - | - |
| Charge for the year | - | - | - | - |
| Not Book Value 31/12/06 | 46,513,454 | 32,692,671 | 86,918,534 | 166,124,659 |

| | NOTES | 2006 N | 2005 N |
|---|---|---|---|
| **3. CURRENT ASSETS** | | | |
| Cash Balances | 9 | 83,741,903 | 63,817,852 |
| | | **83,741,903** | **63,817,852** |

| | 2006 | 2005 |
|---|---|---|
| **4. ACCUMULATED FUND** | | |
| As at 31/12/06 | 222,421,312 | 248,515,161 |
| Deduct: Excess of 2005 expended in 2006 | (63,817,852) | (120,396,199) |
| Assets Disposal | (11,130,984) | (18,587,856) |
| Assets Written Off | (8,299,164) | - |
| Balance transferred to Balance Sheet | 139,173,312 | 109,530,506 |

## DEBT MANAGEMENT OFFICE
## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2006.

| | NOTES | 2006 N | 2005 |
|---|---|---|---|
| **5a. VOTES** | | | |
| Capital | 11 | 21,485,202 | 20,000,000 |
| Overhead | 12 | 224,705,980 | 177,422,432 |
| Personal Emolument | 13 | 190,474,511 | 192,303,988 |
| Balance on Account (Being Bank Charges as at 31st December, 2004 not captured in other charges) | | - | (12,836) |
| | | 436,665,693 | 389,713,584 |
| **5b. SPECIAL ITEMS** | | | |
| Additional Release from Budget Office | 14 | - | 23,068,130 |
| FGN Bond Floatation | 10 | 990,618,000 | 237,296,798 |
| Deb Conversion | 14a | 82,168,433 | 71,292,031 |
| Miscellaneous | 14b | 106,472,890 | 75,673,062 |
| | | 1,615,925,016 | 797,043,606 |
| **6. OTHER INCOME** | | | |
| Interest Income | 15 | - | 208 |
| | | 1,615,925,016 | 797,043,813 |
| **7a. RECURRENT EXPENDITURE** | | | |
| Personnel Emolument | 17 | 190,388,315 | 192,264,110 |
| Overheads | 18 | 224,296,931 | 161,453,452 |
| Additional Release from Budget Office | 19 | - | 23,028,752 |
| Amount Returned to Chest/Sub-Treasure | 20 | 125,245 | 45,976 |
| | | 414,810,491 | 376,792,290 |
| **7b. SPECIAL ITEMS** | | | |
| Debt Conversion | 21 | 49,042,776 | 41,913,754 |
| FGN Bond Floatation | 16 | 946,217,357 | 199,096,967 |
| Miscellaneous | 22 | 95,161,142 | 66,349,996 |
| | | 1,505,231,766 | 684,153,007 |

**8. EXCESS OF INCOME OVER EXPENDITURE**

Part of the excess of Income over Expenditure Was the amount used for Fixed Assets acquisitions during the year under review. **See note 2.**

**CONTINUED**

| | | NOTES | 2006<br>N | 2005<br>N |
|---|---|---|---|---|
| **9.** | **CASH BALANCES** | | | |
| | UBA 1 | | - | - |
| | Zenith Bank | | - | - |
| | Central Bank of Nigeria (FGN Bond Account) | 23 | 39,454,498 | 25,716,300 |
| | UBA Plc II (Debt Conversion A/C | | 32,975,657 | 28,778,485 |
| | Zenith Bank II (Miscellaneous A/C | | 11,311,748 | 9,323,067 |
| | | | 83,741,903 | 63,817,852 |
| **10.** | **VOTES - FGN BOND FLOATATION** | | | |
| | Balances Brought Forward | | 25,716,300 | 84,086,717 |
| | Loan Refund from Personal Vote | | - | 7,045,082 |
| | Loan Refund from Debt Conversion | | - | 29,265,000 |
| | Reimbursement for Debt relief Advocacy Expenses | | - | 33,499,999 |
| | Additional Fund Released for FGN Bond Operations | | 140,000,000 | 83,400,000 |
| | Transfer from Japanese Grant Aid Account | | 824,900,000 | - |
| | Miscellaneous Receipts | | 1,700 | - |
| | | | 990,618,000 | 237,296,798 |
| **11a.** | **VOTES - CAPITAL** | | | |
| | 1st Installment | | 16,025,202 | - |
| | 2nd Installment | | 5,460,000 | 6,857,500 |
| | 3rd Installment | | - | 10,252,560 |
| | 4th Installment | | - | 2,889,940 |
| | | | 21,485,202 | 20,000,000 |

**11b.** There was N9,600,000 approved for capital acquisition during the year under review but this amount has not been released up till the time of the Audit.
This amount would be considered in 2007 account.
However, the capital allocation of N21,485,202 for the year 2005 was released in March, 2006, and has been considered in this account. **See Note 2.**

DEBT MANAGEMENT OFFICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2006.

**CONTINUED**

| | | 2006 | 2005 |
|---|---|---|---|
| | | N | N |
| **12.** | **VOTES - OVERHEADS** | | |
| | Jan. Allocation | 14,785,203 | 4,334,246 |
| | Feb. Allocation | 14,785,203 | 4,334,246 |
| | March Allocation | 14,785,202 | 4,334,246 |
| | April Allocation | 22,665,794 | 4,334,246 |
| | May Allocation | 22,665,794 | 21,348,403 |
| | June Allocation | 22,665,794 | 21,348,405 |
| | July Allocation | 18,725,498 | 24,344,344 |
| | August Allocation | 18,725,498 | 24,344,344 |
| | September Allocation | 18,725,498 | 24,344,344 |
| | October Allocation | 18,725,498 | - |
| | November Allocation | 18,725,498 | 22,177,804 |
| | December Allocation | 18,725,500 | 22,177,804 |
| | | 224,705,980 | 177,422,432 |
| **13.** | **VOTES - PERSONNEL EMOLUMENT** | | |
| | Jan. Allocation | 14,654,409 | 19,209,990 |
| | Feb. Allocation | 14,654,409 | 19,209,990 |
| | March Allocation | 18,309,809 | 19,209,990 |
| | April Allocation | 15,872,876 | 19,209,991 |
| | May Allocation | 15,872,876 | 14,058,751 |
| | June Allocation | 15,872,876 | 14,486,468 |
| | July Allocation | 15,872,876 | 14,486,468 |
| | August Allocation | 15,872,876 | 14,486,468 |
| | September Allocation | 15,872,876 | 14,486,468 |
| | October Allocation | 15,872,876 | 14,486,468 |
| | November Allocation | 15,872,876 | 14,486,468 |
| | December Allocation | 15,872,876 | 14,486,468 |
| | | 190,474,511 | 192,303,988 |

DEBT MANAGEMENT OFFICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2006.

**CONTINUED**

| | | 2006 N | 2005 N |
|---|---|---|---|
| **14.** | **ADDITIONAL RELEASE FROM BUDGET OFFICE** | | |
| | Rent Arrears (Office) | - | 14,624,900 |
| | Public Service Reforms (Study Tour) | - | 8,443,230 |
| | | - | 23,068,130 |
| | **SPECIAL ITEMS:** | | |
| **14a.** | **DEBT CONVERSION ACCOUNT** | | |
| | Balance Brought Forward | 28,778,485 | - |
| | Loan from FGN Bond | - | 10,000,000 |
| | Loan from FGN Bond | - | 17,830,263 |
| | Loan from FGN Bond | - | 20,284,550 |
| | World Bank Contribution - Study Tour | - | 8,248,236 |
| | DFID Contribution - Study Tour | - | 12,085,178 |
| | Miscellaneous Receipts (Debt Conversion Funding) | 40,861,257 | 2,843,804 |
| | Loan Repayment for Fiscal Responsibility Retreat | 9,823,495 | - |
| | Receipts for Advocacy/Paris Club Activities | 2,705,196 | - |
| | | 82,168,433 | 71,292,031 |
| **14b.** | **SPECIAL ITEMS: MISCELLANEOUS** | | |
| | Balance Brought Forward : (9,323,067) on: | | |
| | - FAAC States Debt reconciliation | 4,836,720 | - |
| | - FAAC Sub-National Debt study tour | 3,696,847 | - |
| | - Sale of Books | 789,500 | - |
| | Receipt from FAAC for study tour | - | 1,432,481 |
| | Receipt from SEC for Technical Roundtable | - | 2,359,940 |
| | Receipt from World Bank for Study Tour | - | 8,248,236 |
| | Receipt from FGN Bond for Study Tour | - | 42,424,130 |
| | Receipt from FAAC for State Debt Reconciliation | - | 5,265,480 |
| | Various Receipts | - | 7,692,597 |
| | Receipt from FMF for Technical roundtable on fiscal responsibility bill | 11,485,575 | 3,153,110 |

**CONTINUED**

| | 2006 N | 2005 N |
|---|---|---|
| Receipt from FAAC (Balance on Debt Conversion take - off grant) | 6,440,756 | 5,097,088 |
| Receipt for Seminar on State Sub-National Debt | 5,000,000 | - |
| Receipts for London Club Debt Restructuring | 31,787,500 | - |
| Refund for DSA Workshop | 12,545,100 | - |
| Reimbursement from Paris Club Redemption Proceeds A/C | 21,366,561 | - |
| Receipt for FGN Bond PDMM Workshop | 6,315,000 | - |
| Receipt on Tax refund 1st FGN Bond | 2,209,331 | - |
| | 106,472,890 | 75,673,063 |

**15. OTHER INCOME (BANK INTEREST)**

| | | |
|---|---|---|
| UBA I | - | - |
| ZENITH I | - | - |
| CBN (FGN Bond Floation) | - | - |
| CBN (Capital) | - | - |
| UBA II | - | 208 |
| ZENITH II (Miscellaneous Account | - | - |
| | - | 208 |

**16. EXPENDITURE - FGN BOND FLOATATION**

| | | |
|---|---|---|
| Int'l Travels and Transport | - | 24,184,495 |
| Transfer to Debt Conversion Fund | - | 48,114,813 |
| Public Service Reform Publicity | - | 9,344,107 |
| Bank Charges | - | 3,060 |
| Local Travel And Transport | 10,436,930 | 6,052,400 |
| Training & Seminars - Local | 43,706,040 | 2,838,811 |
| Listing Fees | 24,600,000 | 20,000,000 |
| Commission | 6,375 | 4,555,000 |
| Entertainment | 184,725 | 1,700,263 |
| Advertisement and Publicity | 25,906,914 | 34,055,656 |
| International Travel & Transport - Training | 2,883,442 | 43,425,712 |
| Miscellaneous | 2,890,450 | 71,400 |
| Printing of non Security documents | 704,000 | 4,751,250 |
| Telephone, Postages and Courier Services | 9,606,406 | - |
| Int'l Training | 3,343,075 | - |
| Japanese Grant Aid Expenses | 821,949,000 | - |
| | 946,217,357 | 199,096,967 |

DEBT MANAGEMENT OFFICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2006.

**CONTINUED**

**NOTE:**
Total expenditure was N951,163,502 less the asset element which amounted to N4,946,145 expended on Motor Vehicles and has been captured in the Fixed Asset Schedule - **See Note 2.**

| | | 2006<br>N | 2005<br>N |
|---|---|---|---|
| **16a.** | **EXPENDITURE - CAPITAL** | | |
| | Computers | 6,910,000 | 4,379,500 |
| | Motor Vehicle | 8,492,852 | - |
| | Office Equipment | 6,082,350 | 15,620,385 |
| | | 21,485,202 | 19,999,885 |

| | | 2006<br>N | 2005<br>N |
|---|---|---|---|
| **17.** | **EXPENDITURE - PERSONNEL EMOLUMENT** | | |
| | Basic Salary | 153,672,300 | 96,261,037 |
| | Regular Allowances | 35,634,776 | 94,083,606 |
| | Non-Regular Allowances | 1,081,239 | 1,919,467 |
| | | 190,388,315 | 192,264,110 |
| **18.** | **EXPENDITURE - OVERHEADS** | | |
| | Local Travels | 18,432,625 | 11,934,151 |
| | International Travels & Transport | 25,886,082 | 49,431,837 |
| | Local Travels & Transport | 1,113,450 | 345,500 |
| | International Travels & Transport | 14,638,328 | 5,608,305 |
| | Telephone Charges | 4,845,605 | 5,605,764 |
| | Internet Access Charges | 2,670,640 | 537,559 |
| | Office Materials & Supplies | 10,535,418 | 3,966,422 |
| | Library Books & Periodicals | 2,211,674 | 2,105,798 |
| | Computer Materials & Supplies | 3,231,665 | 1,873,517 |
| | Printing of Non Security Documents | 6,017,750 | 7,094,178 |
| | Printing of Security Documents | - | - |
| | Other Materials & Supplies | 2,265,645 | 1,899,829 |
| | Maintenance of Motor Vehicles | 2,742,029 | 1,608,869 |
| | Maintenance of Office Furniture | 2,118,267 | 1,003,446 |
| | Maintenance of Building - Office | 1,977,540 | 1,825,690 |
| | Maintenance of Building - Residential | 2,670,236 | 1,522,481 |
| | Maintenance of Other Infrastructrurers | - | 1,222,980 |
| | Maintenance of Office Equipments | 3,138,047 | 657,388 |
| | Maintenance of Computer & IT Equipments | 18,000 | 538,650 |
| | Maintenance of Plants/Generators | 39,100 | 87,000 |
| | Other Maintenance Services | 227,700 | 625,050 |
| | Local Training | 12,805,200 | 7,772,350 |
| | Int'l Training | 26,528,094 | 6,909,901 |
| | Security Services | 997,895 | 422,632 |
| | Cleaning & Fumigation Services | 3,030,000 | 1,775,000 |

DEBT MANAGEMENT OFFICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2006.

**CONTINUED**

| | 2006 | 2005 |
|---|---|---|
| | N | N |
| Office Accomodation Rent | 15,320,982 | - |
| Residential Accomodation Rent | 13,055,556 | 6,508,583 |
| Financial Consulting | 3,516,750 | 1,777,173 |
| Information Technology Consulting | 290,559 | 2,773,745 |
| Legal / Other Professional Services | 1,200,000 | 447,300 |
| Bank Charges | 13,000 | 24,675 |
| Insurance Charges/Premium | 1,498,156 | 1,373,147 |
| Motor Vehicles Fuel Cost | 4,535,000 | 80,000 |
| Generator Fuel Cost | 252,560 | - |
| Refreshment & Meals | 8,368,625 | 2,909,930 |
| Honorarium & Sitting Allowance Payments | 2,154,000 | 1,454,793 |
| Publicity & Advertisements | 14,558,239 | 15,301,358 |
| Electricity Charges | 286,889 | - |
| Medical Expenditure | 1,199,175 | 700,530 |
| Postages & Courier Services | 463,927 | 260,008 |
| Welfare Packages | 4,391,000 | 5,040,300 |
| Suscriptions to Professional Bodies | 1,033,850 | 444,200 |
| Other Miscellaneous Expenses | 3,967,673 | 5,887,413 |
| Sporting Activities | 50,000 | - |
| Unretired Advances | - | 96,000 |
| | 224,296,931 | 161,453,452 |

**NOTE:**
The total expenditure was N224,666,931
Less the Asset element which amounted to
N370,000 expended on Office Equipments and
has been captured in the Fixed Asset
Schedule **See Note 2.**

| | | 2006 | 2005 |
|---|---|---|---|
| | | N | N |
| 19. | **ADDITIONAL RELEASE FROM BUDGET OFFICE** | | |
| | Rent Arrears (Office) | - | 14,624,900 |
| | Civil Service Reform (Study Tour) | - | 8,403,852 |
| | | - | 23,028,752 |

DEBT MANAGEMENT OFFICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2006.

**CONTINUED**

| | | 2006<br>N | 2005<br>N |
|---|---|---|---|
| **20.** | **AMOUNT RETURNED TO CHEST** | | |
| | Capital | - | 115 |
| | Overheads | 39,049 | 20,692 |
| | Personnel Emolument | 86,196 | 25,169 |
| | | 125,245 | 45,976 |
| **21.** | **SPECIAL ITEMS: DEBT CONVERSION ACCOUNT** | | |
| | Professsional Fees | - | 1,256,000 |
| | Office Materials | - | 387,150 |
| | Newspapers & Periodicals | - | 81,158 |
| | Stationeries | - | 877,770 |
| | Telecommunications | - | 1,241,626 |
| | Repairs and Maintenance | - | 2,899,578 |
| | Training and Seminars | - | 4,720,390 |
| | Miscellaneous | - | 200,000 |
| | Salary and Allowance | - | 10,477,145 |
| | International Travels & Transport | 11,878,072 | 17,496,405 |
| | Motor Vehicle Repairs | 64,000 | 101,650 |
| | Bank Charges | 7,079 | 5,192 |
| | Local Travels & Transport | 7,707,000 | 260,000 |
| | Advertising/Publicity | 887,700 | 1,909,690 |
| | Local Training | 2,276,000 | - |
| | Computer Materials & Supplies | 10,172 | - |
| | Refreshment & Meal | 400,000 | - |
| | Fiscal Responsibility Retreat | 9,823,495 | - |
| | Fiscal responsibility on Expenses | 5,169,789 | - |
| | Advocacy/Paris Club Activity Expenses | 10,819,469 | - |
| | | 49,042,776 | 41,913,754 |

**NOTE:**
Total Expenditure was N49,192,776 Less the Asset element which amounted to N150,000 expended on Office Equipment and has been captured in the Fixed Asset Schedule **See Note 2.**

DEBT MANAGEMENT OFFICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2006.

**CONTINUED**

| | | 2006<br>N | 2005<br>N |
|---|---|---|---|
| **22.** | **SPECIAL ITEMS:** | | |
| | **MISCELLANEOUS ACCOUNT** | | |
| | Advertisement & Publicity | - | 1,257,500 |
| | Bank Charges | - | 237,130 |
| | Entertainment | - | 1,279,900 |
| | Local Travels | - | 214,000 |
| | Repairs & Maintenance | - | 3,446,319 |
| | Miscellaneous | - | 2,456,991 |
| | Training and Seminar | - | 226,200 |
| | Post and Telephone | - | 603,276 |
| | Printing | - | 78,938 |
| | Advisory & Consulting Services | - | 463,000 |
| | World Bank Contribution to Study Tour | - | 8,248,236 |
| | FAAC Sub-National Debt Study Tour | 3,696,847 | 45,478,566 |
| | Technical Roundtable on Fiscal Responsibility Bill | 11,313,948 | 2,359,940 |
| | FAAC State Debt Reconciliation | 4,304,120 | - |
| | Debt Conversion take off grant | 6,312,434 | - |
| | London Club - Debt Restructuring | 40,682,628 | - |
| | Seminar State Sub-National Debt | 5,000,000 | - |
| | Workshop FGN Bond PDMM | 6,217,485 | - |
| | Tax Refund - 1st FGN Bond | 2,209,325 | - |
| | DSA Workshop | 11,354,000 | - |
| | Paris Club Debt Restructuring Account | 4,070,355 | - |
| | | 95,161,142 | 66,349,996 |
| **23.** | **CBN FGN BOND ACCOUNT** | | |
| | Japanese Grant Aid | 2,251,000 | - |
| | Balance of FGN Bond Floation Account | 37,203,498 | 25,716,300 |
| | | 39,454,498 | 25,716,300 |

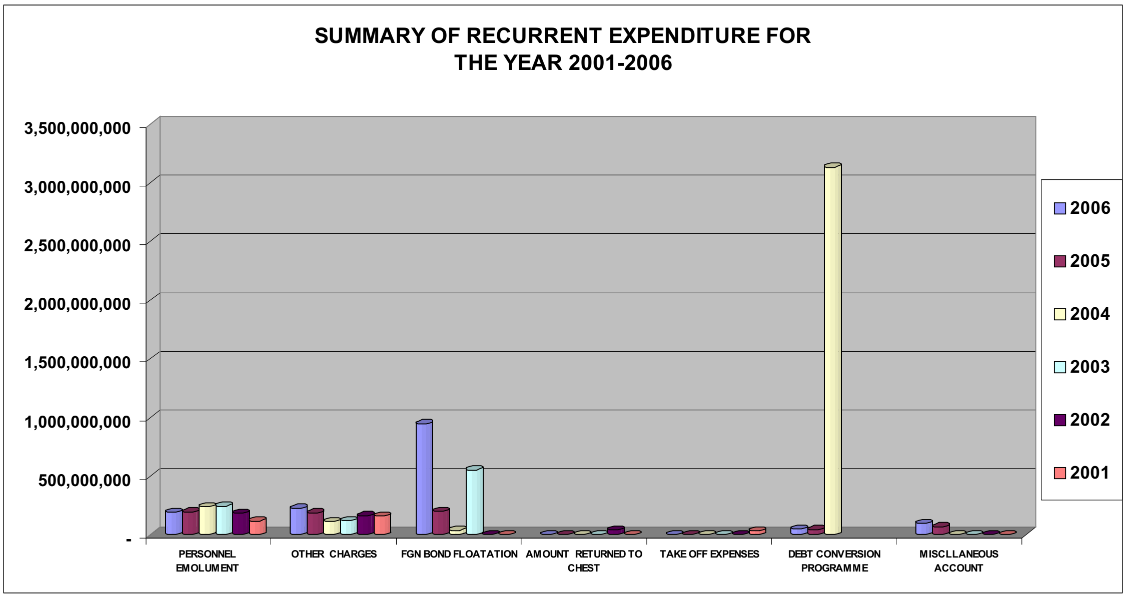
**24. STOCK OF STATIONERY**

The stock of unused assets and unconsumed stationery as at 31st December, 2006 was N1,814,008. This has been wholly charged to overhead expenses and fixed assets since the account is prepared on cash basis.

## 6.2.7 Annexure To The Financial Statements

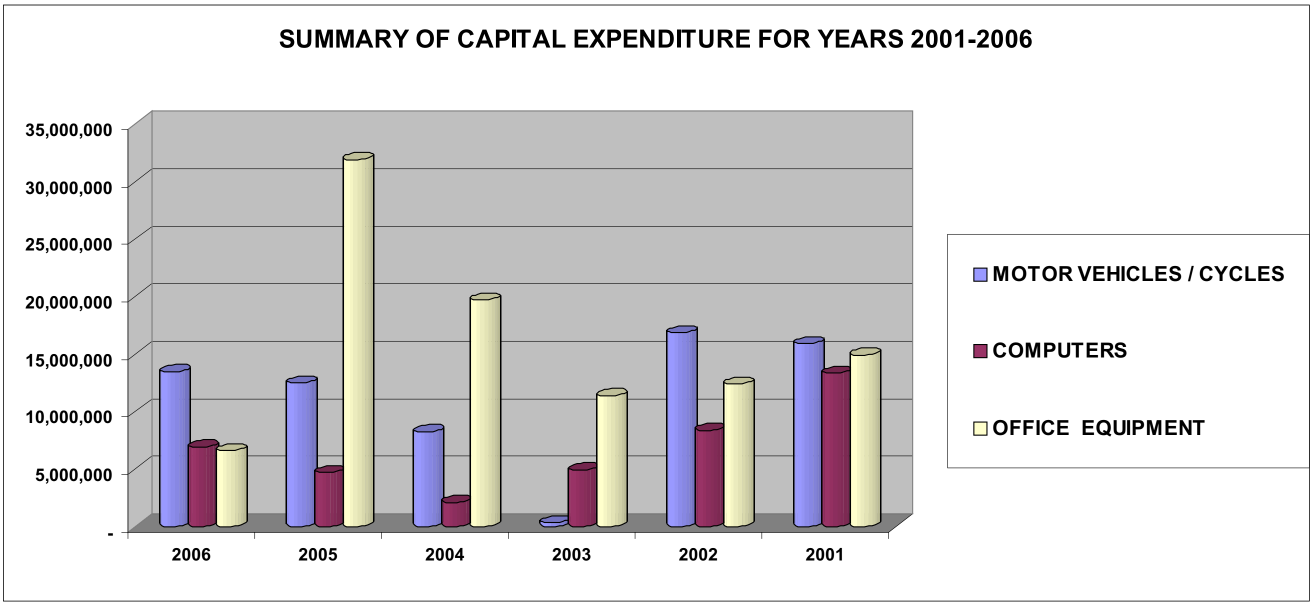
### Annexure 1
### Debt Management Office

| | N | N | N | N | N | N |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
| PERSONNEL EMOLUMENT | 190,388,315 | 192,264,110 | 237,812,358 | 243,865,825 | 181,370,071 | 117,000,000 |
| OTHER CHARGES | 224,296,931 | 184,482,204 | 109,973,161 | 119,040,822 | 161,538,775 | 159,750,782 |
| FGN BOND FLOATATION | 946,217,357 | 199,096,967 | 38,153,343 | 550,791,825 | - | - |
| AMOUNT RETURNED TO CHEST | 125,245 | 45,976 | 91,888 | 542,424 | 41,061,667 | 8,051 |
| TAKE OFF EXPENSES | - | - | - | - | - | 31,491,239 |
| DEBT CONVERSION PROGRAMME | 49,042,776 | 41,913,754 | 3,132,875,216.00 | | | |
| MISCLLANEOUS ACCOUNT | 95,161,142 | 66,349,996 | - | - | - | - |
| | 1,505,231,766 | 684,153,007 | 3,518,905,966 | 914,240,896 | 383,970,513 | 308,250,072 |



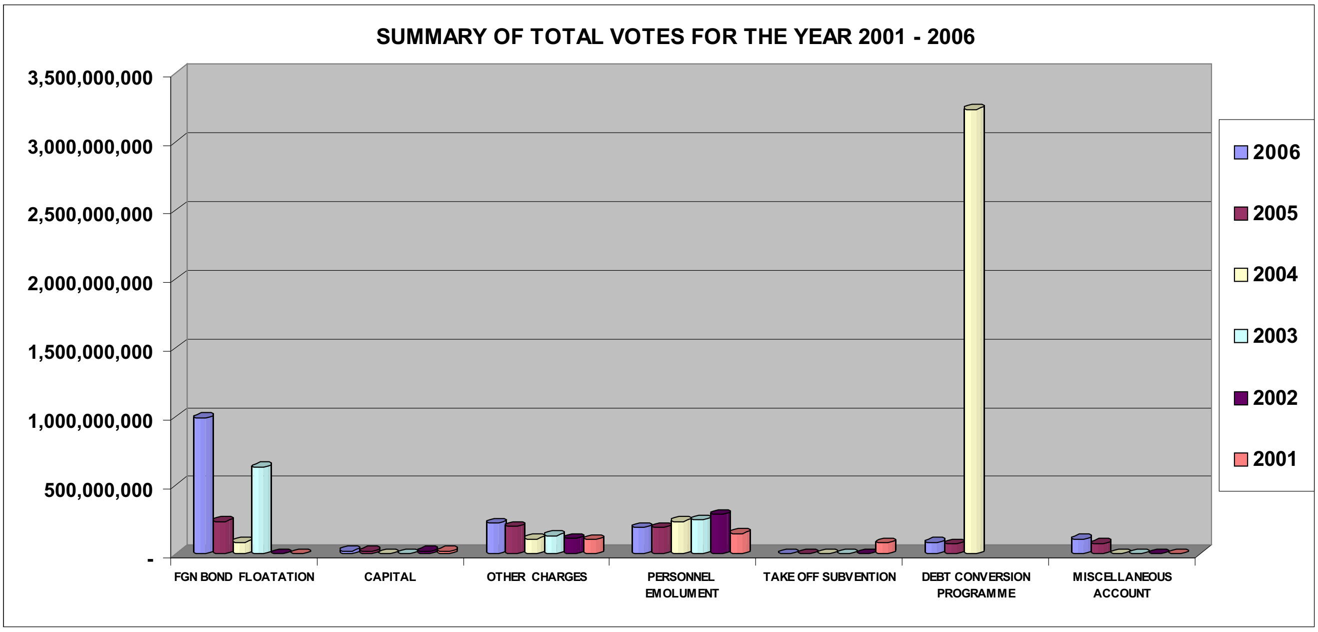

### ANNEXURE 1 CONTINUED
### SUMMARY OF CAPITAL EXPENDITURE FOR THE YEARS 2001 - 2006

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| MOTOR VEHICLES / CYCLES | 13,438,997 | 12,483,531 | 8,228,325.00 | 340,000 | 16,828,141 | 15,893,684 |
| COMPUTERS | 6,910,000 | 4,698,500 | 2,091,000 | 4,907,320 | 8,364,840 | 13,334,632 |
| OFFICE EQUIPMENT | 6,602,350 | 31,890,923 | 19,697,098 | 11,377,986 | 12,371,462 | 14,897,779 |
| | **26,951,347** | **49,072,954** | **30,016,423** | **16,625,306** | **37,564,443** | **44,126,095** |



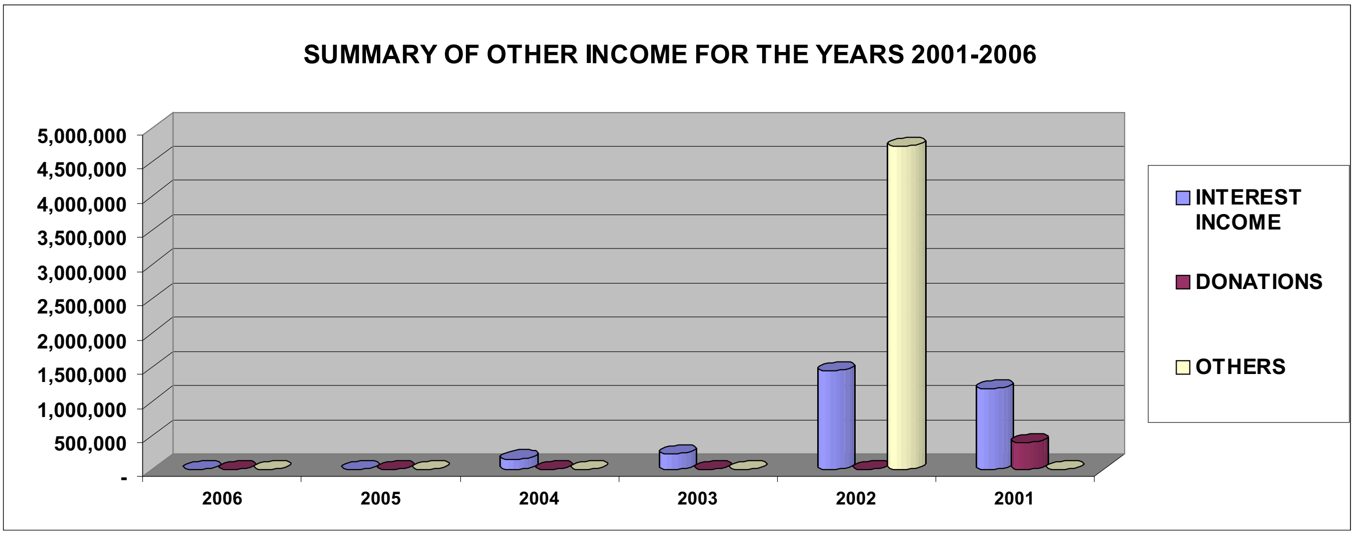

## ANNEXURE 1 CONTINUED
## SUMMARY OF TOTAL VOTES FOR THE YEARS 2001 - 2006

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| FGN BOND FLOATATION | 990,618,000 | 237,296,798 | 86,892,104 | 631,487,000 | - | - |
| CAPITAL | 21,485,202 | 20,000,000 | - | - | 20,269,682 | 19,708,010 |
| OTHER CHARGES | 224,705,980 | 200,490,562 | 110,021,909 | 132,497,333 | 111,996,800 | 105,000,000 |
| PERSONNEL EMOLUMENT | 190,474,511 | 192,303,988 | 237,855,498 | 246,369,999 | 287,431,738 | 150,000,000 |
| TAKE OFF SUBVENTION | - | - | - | - | - | 80,000,000 |
| DEBT CONVERSION PROGRAMME | 82,168,433 | 71,292,031 | 3,234,388,163 | | | |
| MISCELLANEOUS ACCOUNT | 106,472,890 | 75,673,062 | - | - | - | - |
| | **1,615,925,016** | **797,056,441** | **3,669,157,674** | **1,010,354,332** | **419,698,220** | **354,708,010** |



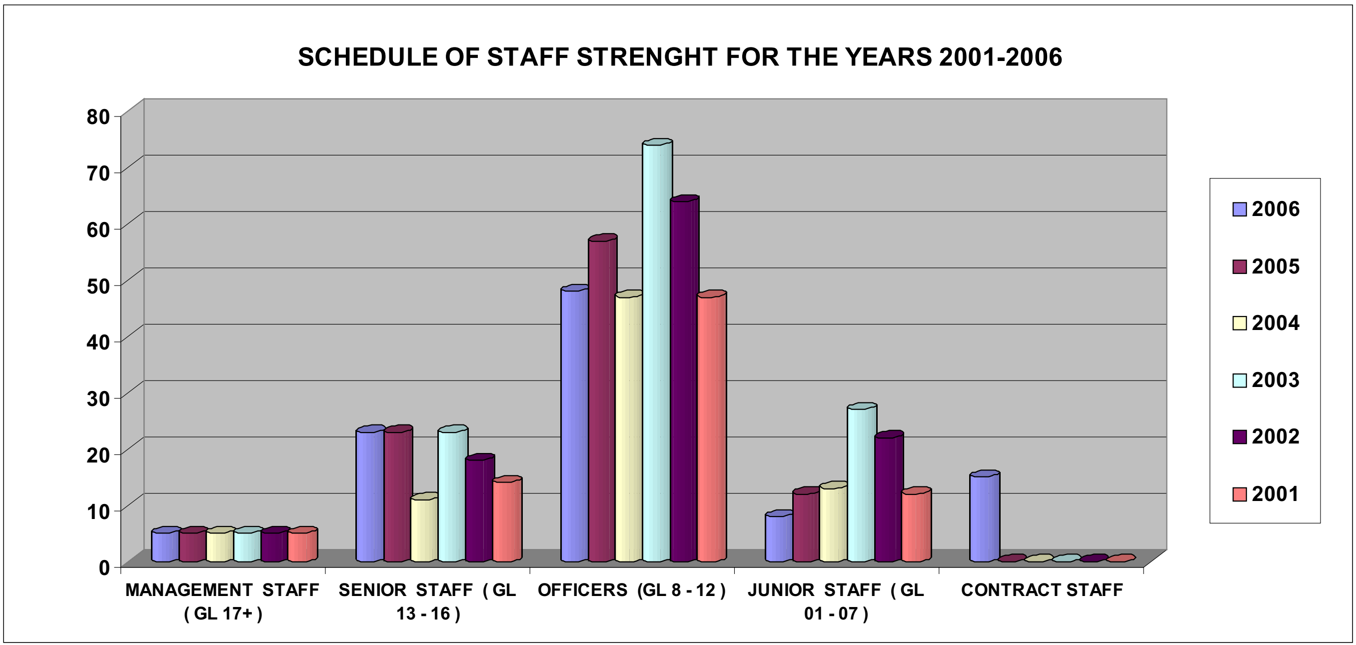
## ANNEXURE 1 CONTINUED
## SUMMARY OF OTHER INCOME FOR THE YEARS 2001 - 2006

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| INTEREST INCOME | - | 208 | 161,514 | 232,952 | 1,444,822 | 1,187,254 |
| DONATIONS | - | - | - | - | - | 400,000 |
| OTHERS | - | - | - | - | 4,731,891 | - |
| | **-** | **208** | **161,514** | **232,952** | **6,176,713** | **1,587,254** |




## ANNEXURE 11 DEBT MANAGEMENT OFFICE
## SCHEDULE OF STAFF STRENGTH FOR THE YEARS 2001 - 2006

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| MANAGEMENT STAFF ( GL 17+ ) | 5 | 5 | 5 | 5 | 5 | 5 |
| SENIOR STAFF ( GL 13 - 16 ) | 23 | 23 | 11 | 23 | 18 | 14 |
| OFFICERS (GL 8 - 12 ) | 48 | 57 | 47 | 74 | 64 | 47 |
| JUNIOR STAFF ( GL 01 - 07 ) | 8 | 12 | 13 | 27 | 22 | 12 |
| CONTRACT STAFF | 15 | - | - | - | - | - |
| | **99** | **97** | **76** | **129** | **109** | **78** |


SCHEDULE OF STAFF STRENGHT FOR THE YEARS 2001-2006
80
70
60
50
40
30
20
10
0
MANAGEMENT STAFF ( GL 17+ )
SENIOR STAFF ( GL 13 - 16 )
OFFICERS (GL 8 - 12 )
JUNIOR STAFF ( GL 01 - 07 )
CONTRACT STAFF
2006
2005
2004
2003
2002
2001

ANNEXURE 111
DEBT MANAGEMENT OFFICE
SCHEDULE OF FIXED ASSETS
(LESS ACCUMULATED DEPRECIATION)

| | MOTOR VEHICLE & CYCLE | COMPUTER | OFFICE | TOTAL |
|---|---|---|---|---|
| | N | N | N | N |
| **FIXED ASSETS** | | | | |
| (CAPITAL EXPENDITURE) | | | | |
| COST AS AT 01/01/06 | 36,975,720 | 32,556,292 | 89,071,448 | 158,603,460 |
| ADDITIONS | 13,438,997 | 6,910,000 | 6,602,350 | 26,951,347 |
| DISPOSAL | (3,901,263) | (6,773,621) | (456,100) | -11,130,984 |
| WRITTEN OFF | - | - | (8,299,164) | -8,299,164 |
| | 46,513,454 | 32,692,671 | 86,918,534 | 166,124,659 |
| **DEPRECIATION** | | | | |
| AS AT 01/01/06 | 28,001,496 | 29,883,695 | 44,714,964 | 102,600,155 |
| CHARGE FOR THE YEAR | 6,480,632 | 1,197,571 | 15,860,657 | 23,538,860 |
| DISPOSAL | (3,901,263) | (6,773,621) | (437,000) | (11,111,884) |
| WRITTEN OFF | - | - | (5,493,514) | (5,493,514) |
| | 30,580,865 | 24,307,645 | 54,645,107 | 109,533,617 |
| NET BOOK VALUE 31/12/06 | 15,932,589 | 8,385,026 | 32,273,427 | 56,591,042 |
| NET BOOK VALUE 31/12/05 | 8,974,224 | 2,972,597 | 44,356,484 | 56,003,305 |

The above assets were depreciated using the straight line method of depreciation. The rates used are as stated below: -

| | % |
|---|---|
| MOTOR VEHICLE / CYCLE | 25 |
| COMPUTER | 25 |
| OFFICE EQUIPMENT | 20 |

This exercise is just to know the fair value of the assets as at the time of disposal since the cash basis of accounting is the method being used in public sector.

# ANNEX

## A.1 DFID CAPACITY BUILDING SUPPORT FOR THE DMO

### A.1.1 INTRODUCTION

The United Kingdom's Department for International Development (DFID) has continued to provide capacity building support to the Nigerian Debt Management Office (DMO) during the last year. DFID's intervention has been phased to cover a period of five years. It is currently in the last phase.

The UK sponsored program initially supported the building and strengthening of the DMO as a separate entity consolidating all debt management activities that were previously executed by a variety of government departments. This aimed at fostering professionalism, creativity, innovation, effectiveness and efficiency in public debt management in Nigeria. It strengthened the DMO in the execution of its primal mandate. Moreover, it made Nigeria one of the few countries with separate debt management offices in the world, in line with good practice in macroeconomic management.

### A.1.2 THE SUPPORT PROJECT

By design, the support project covers capacity building for the DMO in all ramifications from the provision of operational equipment to staff training and management development. For maximum efficiency, the implementation of the Project was carried out in phases.

Phase One - Inception Phase: It covered a period of four months commencing on 6th October 2003, which did a diagnostic study to determine the real needs and issues affecting the operations of the DMO. The issues covered in this phase included:

- Public debt management;
- The use of CS-DRMS (Commonwealth Secretariat Debt Recording and Management System);
- Financial management and budget system;
- IT-IS (information technology information system); and
- Institutional development needs;

The study was undertaken within the context of the ongoing Federal Government's Public Sector Reform Programme (PSRP) the result of which led to the development of a Logical Framework that established the objectives for the Support Programme and the detailed activities it needed to carry out in order to achieve effective programme implementation.

Phase Two - Implementation Phase: The implementation of the Support Project was further divided into two stages as follows:

Stage One: It aimed at accomplishing the objectives set in the Inception Report within a period of eighteen months commencing in March 2004 and ending in August 2005; and

Stage Two: A detailed stock taking was carried out at the end of the first stage of project implementation through a stakeholder-oriented output-to-purpose review (OPR) to determine achievements and define further work after August 2005. Accordingly, a second stage of project implementation stretched from September 2005 to February 2007. The outcome of this will be evaluated in another OPR, which will lead to the formulation of Project Activities for the last phase of the Project. The latter will commence in March 2007 and carry on until February 2008.

### A.1.3 THE GOAL

The goal of the support Project is to work with the DMO in achieving "a sustainable debt position for Nigeria that supports growth and poverty reduction". It is aimed at "strengthening the total public debt management competence of the DMO by building the needed capacity to attain world-class standards while developing stronger relationships with its stakeholders, financial institutions, and the public".

The emphasis of the Project is on the attainment of standards, guided by the following verifiable indicators:

- Establishment of governance arrangements for the DMO, including accountability and performance indicators;
- Support for internal operations (business processes) within the front-middle-back office structure;
- Attainment of public debt management objectives, debt management strategy, formulation of guidelines on government guarantees, on-lending and sub-national debt, as well as design of an effective risk management framework for the DMO;
- Enhancement of domestic debt capacity;
- Conduct of regular analyses of debt sustainability;
- Establishment of stronger relationships with existing and potential entities involved in issuing and holding FGN (Federal Government of Nigeria) debt, such as pension funds and insurance companies; and
- Fostering greater awareness on the part of key DMO stakeholders on the roles and functions of the DMO and the contributions it is making towards achieving a sustainable debt position for Nigeria.

The first four of these key indicators are based on the IMF/World Bank Guidelines on Public Debt Management, which synthesise international best practice. The final two indicators, dealing with debt sustainability and key external relationships for DMO, are based on the contextual environment of the Nigerian DMO. Both contexts provide a basis for customisation and best practice that provide the DMO the opportunity to aspire to achieve world-class standards in its operations and relations. DMO's capacity was already demonstrated by its contributions to Nigeria's exit deal from the Paris Club of creditors and the exit from the London Club of creditors in progress as well as by its performance in domestic debt management. In addition to restructuring into longer term securities the 91-day NTBs, which used to dominate Nigeria's domestic debt instruments, the DMO has issued longer tenured instruments ranging from 3 to 7 years maturity and has set the stage for the creation and development of a deep, viable secondary bond market in Nigeria through the establishment of a Bond Steering Committee and the empanelling of PDMMs (Primary Dealer/Market Makers).

## A.1.4 OBJECTIVES

The objectives for the Support Project were espoused in an Inception Report written at the termination of the Inception Phase of the Project on completion of the diagnostic study. The Project's logical framework details the activities that will ensure the attainment of the following seven objectives. These remain the key objectives for the Support Project and will continue to guide project implementation throughout the life of the support activity:

1) Putting external governance

Arrangements for the DMO in place;

2) Establishing an organizational structure, management system, and standards Consistent with DMO's organizational purpose as prescribed by its governing

Legislation, international standards, and the ongoing Civil Service Reforms in Nigeria;

3) Establishing a reliable database on total public debt management;
4) Managing and controlling Nigeria's public debt portfolio in line with international standards;
5) Establishing permanent capacity to lead Nigerian debt sustainability analyses, debt strategy, and debt relief negotiations;
6) Developing a good understanding of the needs of entities involved in issuance and holding of government debt instruments; and
7) Getting key DMO stakeholders to be well informed on the principles underlying sound debt management and DMO activities.

### A.1.5 ACHIEVEMENTS

The Project has continued to be guided by its goals and objectives in its intervention in the DMO. In addition, it has also integrated sustainability for the successes of the DMO post Project intervention. For instance, during the year under review, the Project supported the DMO in integrating and internalizing the Project Implementation Plan into its Departmental Plans and remits for the DMO. It continued to support the DMO in ascertaining the integrity of its debt database through the provision of support for the use of CS-DRMS and data validation. It also continued to provide support for staff development through targeted training and the sponsorship of study tours such as the one to South Africa on Domestic Debt Management and Market Development.

The Project is also assisting the DMO in conducting a study of the legal, regulatory and operational framework for sub-national debt management in Nigeria. It is worth noting that for its contribution to the DMO through the Project, Crown Agents, as the Project Managers, won the prestigious British Expertise Award for Large Consultancy Firm in 2006.

**PRESIDENT,**
FEDERAL REPUBLIC OF NIGERIA

PRES/221 May 24, 2006

The Director-General,
Debt Management Office,
NDIC Building,
Constitution Avenue,
Abuja.

OFFICE OF THE DIRECTOR GENERAL
DEBT MANAGEMENT OFFICE
MAY 2006

Dear DG,

**LETTER OF COMMENDATION – DEBT MANAGEMENT OFFICE**

I am writing to express my special appreciation to the Debt Management Office for its immense contribution towards the successful realisation of the landmark debt deal reached with Paris Club creditors recently.

I commend the tireless efforts, selfless service and outstanding commitment deployed by the management and staff in executing the organisation's mandate. In particular, I wish to place on record your remarkable achievements in establishing a credible external debt data base; improving transparency, efficiency and professionalism in debt management; as well as provision of vital technical support in negotiations with our creditors.

I encourage you to continue the excellent work. In particular, I expect that you would continue to deploy your efforts towards addressing the challenges posed by our domestic and London Club debt portfolio, with a view to securing a sustainable debt profile for our country and ensuring a better future for Nigerians.

The Debt Management Office has established itself as an exemplary government agency that is worthy of emulation by other public agencies. I urge you and your team to continue to serve as a beacon, particularly as we strive to create a new public service that will facilitate the attainment of this administration's vision of building a better Nigeria.

Yours sincerely,

**OLUSEGUN OBASANJO**

**Debt Management Office**
NDIC Builing (1st Floor)
Plot 447/448 Constitution Avenue
Central Business District, P.M.B. 523, Garki, Abuja.
Tel: 09-6725629, Fax: 09-5237396
web site: www.dmo.gov.ng, E-mail: corporateaffairs@dmo.gov.ng