DEBT MANAGEMENT OFFICE
NIGERIA

DMO

Annual Report

AND STATEMENT OF

ACCOUNTS 2008

DEBT MANAGEMENT OFFICE

NIGERIA

ANNUAL REPORT

AND STATEMENT OF ACCOUNTS

2008

Alhaji Umaru Musa Yar'adua, GCFR

President and Commander-in-Chief of the Armed Forces

Federal Republic of Nigeria

Dr. Goodluck E. Jonathan, GCON
Vice-President
Federal Republic of Nigeria

Dr. Shamsuddeen Usman, OFR
Hon. Minister of Finance

Mr. Aderemi W. Babalola
Hon. Minister of State for Finance

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Vice-President, Federal Republic of Nigeria
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Governor, Central Bank of Nigeria
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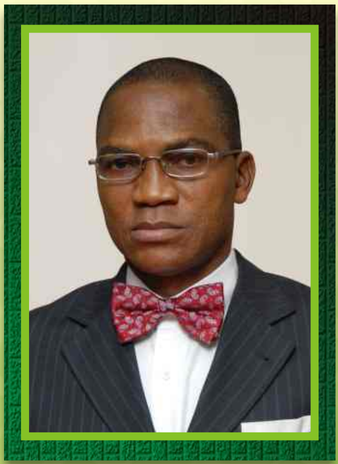
Alhaji Ibrahim H. Dankwambo, OON
Accountant-General of the Federation
MEMBER



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Director-General, DMO
MEMBER/SECRETARY

DMO MANAGEMENT TEAM

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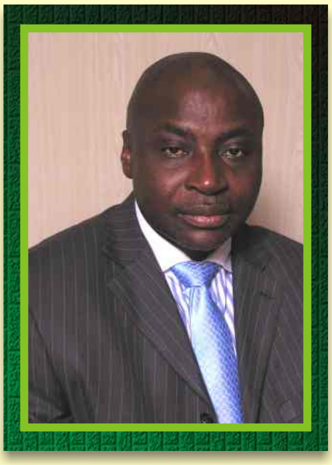
Director-General, DMO

Dr. Mahmoud Magaji
Director, Policy, Strategy and Risk Management Department

Mrs. Funmi Ilamah
Director, Debt Recording and Settlement Department



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Director, Portfolio Management Department

Ms. Patience Oniha
Director, Market Development Department

Mrs. Asma'u Mohammed
Head, Organisational Resourcing Department

Dr. Godson Dinneya
Head, Strategic Programmes Department

MANAGEMENT STAFF OF THE DEBT MANAGEMENT OFFICE

S/N	NAME	RANK	DEPARTMENT/UNIT
1	ABRAHAM NWANKWO (DR)	D-G	DG's OFFICE
2	MUHAMMAD YUSUFU (MR)	DIRECTOR	PORTFOLIO MANAGEMENT DEPARTMENT (PMD)
3	MAHMOUD B. MAGAJI (DR)	DIRECTOR	POLICY, STRATEGY & RISK MGT. DEPT . (PSRM)
4	FUNMI ILAMAH (MRS)	DIRECTOR	DEBT RECORDING & SETTLEMENT DEPT. (DRS)
5	PATIENCE ONIHA (MS)	DIRECTOR	MARKET DEVELOPMENT DEPARTMENT (MDD)
6	ASMA'U M. MOHAMMED (MRS)	HEAD	ORGANISATIONAL RESOURCING DEPT. (ORD)
7	GODSON DINNEYA (DR)	HEAD	STRATEGIC PROGRAMMES DEPARTMENT (SPD)
8	MIJI AMIDU (MR)	DEPUTY DIRECTOR	DIRECTOR-GENERAL'S OFFICE
9	SULEIMAN-ONUJA H. (MRS)	ASSISTANT DIRECTOR	TEAM LEADER, EXTERNAL DEBT & SPECIAL ACCTS (DRS)
10	MAHMOUD NASIR (MR)	ASSISTANT DIRECTOR	SPD
11	OHIANI J. A. M. (MR)	ASSISTANT DIRECTOR	DIRECTOR-GENERAL'S OFFICE
12	JOE UGOALA (MR)	ASSISTANT DIRECTOR	TEAM LEADER, POLICY & STRATEGY (PSRM)
13	NICHOLAS ELERI (DR)	ASSISTANT DIRECTOR	TEAM LEADER, LOANS & OTHER FINANCING PRODUCTS (PMD)
14	JANET O. JIYA (MRS)	ASSISTANT DIRECTOR	TEAM LEADER, MONITORING & COMPLIANCE (PSRM)
15	DANJUMA MAHMOUD (DR)	ASSISTANT DIRECTOR	PSRM
16	ATIKU S. DAMBATTA (MR)	ASSISTANT DIRECTOR	TEAM LEADER, SECURITIES ISSUANCE (PMD)
17	IBRAHIM NATAGWANDU (MR)	ASSISTANT DIRECTOR	TEAM LEADER, RISK MANAGEMENT (PSRM)
18	JOHNSON O. AMADI (MR)	ASSISTANT DIRECTOR	TEAM LEADER, AUDIT (DG'S OFFICE)

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GLOSSARY

ADB	**African Development Bank**
AfDF	African Development Fund
BDC	Bureau de Change
BOF	Budget Office of the Federation
BMSC	Bond Market Steering Committee
CBN	Central Bank of Nigeria
CIDA	Canadian International Development Agency
CPIA	Country Policy and Institutional Assessment
CPL	Currency Pool Loans
CSCS	Central Securities Clearing System
DAS	Dutch Auction System
DFI	Development Finance Institution
DFID	Department for International Development
DMDs	Debt Management Departments
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
DRI	Debt Relief International
EDF	European Development Fund
EFCC	Economic and Financial Crimes Commission
ERGP	Economic Reform and Governance Project
EIB	European Investment Bank
EU	European Union
EUR	Euro
FAAC	Federation Accounts Allocation Committee
FDI	Foreign Direct Investment
FEC	Federal Executive Council
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
FMF	Federal Ministry of Finance
FRA	Fiscal Responsibility Act
FRL	Fiscal Responsibility Law
FRN	Federal Republic of Nigeria
FSS	Financial System Strategy
FUA	African Development Fund Unit of Account
GBP	Great Britain Pound (Sterling)
GDP	Gross Domestic Product
GIFMIS	Government Integrated Financial and Management Information System
HIPC	Heavily 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
IFEMIS	Integrated Financial and Economic Management Information System
IMF	International Monetary Fund
IS	Information System
IT	Information Technology
IsBD	Islamic Development Bank
JPY	Japanese Yen
KRK	Korean Won
LAN	Local Area Network
LIBOR	London \inter-bank Offer Rate
LIC	Low Income Country
MDG	Millennium Development Goals
MPR	Monetary Policy Rate
MRR	Minimum Rediscount Rate
MTEF	Medium Term Expenditure Framework
NASS	National Assembly
NBS	National Bureau of Statistics
NCS	Nigerian Custom Service
NEEDS	National Economic Empowerment and Development Strategy
NEITI	Nigerian Extractive Industries Transparency Initiative
NGN	Nigerian Naira
NPC	National Planning Commission
NPV	Net Present Value
NSE	Nigerian Stock Exchange
NTBs	Nigerian Treasury Bills
OAGF	Office of the Accountant-General of the Federation
ORD	Organizational Resourcing Department
OTC	Over-The-Counter
PDMM	Primary Dealer Market Maker
PHCN	Power Holding Company of Nigeria
PPA	Public Procurement Act
PPP	Public Private Partnerships
PSI	Policy Support Instrument
RMAFC	Revenue Mobilization Allocation and Fiscal Commission
SDR	Special Drawing Rights
SEC	Securities and Exchange Commission
SND	Sub-national Debt

TBs	Treasury Bonds
TR	Tax Reform
UNCTAD	United Nations Conference on Trade and Development
US$	United States Dollar
USA	United States of America
UK	United Kingdom
WAIFEM	West African Institute for Financial and Economic Management
WDAS	Wholesale Dutch Auction System

VISION, MISSION AND CORE VALUES

Vision

To manage Nigeria's debt as an asset for growth, development and poverty reduction.

Mission

To rely on a well-motivated professional workforce and state-of-the-art technology, to be among the emerging markets' top ten Debt Management Offices, in terms of best practice and contributions to national development, by the year 2012.

Core Values

EXCITE: **Ex**cellence

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 realizing 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:

a. Administer the debt conversion programme of the Federal Government;

b. Perform the functions of the Minister with regard to the development fund rules; and,

c. Supervise the operation of the development fund under the Finance (Control and Management) Act 1958, as amended.

DIRECTOR-GENERAL'S STATEMENT

In line with our cherished tradition, I am very pleased to present to our esteemed stakeholders and the general public, the report of the activities and performance of the DMO for the year 2008. The year 2008 began with the implementation of DMO's second Strategic Plan (2008-2012), following the expiration of the first Strategic Plan (2002-2006).The new Plan was crafted in the second half of 2007 to enable the DMO build on the achievements of the previous years, while responding proactively and effectively to emerging realities. In this statement, I will in particular, attempt to shed light on the progress recorded on the various initiatives taken in the course of managing the nation's debt during the year and situate our performance within the context of the challenging environment both local and external in which our activities were carried out.

The year 2008 will go down in history, as a year of paradox. A year that started on a very promising note, but ended with a formidable challenge for the world economy. It was the year when crude oil price rose to an all-time high of US$147 per barrel, but came crashing to below US$45 per barrel by the end of the year. It was the year of a global financial meltdown resulting from the sub-prime mortgage crisis in the U.S. that claimed a number of top-rated financial institutions in the U.S. and Europe, and necessitated bail-outs in those economies. With the eventual collapse of some hitherto first-rate investment banks and many more likely to follow, it became apparent that what was initially perceived to be limited to the U.S. and the European economies was evolving into a colossal world economic recession the worst in several decades. This resulted in the crash of international commodity prices.

As a member of the global community, the Nigerian economy was not insulated from the shocks of the international financial market, and had its unfair share of the impact of the crises in the year under review, given that oil exports account for more than 90 percent of the country's foreign exchange receipts. Evidently, the country's external reserve balance which was US$62 billion in October started shrinking and had come down to US$52.8 billion by end-December, 2008. The impact of the crises also manifested in the trading statistics of the Nigerian capital market, following panic divestments by both foreign and local investors, at the peak of the global turmoil. The market capitalisation of the equities market, which recorded an all-time high of ₦12.1 trillion as at end-March, 2008, plummeted to as low as ₦6.21 trillion by mid December, 2008 before finally closing at ₦9.56 trillion on 31st December, 2008. Paradoxically, activities in the FGN Bond market were on the upbeat, apparently, in response to the various initiatives put in place by the DMO. The FGN Bond market turnover closed at ₦10.09 trillion as at 31st December, 2008, as against ₦4.1 trillion turnover recorded during the same period in 2007. In the same vein, the global economic meltdown also impacted adversely on the Nigerian currency, which depreciated by about 13 percent in value from ₦116 per dollar by the end of December, 2007, to ₦131.25 per dollar as at the end of December, 2008.

It is, therefore, no gainsaying the fact that the impact of the global economic crises on our economy would have been exacerbated, if Nigeria had not, in recent years, taken a number of measures, which include: the adoption of the oil price-based-fiscal rule since 2004, which enables it to discretionarily save part of the revenue when oil price rises above the budgeted benchmark price; the drastic reduction in ₦igeria's external debt stock from US$35,944.65 million as at the end of December, 2004 to US$3,720.36 million by the end of December, 2008; and, the rapid development of the domestic FGN bond market between 2003 and 2008, which has become a source of funding part of government's financing needs.

The year under review, no doubt, was quite challenging to managers of the economy, but presented a unique opportunity to us in Nigeria, to exercise our resourcefulness and our collective will to succeed. It is, therefore, my pleasure to highlight some of these activities and accomplishments during the period under review.

At this juncture, may I also reiterate that following the country's exit from both the Paris Club and London Club debts in 2006 and early 2007 respectively, the nation's total public debt has remained very sustainable, with the total Debt/GDP ratio of 11.48 percent in 2008 compared to the maximum threshold of 45 percent. It is also instructive to note that the current composition of the total public debt, with domestic debt comprising about 82 percent, has significantly cushioned any unanticipated impact of the global meltdown on the debt sustainability.

In line with the Federal Government's disposition to external borrowings, which should come mainly from the concessional windows, I am pleased to state that the over 77 percent of the nation's external debt portfolio are soft-loans, obtained from multilateral sources the World Bank, African Development Fund, International Fund for Agricultural Development and the European Development Fund. The total external debt portfolio as at 31st December, 2008 was US$3.72 billion, which has also remained very sustainable, at an

External Debt/GDP ratio of 2.0 percent. This ratio compares very favourably with the maximum threshold of 20 percent.

Consistent with our domestic debt management strategy and restructuring programme, the domestic debt stock as at 31st December, 2008, stood at ₦2.32 trillion, with the FGN Bonds constituting over 62 percent of the total domestic debt portfolio. This ratio, can be appreciated when viewed against the backdrop that prior to 2003, there were no FGN bonds issued in the domestic bond market and the portfolio was dominated by short-dated liabilities held mainly by the Central Bank of Nigeria.

Also, in line with the reform programme of the Government, efforts in strengthening market-based funding and deepening of the domestic debt market received a boost in 2008, with the DMO raising a total sum of ₦491.96 billion, from the domestic capital market, to fund the government's budget deficit and other financing needs. It is particularly heartwarming to highlight that the DMO successfully issued a 20-year instrument in November, 2008, which was over-subscribed by more than 135 percent. This feat was considered a major milestone, when viewed against the backdrop of unfavourable market sentiments arising mainly from the global financial crisis and at the time when the longest tenor was only 10 years. With this major breakthrough, the DMO has succeeded in progressively spreading the maturity of the nation's debt portfolio across a longer yield curve, thus, establishing a reference benchmark that would enable the private sector and sub-nationals access the domestic bond market, to raise medium and long-term funds for the development of infrastructure and the real sector of the economy.

Relatedly, activities in the secondary FGN bond market also continued on an impressive steady rise. From a nil position in early 2006, the market recorded a turnover of about ₦4.1 trillion in 2007 and more than doubled the performance in 2008 to over ₦10 trillion. It is important to appreciate the positive impacts of our continuous engagements and dialogue with market participants and relevant stakeholders in the FGN Bond market. We would strive to further strengthen and deepen such engagements and policy coordination with other key government agencies for a dynamic and productive partnership. To enhance and sustain market liquidity in the secondary FGN Bond market, we have also succeeded in entrenching the use of re-openings, as a market technique for building benchmark issues, thereby reducing the liquidity risk premia in the yields on the FGN Bonds. Going forward, we hope to explore other strategies as a means of consolidating the number of debt issues in the market, and creating standard securities with conventional maturities.

At the Sub-national level, the DMO recognizes that debt sustainability and fiscal discipline may be difficult to sustain for the economy if the States do not take a cue from the Federal Government. It is in the realization of this challenge, and following the development and adoption of the Template for the establishment of Debt Management Departments, that the DMO commenced the provision of assistance for the actual implementation of the Template in most of the States in the Federation. Recognizing the need for developing appropriate debt management skills and capacity at the States, the DMO has been actively involved with the provision of requisite training for States' officials. The DMO also registered and trained fifty six (56) Consultants, who would assist in building capacity in the States, and is closely collaborating with Donor Agencies in the provision of technical assistance to the States on this project. It is also noteworthy to note that within the period under review, all the thirty-six States in the Federation have benefited from the attachment programmes organized by the DMO.

In order to assess the risk and vulnerability of our debt portfolio, and ensure that the nation's debt is kept on a sustainable track, the DMO, in collaboration with the other relevant stakeholders, successfully conducted the annual Debt Sustainability Analysis (DSA), in June, 2008. The outcome of this exercise, revealed that, with concessional borrowings and the sustenance of the current reform initiatives by the Government, debt sustainability would be guaranteed, in the medium to long-term. In the same vein, the DMO secured the approval of the Federal Executive Council (FEC) in mid 2008, for the implementation of the National Debt Management Framework (NDMF), which sets out the policy guidelines for debt management in the country. Subsequent to this, the DMO produced the External and Sub-national borrowing guidelines for circulation to all stakeholders.

The DMO remains deeply mindful of the enormous responsibilities bestowed on it as an institution. The modest achievements recorded, was principally a result of the effectiveness of the mutual commitment, support and encouragement, received from all of its valued stakeholders who have demonstrated great understanding and appreciation of the challenges. In the years ahead, we intend to further expand and deepen such relationships and trust that stakeholders are even keener than ever to support us.

On behalf of the entire management and staff of the DMO, I wish to express our deep appreciation to His Excellency, Dr. Goodluck E.

Jonathan, GCON, Vice-President, Federal Republic of Nigeria and Chairman of the Supervisory Board and to all the distinguished members of the Board for the invaluable guidance and support so graciously availed to us. Indeed the inspiration we received from the Board accounts for the determination, commitment and achievements of the Office. Finally, I commend the management and staff of the Office for their commitment to contribute their best for the progress of our dear country.

Abraham Nwankwo
Director-General

Chapter One

ECONOMIC ENVIRONMENT

1.1 THE GLOBAL ENVIRONMENT

The global scene was an eventful one in the year 2008 both politically and economically. The global economy witnessed, for the first time in several years, a financial meltdown that began in early 2007 as an aftermath of the subprime mortgage lending crisis in the United States of America. It triggered spiral effects in many European and developing economies and has been an issue of serious concern for policy makers around the world. The effects of this crisis include: credit crunch, stock market crash, drastic crash in commodity prices and global recession, with accompanying layoffs and unemployment.

1.2 The Nigerian Economy

In line with Mr. President's Seven-Point Agenda and Vision 20:20:20, the sustenance of macro-economic stability was the core objective of most economic policies in 2008. This translated to fiscal and monetary policies of government focusing on ensuring that: the rate of inflation remains low at single digit; the exchange rate remains stable; and, the interest rates remain low and declining.

The economy, notwithstanding the global financial meltdown, continued its steady growth in 2008 buoyed by the strong performance of the non-oil sector. Overall, real GDP measured in 1990 basic prices, grew by 6.6 per cent in 2008 compared with 6.22 per cent in 2007. Growth in the non-oil, sector particularly agriculture, remained robust at an estimated 9 per cent. For the first time, Nigeria made a shipment of garments to the USA under the African Growth and Opportunity Act (AGOA).

The manufacturing sector continued to show poor performance owing to the late release of the 2008 budget, poor power supply, infrastructural decay which increased the cost of doing business, high lending rates, multiple taxation and levies and weak domestic demand coupled with the dumping of foreign products into the country.

The activities of militants in the Niger Delta continued to pose a threat to the growth of the oil sector. The oil sector's contribution to the GDP contracted in 2008 by about 2.5 percent due to reduced production levels as a result of the activities of militants.

For most part of the year, Nigeria benefited from high oil prices, resulting in significant improvement in its foreign exchange earnings and external reserve position. The volume of reserves which stood at US$51.33 billion in December 2007 rose to US$64.85 billion in August 2008 before closing at US$52.8 billion as at end-December 2008. However, oil prices plummeted from US$147/barrel in July 2008 to US$44.36/barrel by end-December 2008.

The year-on-year headline inflation exceeded the single-digit projections and peaked at 15.1 percent in December 2008, compared to 6.6 percent in the corresponding period of 2007. This was as a result of global food crisis arising from the use of agricultural products in the production of bio-fuels, following a hike in the price of crude oil in the international market.

In the banking and financial sector, the Central Bank of Nigeria applied a number of regulatory initiatives to sustain the gains of consolidation and soundness of the macro-economy. In influencing money supply, interest and inflation rates, the apex bank adjusted the Monetary Policy Rate (MPR) from 9.50 percent in December 2007 to 9.75 percent by end-September 2008. This rate was maintained up to the end of the year. It also adjusted the Liquidity Ratio (LR) from 40 percent to 30 percent and the Cash Reserve Ratio (CRR) from 4 percent to 2 percent, in the corresponding period.

The exchange rate of the Naira against the US dollar which stood at ₦116.00 as at end-December 2007 depreciated to ₦131.25 by end-December 2008. This was attributed to the surge in foreign exchange outflow due mainly to withdrawals of investments by foreign investors in the wake of the global financial crises.

In the Nigerian Capital Market, there was a mixed reign of 'the bear and the bull'. The Nigerian Stock Exchange (NSE) All-Share Index which closed at 57,990 points and ₦10.12 trillion market capitalization as at end-December 2007 increased to 63,147 points with market capitalization of ₦12.1 trillion as at end-March 2008. However, the market capitalization hit a record low of ₦6.21 trillion on December 16 2008 before finally closing at ₦9.56 trillion on 31st December 2008. This resulted in a loss to investors of about ₦3.2 trillion. Consequently, the value of shares acquired by foreign investors declined to ₦150.135 billion representing 6.3 percent of the aggregate turnover in 2008 as against ₦256 billion shares in 2007. Overall, the exchange's turnover ratio dropped from 28.21 percent in 2007 to 21.86 per cent in the year under review.

It may be noted that the Nigerian Capital Market crises started earlier (around April, 2008) before the impact of the global financial crises was transmitted to emerging economies following the financial crises that became manifest around August 2008. The local crises has been attributed mainly, according to local commentators, to the over speculation in the prices of shares which pushed them to unrealistic levels, as well as, to some regulatory lapses. The situation was of course exacerbated when the impact of the global financial crises was transmitted to emerging economies, including Nigeria.

Chapter Two

NIGERIA'S TOTAL PUBLIC DEBT

2.1 TOTAL PUBLIC DEBT OUTSTANDING

The total public debt outstanding (external and securitized domestic debt of the Federal Government) stood at US$21,398.91 million as at 31st December, 2008. This represents a decrease of US$830.97 million, or 3.74 percent compared to US$ 22,229.88 million as at December 31, 2007 (Table 2.1). As indicated below, the net effect of the US dollar appreciation against the naira on the domestic debt component culminated in the reduction of the total public debt stock, in dollar terms, from US$22,229.88 million in 2007 to US$21,398.91 million in 2008 or by 3.74 percent.

The external debt component of the total public debt outstanding increased marginally from US$3,654.21 million in 2007 to US$3,720.36 million in 2008 or by 1.81 percent, mainly as a result of additional disbursements on IDA, ADF and IFAD loans. On the other hand, although the domestic debt component expressed in naira terms increased (as shall be seen in Chapter Four), it declined from US$18,575.67 million in 2007 to US$17,678.55 million in 2008, or by 4.82 percent, in dollar terms as a result of the appreciation of the US dollar against the Nigerian naira in the period under review.

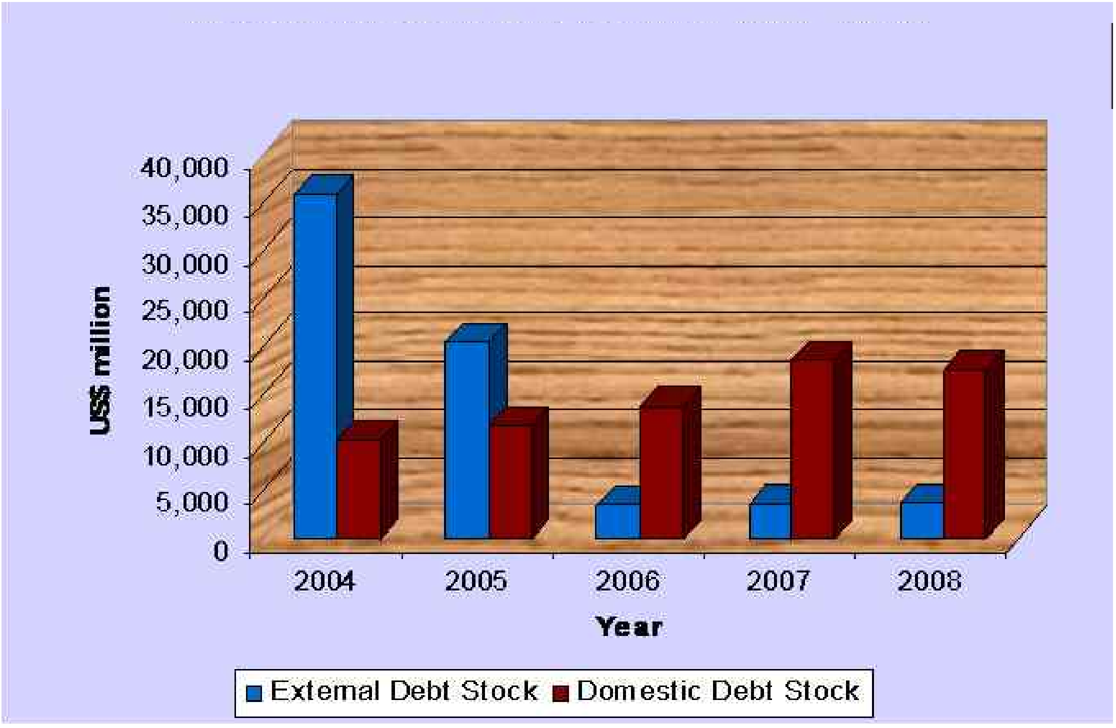
TABLE 2.1: TOTAL PUBLIC DEBT OUTSTANDING, 2004-2008 (US$ MILLION)

TYPE	2004	2005	2006	2007	2008[1]
External Debt Stock	35,944.66	20,477.97	3,544.49	3,654.21	3,720.36
Domestic Debt Stock	10,314.79	11,828.76	13,805.20	18,575.67	17,678.55
TOTAL	**46,259.45**	**32,306.73**	**17,349.69**	**22,229.88**	**21,398.91**
PERCENTAGE (%) SHARE					
TYPE	**2004**	**2005**	**2006**	**2007**	**2008**
External Debt Stock	77.7	63.39	20.43	16.44	17.39
Domestic Debt Stock	22.3	36.61	79.57	83.56	82.61
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

[1] Official CBN Exchange Rate of N131.25/US$1 as at 31/12/08

Figure 2.1 shows the trend of total public debt stock over the period 2004 to 2008. During the period 2004 to 2005, external debt made up the bulk of total public debt. However, the total public debt has exhibited a declining trend since 2005. This was mainly as a result of the country's exit from the Paris and London Clubs debts. The relative increase of US$66.15 million, or 1.81 percent, in external debt stock in 2008 over its share in 2007 was as mentioned earlier as a result of additional disbursements on IDA, ADF and IFAD loans.

FIGURE 2.1: TOTAL PUBLIC DEBT OUTSTANDING, 2004-2008 (US$ MILLION)



2.1.1 TOTAL PUBLIC DEBT BY ORIGINAL MATURITY

Total public debt by original maturity for the period 2004 to 2008 is displayed in Table 2.2 and Figure 2.2. The period under review shows all external debt as long-term i.e. longer than one year maturity. For the year 2008, the share of long-term external debt in the total public debt increased from 16.44 percent in 2007 to 23.44 percent in 2008. This increase was informed by the additional disbursements during 2008 fiscal year. However, the share of long-term domestic debt showed a slight decrease from 61.42 percent in 2007 to 60.99 percent in 2008.

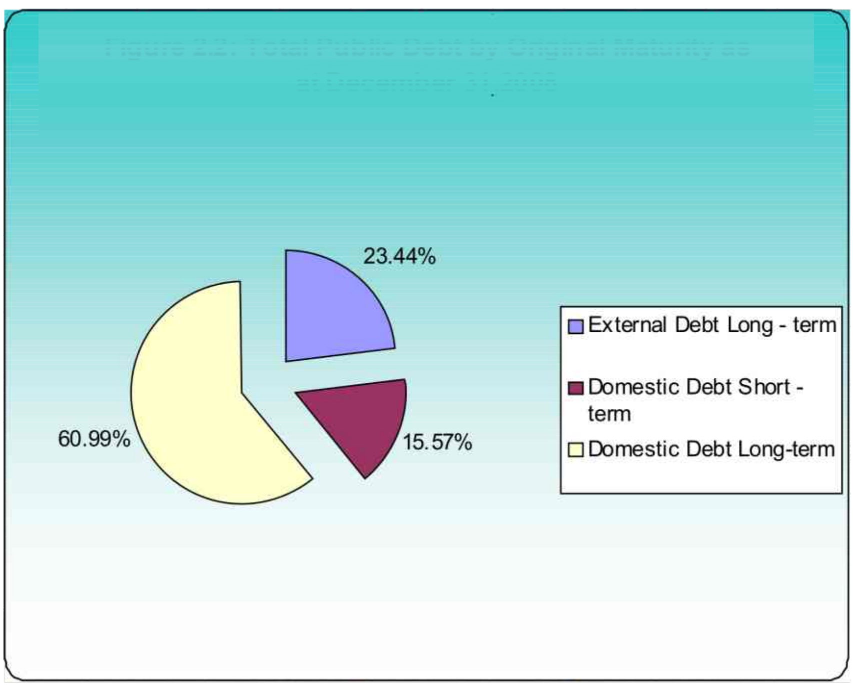
In the case of the short-term domestic debt, there was a significant decrease from 22.14 percent in 2007 to 15.57 percent in 2008 (Table 2.2). This reflects efforts of the government to lengthen the maturity profile of the domestic debt portfolio, coupled with the exchange rate effects.

TABLE 2.2: TOTAL PUBLIC DEBT OUTSTANDING BY ORIGINAL MATURITY 2004-2008 (US$ MILLION)

TYPE		2004	2005	2006	2007	2008[1]
External Debt Stock	Short-term[2]	0.00	0.00	0.00	0.00	0.00
	Long-term	35,944.66	20,477.97	3,544.49	3,654.21	3,720.36
	Sub-Total	***35,944.66***	***20,477.97***	***3,544.49***	***3,654.21***	***3,720.36***
Domestic Debt Stock	Short-term[3]	6,560.56	6,626.59	5,472.44	4,922.26	3,595.65
	Long-term	3,754.23	5,202.17	8,332.75	13,653.42	14,082.90
	Sub-Total	***10,314.79***	***11,828.76***	***13,805.19***	***18,575.68***	***17,678.55***
TOTAL		**46,259.45**	**32,306.73**	**17,349.69**	**22,229.89**	**21,398.91**
			PERCENTAGE (%) SHARE			
TYPE		**2004**	**2005**	**2006**	**2007**	**2008**
External Debt Stock	Short-term	0.00	0.00	0.00	0.00	0.00
	Long-term	77.70	63.39	20.43	16.44	17.39
	Sub-Total	***77.70***	***63.39***	***20.43***	***16.44***	***17.39***
Domestic Debt Stock	Short-term	14.18	20.51	31.54	22.14	16.80
	Long-term	8.12	16.10	48.03	61.42	65.81
	Sub-Total	***22.30***	***36.61***	***79.57***	***83.56***	***82.61***
TOTAL		**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

[1] Official CBN Exchange Rate of ₦131.25/US$1 for 2008 figures as at 31/12/2008
[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 Stocks

FIGURE 2.2: TOTAL PUBLIC DEBT BY ORIGINAL MATURITY AS AT DECEMBER 31 2008



2.2 TOTAL DEBT SERVICE PAYMENTS

Total debt service payments for the year 2008 amounted to US$ 4,055.30 million (Table 2.3). This showed an increase of US$870.35 million or 27.33 percent, compared to the 2007 figure of US$3,184.95 million. Of the total debt service, the sum of US$3,590.67 million or 88.54 percent constituted domestic debt principal repayments and interest payments, while US$464.63 million or 11.46 percent was for external debt service payments (Figure 2.3). Of the external debt service payments, 81.92 percent constituted payment to Multilateral creditors, while 8.98 percent was made in respect of Oil Warrants (Figure 2.4). The substantial decrease in the external debt service payments in 2008 was attributed to the redemption of the Promissory Notes in 2007. However, the overall increase in total public debt service was as a result of the increase in domestic debt stock, increase in the amount of domestic maturing debt redeemed (₦134.84 billion in 2008 compared to ₦67.25 billion in 2007), interest payments on new FGN bonds, as well as the exercise of the call option on the local contractors' debt amounting to ₦103.45 billion in 2008.

TABLE 2.3:TOTAL DEBT SERVICE PAYMENTS, 2004-2008 (US$ MILLION)

TYPE	2004	2005	2006	2007	2008[1]
External Debt Service	1,754.76	8,940.93	6,729.20	1,022.04	464.63
Domestic Debt Service	1,534.94	1,166.28	1,313.70	2,162.91	3,590.67
TOTAL	**3,289.71**	**10,107.21**	**8,042.90**	**3,184.95**	**4,055.30**
PERCENTAGE (%) SHARE					
TYPE	**2004**	**2005**	**2006**	**2007**	**2008**
External Debt Service	53.34	88.46	83.67	32.09	11.46
Domestic Debt Service	46.66	11.54	16.33	67.91	88.54
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

[1]Official CBN Exchange Rate of ₦131.25/US$1 for 2008 as at 31/12/08

FIGURE 2.3: TOTAL DEBT SERVICE PAYMENTS AS AT 31ST DECEMBER, 2008

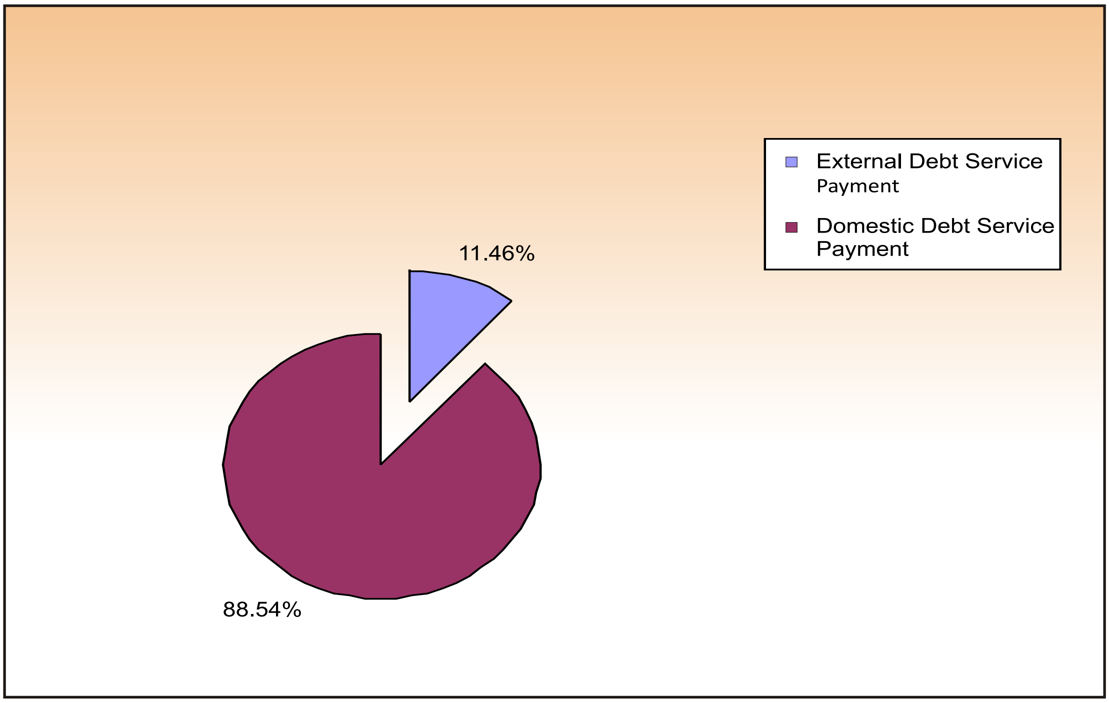
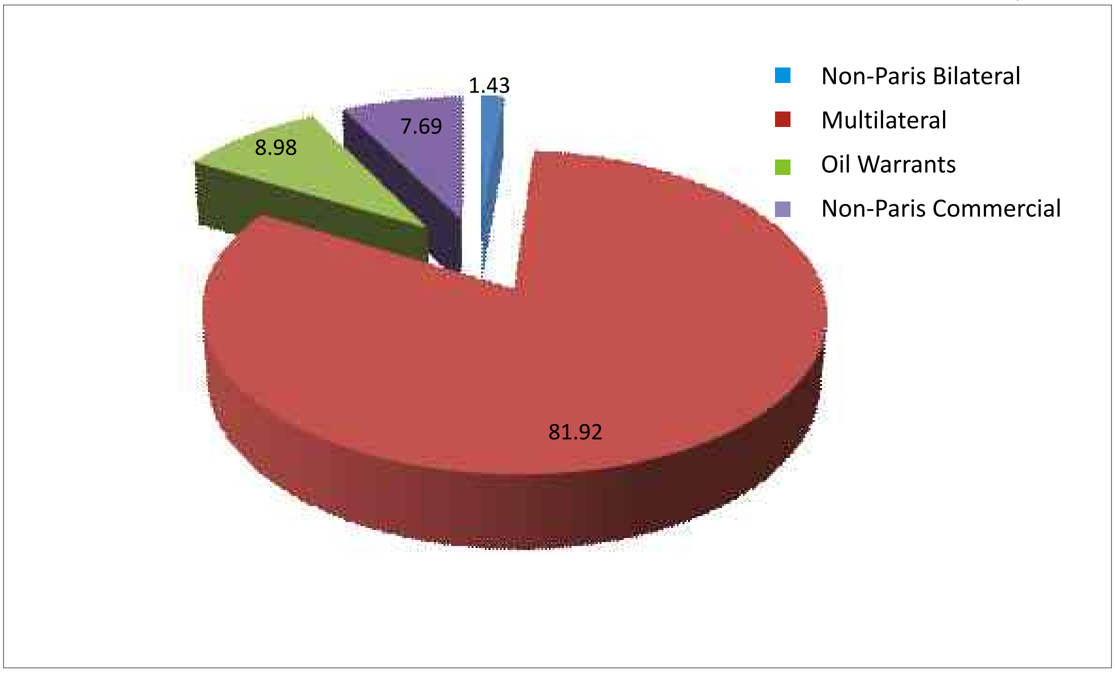


FIGURE 2.4:EXTERNAL DEBT SERVICE PAYMENTS AS AT 31ST DECEMBER, 2008



2.2.1 DISBURSEMENTS AND NEW ISSUES

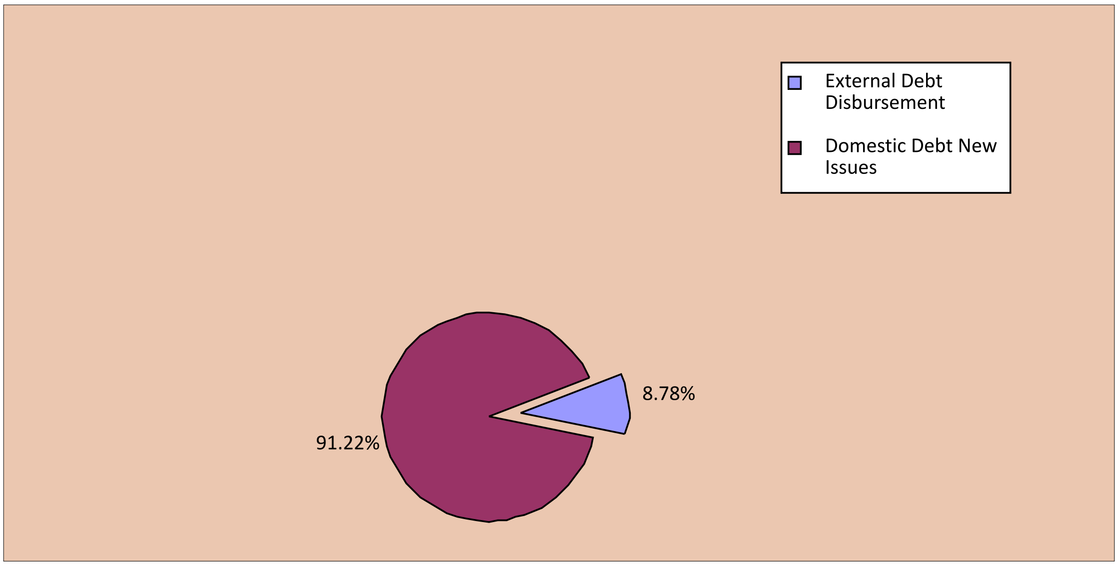
Total disbursements of external debt and new issues of domestic debt for 2008 amounted to US$4,109.10 million (Table 2.4). This shows a decrease of US$2,273.12 million, or 35.62 percent compared to the 2007 figures. Of the total disbursement in 2008, US$360.84 million, or 8.78 percent was from external creditors, while US$3,748.26 million or 91.22 percent was in respect of new issues of domestic debt. The new issues of domestic debt for the year 2008 amounted to US$3,748.26 million (Figure 2.5). These bonds were mainly issued for the purpose of financing the 2008 budget deficit, refinancing matured FGN Bonds obligations and restructuring of some NTBs.

TABLE 2.4: EXTERNAL DEBT DISBURSEMENTS AND DOMESTIC DEBT NEW ISSUES, 2004 -2008 (US$ MILLION)

TYPE	2004	2005	2006	2007	2008[1]
External Debt Disbursements	185.23	264.81	501.41	424.56	360.84
Domestic Debt Issues:					
FGN Bonds	0.00	1,381.97	3,534.14	5,168.63	3,748.26
NTBs	350.17	1,001.46	11,804.07	789.03	0.00
Sub-total	***350.17***	***2,383.43***	***5,338.21***	***5,957.66***	***3, 748.26***
TOTAL	**535.40**	**2,648.24**	**15,839.62**	**6,382.22**	**4,109.10**

[1] Official CBN Exchange Rate of ₦131.25/US$1for 2008 figures as at 31/12/08

FIGURE 2.5: TOTAL DISBURSEMENTS IN 2008



2.3 DEBT SUSTAINABILITY ANALYSIS

The National Debt Sustainability Analysis Workshop was conducted during June 4th to 15th, 2008 using the World Bank/IMF Debt Sustainability Framework for Low Income Countries (LIC). The workshop is conducted annually in order to assess the sustainability of Nigeria's debt position in the medium to long term (2008-2028). The sustainability ratios which were derived from the analysis, which in turn was based on four debt sustainability scenarios that are peculiar to the Nigerian economy were compared with the internationally accepted benchmarks for debt sustainability.

The four scenarios examined during the workshop were as follows:

- Baseline scenario
- Export/Oil Production Shock scenario
- Accelerated GDP Growth (Vision 2020) scenario
- Contingent Liability scenario

The result of the analysis revealed that in the "Baseline" Scenario, the ratios of NPV of total public Debt/GDP and Revenue remain low and sustainable over the period.

Table 2.5 shows the results obtained in the Baseline Scenario vis-a-vis the indicative thresholds. The ratio of NPV of total public Debt/GDP is below 10 percent over the period, against the threshold of 30 percent, the ratio of NPV of total public Debt/Revenue and Grants is under 40 percent during the same period against a threshold of 200 percent, while the ratio of total public Debt Service/Revenue is below 12 percent during the same period against a threshold of 25 percent (Table 2.5, and Figures 2.6, 2.7 and 2.8).

TABLE 2.5:TOTAL PUBLIC DEBT INDICATORS IN THE BASELINE SCENARIO (PERCENTAGE)

		Nigeria's Estimates			
Solvency/Liquidity Indicators	**Poor Performers Threshold**	**2008**	**2011**	**2018**	**2028**
NPV of Debt/GDP	30	9.5	6.9	6.4	8.7
NPV of Debt/Revenue	200	33.1	20.3	21.9	27.1
Debt Service/Revenue	25	11.1	7.2	3.2	0.2

Source: 2008 DSA Report

FIGURE 2.6 NPV OF TOTAL PUBLIC DEBT/GDP RATIO, 2008-2028

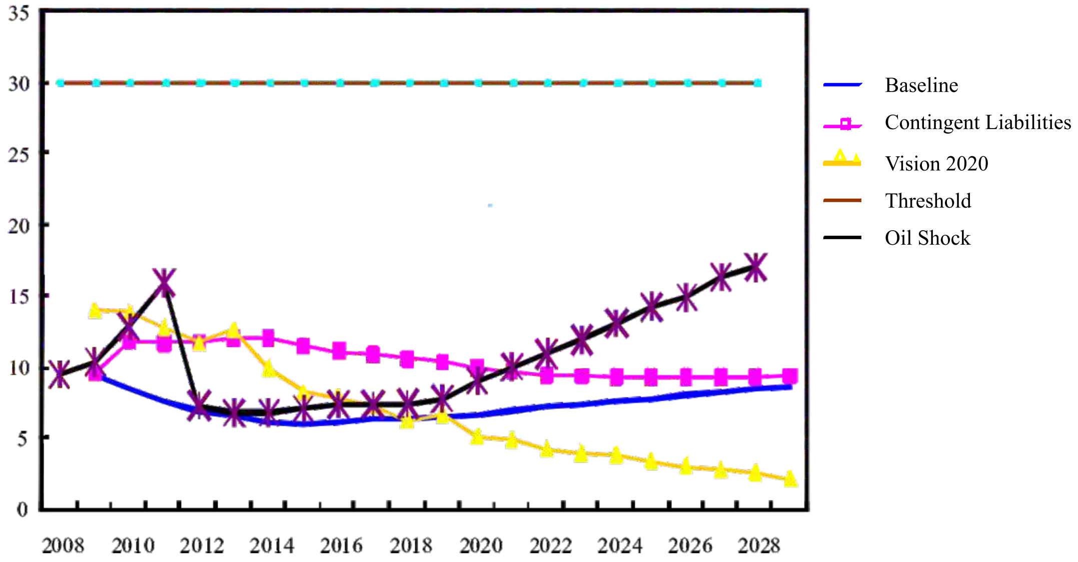


FIGURE 2.7: NPV OF TOTAL PUBLIC DEBT/REVENUE RATIO, 2008-2028

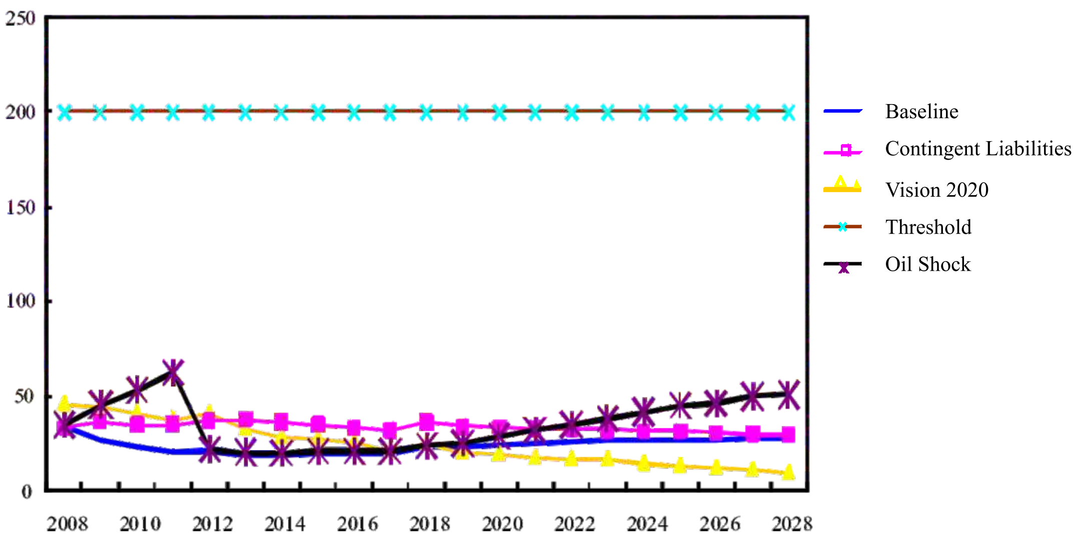
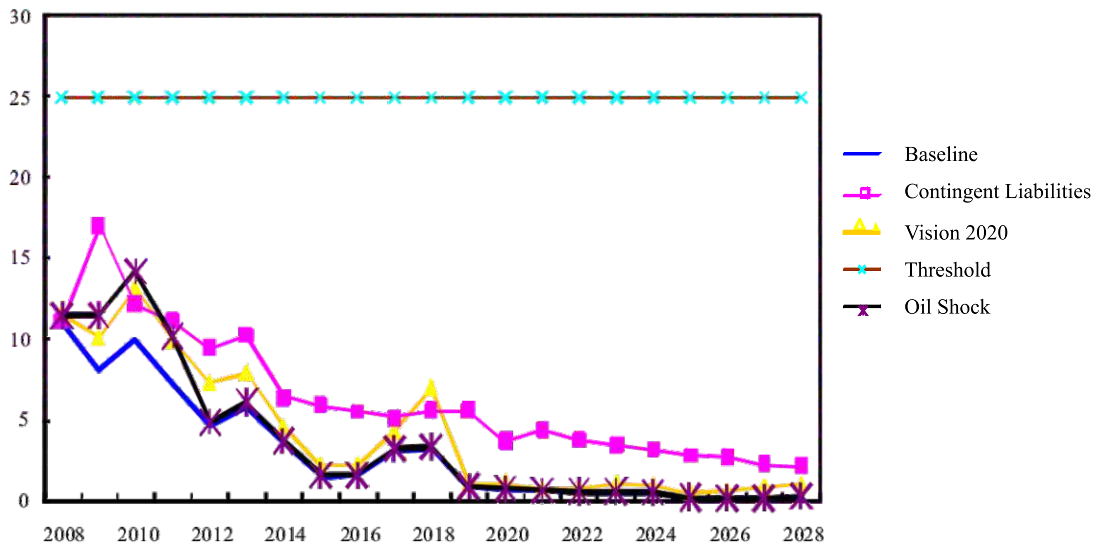


FIGURE 2.8: NPV OF TOTAL PUBLIC DEBT SERVICE/REVENUE RATIO, 2008-2028



The country-specific alternative scenarios (Table 2.6 and Figure 2.6, 2.7 and 2.8) also show a very sustainable picture.

TABLE 2.6: TOTAL PUBLIC DEBT INDICATORS IN THE ALTERNATIVE SCENARIO (PERCENTAGE)

	Alternative Scenario	2008	2011	2018	2028
NPV of Debt/GDP	Oil Production Shock	9.5	15.9	7.4	17.5
	Vision 2020	14	11.7	6.7	2.1
	Contingent Liability	9.5	11.7	10.4	9.3
	Threshold	30	30	30	30
NPV of Debt/Revenue	Oil Production Shock	34.2	61.7	23.1	50.2
	Vision 2020	45.4	37.1	24.6	9
	Contingent Liability	33.1	34.5	35.5	29.1
	Threshold	200	200	200	200
NPV of Debt Service/Revenue	Oil Production Shock	11.4	10.2	3.3	0.3
	Vision 2020	11.5	9.9	7	1
	Contingent Liability	11.1	11.1	5.5	2.1
	Threshold	25	25	25	25

In the oil production shock scenario, Nigeria's total public debt ratios remain sustainable throughout the projection period. All debt ratios are well below their threshold levels. The NPV of Debt/GDP ratio hovers around an average of 10.65 percent over the projected period. Also, average NPV of Debt/Revenues and the Debt Service/Revenues ratios over the projection periods are 34.28 percent and 2.63 percent, respectively. This is against the indicative thresholds of 30 percent, 200 percent and 25 percent, respectively.

In the "Accelerated Growth for the Achievement of Vision 2020 scenario, Nigeria's total public debt ratios remain sustainable over the projection period, although their values are higher than those of the baseline, particularly in the period 2008-2012. The annual average ratios of NPV of Debt/GDP and Debt/Revenue as well as Debt Service/Revenue are 6.98 percent, 24.49 percent, and 4.19 percent, respectively. This occurs as a result of the higher amount of borrowing that government must undertake in order to finance the growth levels outlined in the to-be-harmonized NEEDS-2 and 7-Point Agenda Macroeconomic Framework, focusing on infrastructure financing and on non-oil GDP growth.

The fiscal position is sustainable, but with the recognition of "Contingent Liabilities", the total public debt stock would increase, resulting in a rise in total current expenditure arising from interest payments. The debt ratios remain at sustainable levels throughout the projection period, although the annual average ratios over the projection period are higher compared to those in the other two scenarios. The annual average ratios of NPV of Debt/GDP and Debt/Revenue, as well as Debt Service/Revenue over the projection period remain at 10.3 percent, 33.1 percent and 6.3 percent, respectively as compared to the respective indicative thresholds of 30 percent, 200 percent and 25 percent.

In general, the above findings show that provided macroeconomic reforms are sustained, Nigeria should not face any liquidity or solvency problems for its total public debt in the medium and long term.

2.3.1 EXTERNAL DEBT SUSTAINABILITY

In the baseline scenario, the External Debt Stock/GDP ratio is projected to remain low and fairly stable over the period 2008-2028. The annual average ratio is projected at 2.5 percent for the period 2008-2011. However, the ratio progressively increased from 2.5 percent in 2011 to 6.5 percent in 2024 and, thereafter, declined to 5.5 percent in 2028 (Table 2.6).

This follows the fact that the country would not continue to borrow on concessional terms in the long term as commercial loans are likely to be contracted within the projection period. Further analysis shows that the Debt/GDP ratio would remain well below the 30 percent sustainability threshold. The other two ratios, namely External Debt Stock/Exports and External Debt Service/Exports are also well within their threshold levels, meaning that in spite of increase in the ratios of the country over time, the country would still have the capacity to borrow externally and could also service its debts as and when due provided that the underlying assumptions of all the four scenarios remain the same (Figure 2.9, 2.10 and 2.11).

TABLE 2.7: EXTERNAL DEBT INDICATORS IN THE BASELINE SCENARIO (PERCENTAGE)

Solvency/Liquidity Indicators	Poor Performers Threshold	2008	2011	2018	2024	2028
NPV of Debt/GDP	30	2.5	2.5	5.4	6.5	5.5
NPV ofDebt/Exports	100	7.0	7.6	21.1	29.3	26.6
Debt Service/Exports	15	1.2	0.8	0.4	0.2	0.1

However, the country-specific alternative scenarios (Table 2.8 and Figure 2.9, 2.10 and 2.11) illustrate a similar picture.

TABLE 2.8:EXTERNAL DEBT INDICATORS IN THE ALTERNATIVE SCENARIO (PERCENTAGE)

	Alternative Scenario	2008	2011	2018	2028
NPV of Debt/GDP	Oil Production Shock	4.5	4.3	6.9	4.9
	Vision 2020	5.3	6.7	4.9	1.8
	Threshold	**30**	**30**	**30**	**30**
NPV of Debt/Exports	Oil Production Shock	12.5	20.2	23.3	20.9
	Vision 2020	15.2	23	24.1	12.9
	Threshold	**100**	**100**	**100**	**100**
NPV of Debt Service/Exports					
	Oil Production Shock	1.8	1.9	1.2	0.3
	Vision 2020	1.2	0.8	0.4	0.1
	Threshold	**15**	**15**	**15**	**15**

In the "Oil Production Shock" scenario, Nigeria's external debt ratios remain sustainable throughout the projection period. The country is not likely to face any solvency or liquidity problems. The NPV of Debt/GDP steadily increases from 4.5 percent in 2008 to 6.9 percent in 2018 and decline to 4.9 percent in 2028. In addition the other solvency ratios, namely Debt/Exports and Debt/Revenue ratios are well below their respective thresholds. The liquidity indicators (Debt Service/Exports and Debt Service/Revenue ratios) also remain sustainable at their respective thresholds of 15.0 percent and 25.0 percent as presented in Figures 2.9, 2.10 and 2.11.

In the "Accelerated Growth for the Achievement of Vision 2020" scenario, Nigeria's external debt ratios remain sustainable throughout the projection period both for the solvency and liquidity criteria. However, the solvency ratios in the short to medium term trended towards unsustainability, reflecting increased borrowing for infrastructural investments. In the long term, as the capacity of the economy improves, allowing for enhanced absorption of more borrowing, the ratios tended to decline (higher sustainability) even better than the baseline ratios. The initial increase of the ratios reflects envisaged policy shift to take on more non-concessional loans to allow for the massive resource requirements under the scenario. If this scenario is compared with other country-specific tests constructed (Oil Production Shock and Contingent Liabilities) a more robust picture in terms of sustainability in the long term is presented.

However, the solvency indicators in the Accelerated GDP Growth for Vision 2020 Scenario are at least twice as high as that of the baseline, indicating that, as in the case of the Oil Production shock, Nigeria's capacity for debt sustainability is reduced by half.

The liquidity indicators are very low in this scenario indicating that the gaps, though wide, were effectively filled because there was access to non-concessional financing. This indicates that the objectives of Vision 2020 could be achieved even with higher non-concessional borrowing without undermining debt sustainability.

FIGURE 2.9: NPV OF EXTERNAL DEBT/GDP RATIO, 2008-2028

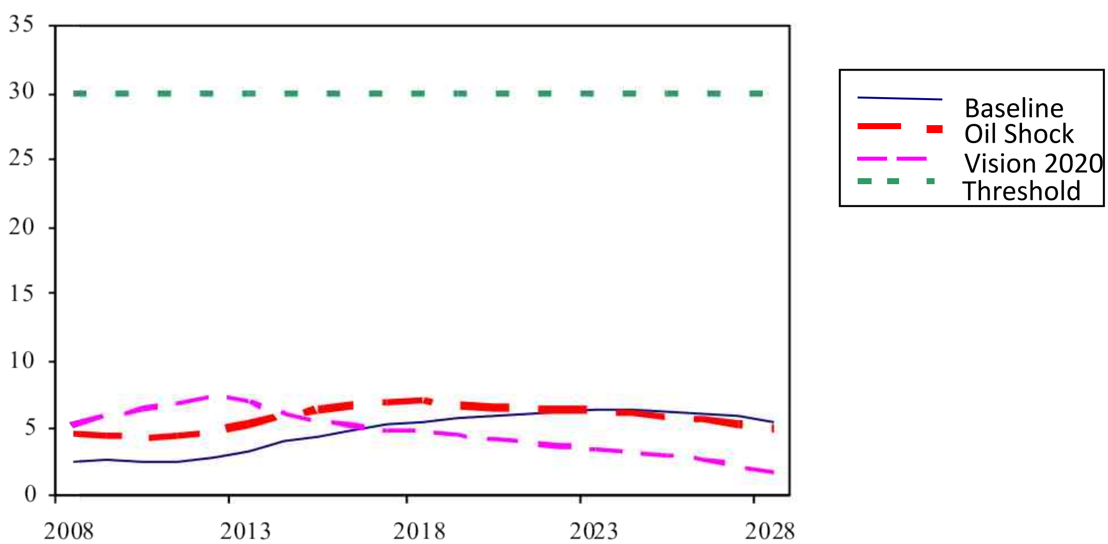


FIGURE 2.10: NPV OF EXTERNAL DEBT/EXPORT RATIO, 2008-2028

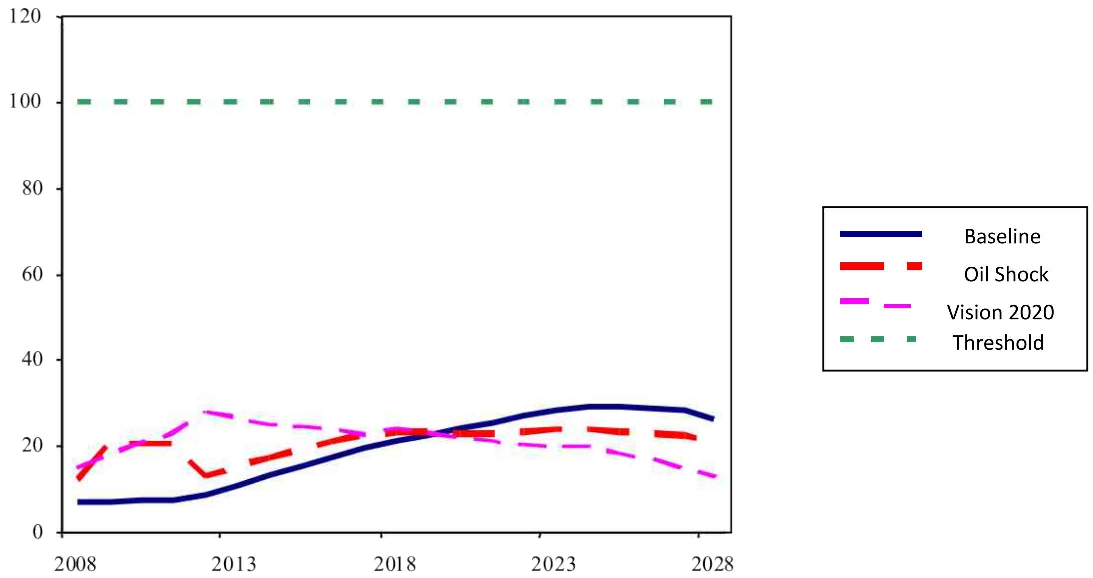
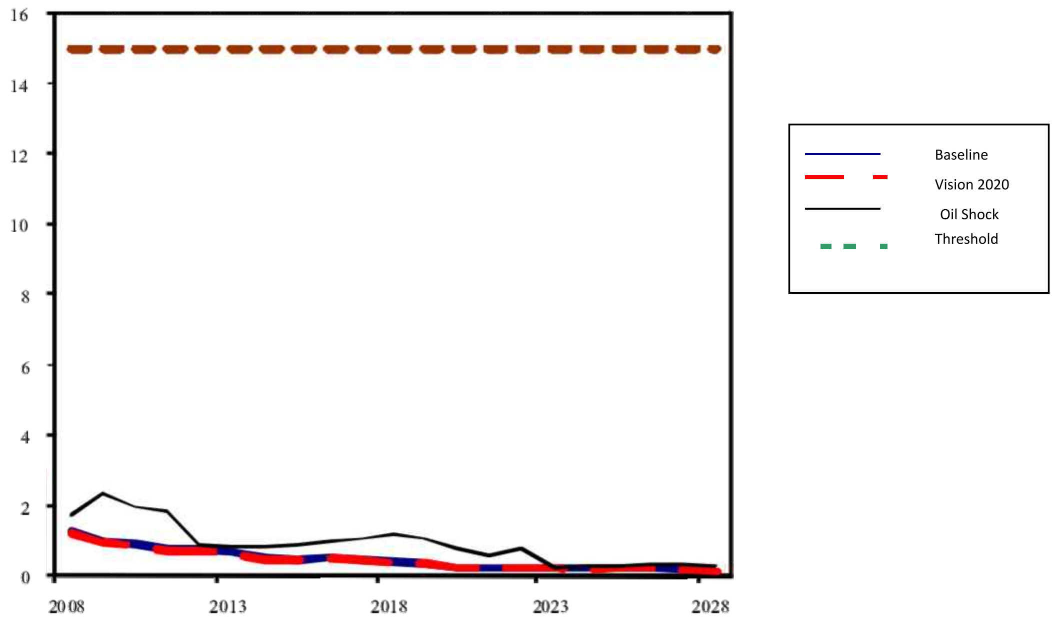


FIGURE 2.11: NPV OF EXTERNAL DEBT SERVICE/EXPORT RATIO, 2008-2028



Chapter Three

EXTERNAL DEBT ISSUES

3.1 EXTERNAL DEBT STOCK

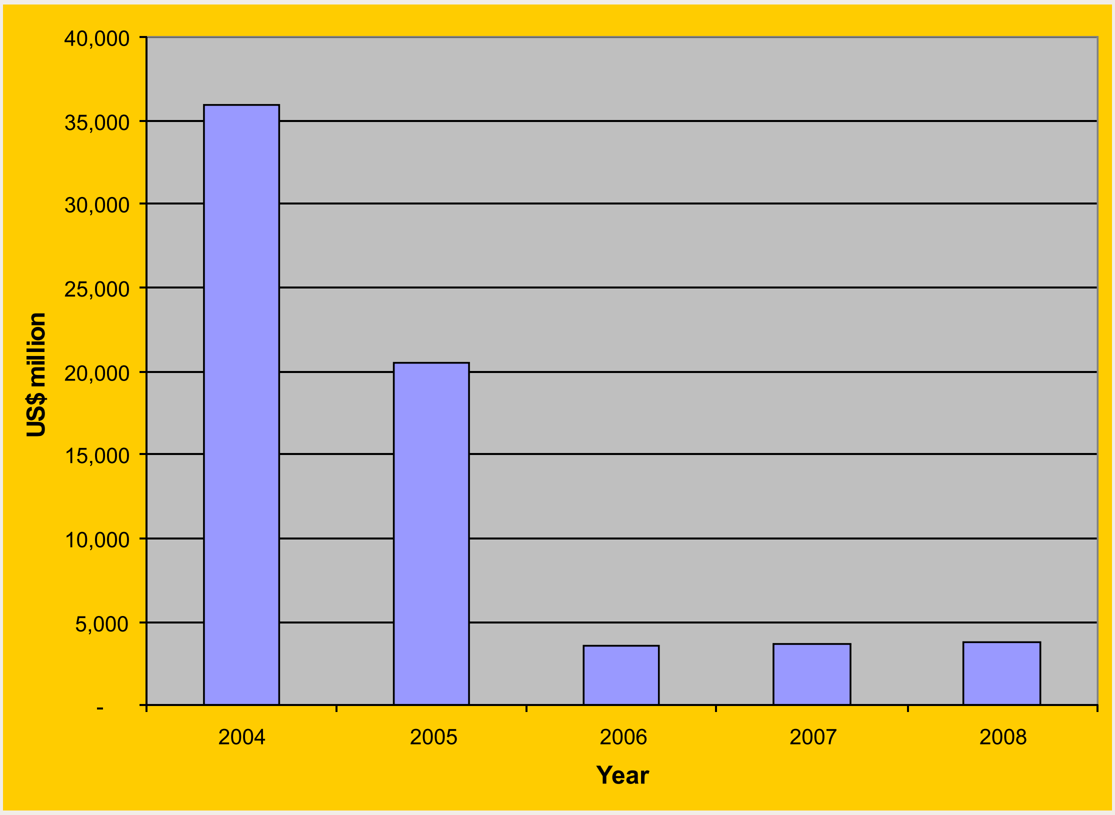
Nigeria's total external debt outstanding as at 31st December 2008 was US$3,720.36 million, as against US$3,654.21 million, in 2007 (Figure 3.1). This shows an increase of US$66.15 million, or 1.81 percent, which was as a result of additional disbursements in IDA, ADF and IFAD loans. Figure 3.1 displays the trend in Nigeria's external debt stock over the five-year period 2004 to 2008. The external debt stock decreased significantly between 2004 and 2006 due to the Paris Club debt exit deal signed in 2005 and finalized in April 2006, as well as, the exit from the London Club debt obligations in 2006 and 2007.

TABLE 3.1: EXTERNAL DEBT STOCK BY CREDITOR CATEGORY AS AT 31ST DECEMBER, 2008 (US$ MILLION)[1]

Creditor Category	Principal Balance 1	Principal Arrears 2	Interest Arrears 3	Total 4	Percentage 5
MULTILATERAL					
World Bank Group					
IBRD	229.73	0.00	0.00	229.73	
IDA	2,235.31	0.00	0.00	2,235.31	
IFAD	54.19	0.00	0.00	54.19	
African Dev. Bank Group					
ADB	260.75	0.00	0.00	260.75	
ADF	258.54	0.00	0.00	258.54	
EDF	134.35	0.00	0.00	134.35	
SUB-TOTAL	***3,172.87***	**-**	**-**	***3,172.87***	**85.28%**
NON - PARIS					
BILATERAL	182.42	0.000	0.000	182.42	
COMMERCIAL	365.07	0.00	0.00	365.07	
SUB TOTAL	**547.49**			**547.49**	**14.72%**
GRAND TOTAL	**3,720.36**	**0.00**	**0.00**	**3,720.36**	**100.00%**

[1] Official CBN exchange rate of US$ vis-à-vis other currencies as at 31/12/2008

FIGURE 3.1: EXTERNAL DEBT STOCK, 2004-2008 (US$ MILLION)



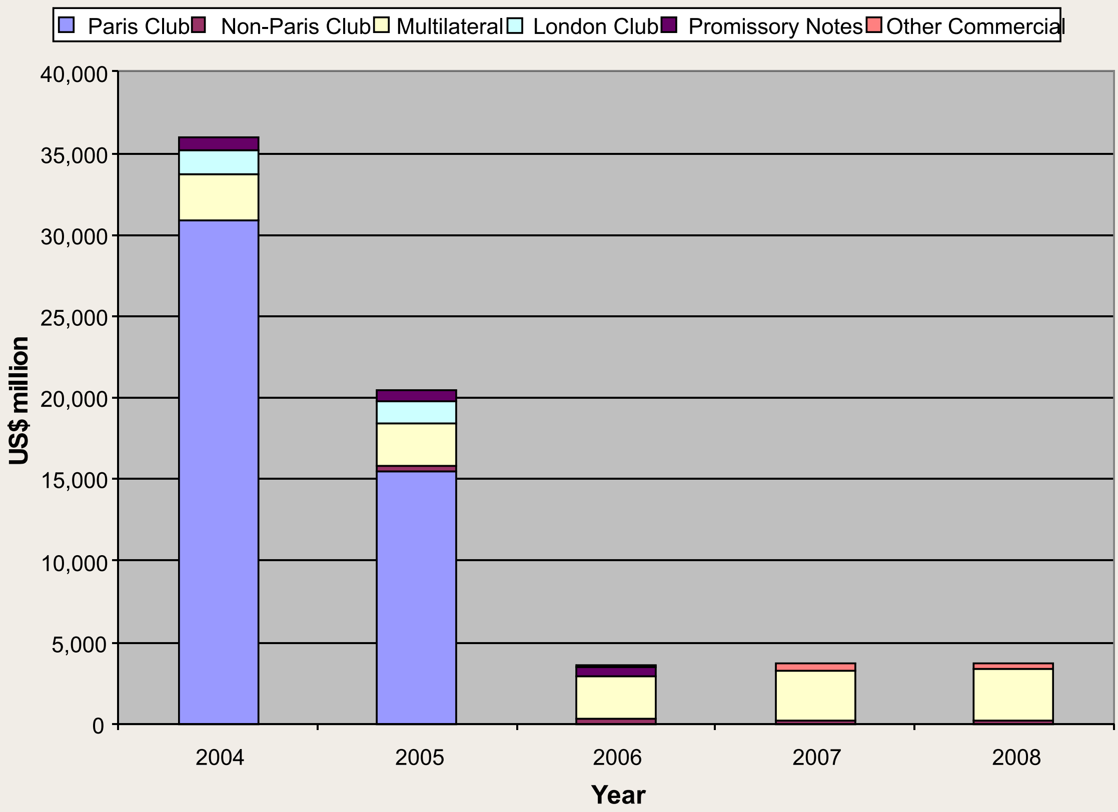
Multilateral debts continued to constitute the bulk of Nigeria's outstanding external debt portfolio in 2008. These are mainly concessional loans which amounted to US$3,172.87 million or 85.28 percent of the total external debt stock, while bilateral and private debts constitute the remaining 14.72 percent of the debt portfolio. In addition, the bilateral debt and the private debt owed to commercial creditors declined to US$182.42 million and US$365.07 million, respectively, when compared to 2007 figures due to principal repayments as there were no new disbursements on these categories of debts in 2008 (Table 3.2).

Table 3.2 and Figure 3.2 show at a glance Nigeria's external debt outstanding by creditor category over the period 2004 to 2008.

TABLE 3.2: EXTERNAL DEBT OUTSTANDING BY CREDITOR, 2004-2008 (US$ MILLION)

CREDITOR CATEGORY	*2004*	*2005*	*2006*	*2007*	*2008*
A. Official:					
1. Bilateral					
Paris Club	30,847.81	15,412.40	0.00	0.00	0.00
Non-Paris Club	47.50	461.79	326.08	184.90	182.42
2. Multilateral	2,824.32	2,512.19	2,608.30	3,080.91	3,172.87
Sub-Total	**33,719.63**	**18,386.38**	**3,035.48**	**3,265.81**	**3,355.29**
B. Private:					
1. London Club	1,441.79	1,441.79	0.00	0.00	0.00
2. Promissory Notes	783.23	649.8	509.01	0.00	0.00
3. Other Commercial	0.00	0.00	101.10	388.40	365.07
Sub-Total	**2,225.02**	**2,091.59**	**509.01**	**388.40**	**365.07**
Grand Total	**35,944.65**	**20,477.97**	**3,544.49**	**3,654.21**	**3,720.36**
PERCENTAGE SHARE					
A. Official:					
1. Bilateral					
Paris Club	85.82	75.26	0.00	0.00	0.00
Non-Paris Club	0.13	2.26	9.20	5.06	4.90
2. Multilateral	7.86	12.27	73.59	84.31	85.28
Sub-Total	**93.81**	**89.79**	**85.64**	**89.37**	**90.18**
B. Private:					
1. London Club	4.01	7.04	0.00	0.00	0.00
2. Promissory Notes	2.18	3.17	14.36	0.00	0.00
3. Other Commercials	0.00	0.00	2.85	10.63	9.82
Sub-Total	**6.19**	**10.21**	**14.36**	**10.63**	**9.82**
Grand Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

FIGURE 3.2: EXTERNAL DEBT OUTSTANDING BY CREDITOR, 2004 - 2008



3.2 EXTERNAL DEBT STOCK BY CREDITOR CATEGORY

3.2.1 OFFICIAL CREDITORS

3.2.1.1 MULTILATERAL

Multilateral debt outstanding as at 31st December 2008 amounted to US$3,172.87 million, or 85.28 percent of the total external debt stock (Table 3.1). Of this amount, US$2,682.39 million or 84.54 percent was owed to concessional multilateral creditors and US$490.48 million or 15.46 percent was owed to non-concessional multilateral creditors. The concessional creditors were International Development Association (IDA) with US$2,235.31 million; International Fund for Agricultural Development (IFAD) with US$54.19 million; African Development Fund (ADF) with US$258.54 million; and, European Development Fund (EDF) with US$134.35 million. The Non-concessional creditors consisted of International Bank for Reconstruction and Development (IBRD) with US$229.73 million and African Development Bank (ADB) with US$260.75 million.

In 2008, total multilateral debt increased by US$91.96 million, or by 2.98 percent, compared to the value as at 31st December 2007, mainly due to additional disbursements.

3.2.1.2 NON-PARIS CLUB BILATERAL DEBT

The Non-Paris Club Bilateral Debt in 2007 comprised the Exim Bank of Korea and the Chinese Nigeria-Communication Satellite (NIGCOMSAT) loans. These loans are concessional bilateral debts. The reduction in the stock of the Non-Paris Club bilateral debt from US$184.90 million in 2007 to US$182.42 million in 2008 (Table 3.2) was as a result of principal repayments.

3.2.2 PRIVATE CREDITORS

3.2.2.1 *COMMERCIAL DEBT*

Commercial Debts comprise non-concessional loans that were obtained from commercial windows. These private sector loans were guaranteed by the China Exim Bank. The loans were; Chinese Rural Telephony (Alcatel), Chinese Rural Telephony (ZTE), Chinese Construction of 335 MWTS of Gas Plant at Omotosho and Papalanto and the SBI Holdings Ife-Ilesha road loan.

3.3 CURRENCY COMPOSITION OF EXTERNAL DEBT

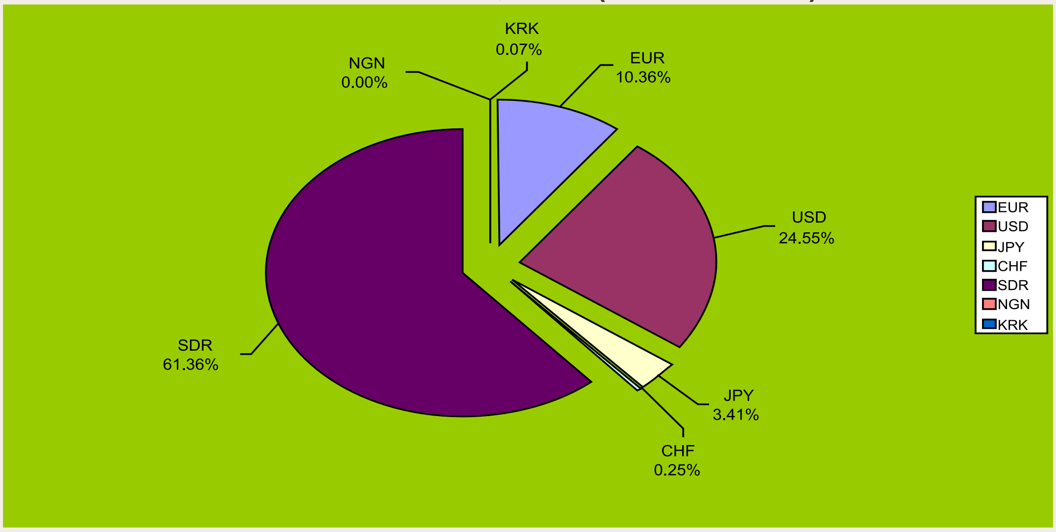
Table 3.3 and Figure 3.3 illustrate the currency composition of the external debt stock as at 31st December, 2008. Special Drawing Rights (SDRs) have the largest share in the portfolio, constituting 61.35 percent of the external debt stock. This is followed by the US Dollar with 24.55 percent of the total, the Euro with 10.36 percent, and other currencies (Japanese Yen, Swiss Franc, Nigerian Naira and Korean Won) accounting for the balance of 3.74 percent. The dominance of SDR in the currency composition reduces the exchange rate vulnerability of the debt portfolio, as only 38.65 percent of the portfolio is held in other currencies.

TABLE 3.3: EXTERNAL DEBT BY CURRENCY COMPOSITION AS AT 31ST DECEMBER, 2008 (US$ MILLION)

S/No	Currency	Debt Stock	Naira Exch Rate	Debt Stock in Naira	US$ Exch Rate to the Naira	USD EQUIV.	Percentage of Total
1	EUR	275,698,902.00	183.51	50,594,553,014.00	131.25	385,482,308.68	10.36%
2	USD	913,458,552.18	131.25	119,891,434,973.00	131.25	913,458,552.18	24.55%
3	JPY	11,491,116.00	1,450.60	16,669,012,797.00	131.25	127,002,002.26	3.41%
4	CHF	10,050,265.00	123.40	1,240,219,759.00	131.25	9,449,293.40	0.25%
5	SDR	1,481,838,176.00	202.15	299,555,190,805.00	131.25	2,282,325,263.28	61.35%
6	NGN*	14,852,608.00	1.00	14,852,608.00	131.25	113,162.73	0.003%
7	KRK	3,174,365.00	104.60	332,038,544.00	131.25	2,529,817.48	0.068%
TOTAL						3,720,360,400.00	100%

Source: Official CBN Exchange Rate as at 31st December, 2008

FIGURE 3.3: EXTERNAL DEBT STOCK BY CURRENCY COMPOSITION AS AT 31ST DECEMBER, 2008 (US$ MILLION).



3.3.2 EXTERNAL DEBT BY ORIGINAL MATURITY

All external loans contracted shows maturities longer than one year and, therefore, were classified as long-term (Table 3.4).

TABLE 3.4: TOTAL PUBLIC DEBT OUTSTANDING BY ORIGINAL MATURITY, 2004-2008 (US$ MILLION)

TYPE		2004	2005	2006	2007	2008[1]
External Debt Stock	Short-term[2]	0.00	0.00	0.00	0.00	0.00
	Long-term	35,944.66	20,477.97	3,544.49	3,654.21	3,720.36
	Total	**35,944.65**	**20,477.97**	**3,544.49**	**3,654.21**	**3,720.36**

[1] Official CBN Exchange Rate of N131.25/US$1 for 2008 figures as at 31/12/2008
\2 Short-term external debt is debt with less than 1 year original maturity

3.4 EXTERNAL DEBT FLOWS

3.4.1 DEBT SERVICE PAYMENTS

Total external debt service payments for the year 2008 was US$464.63 million, compared to US$1,022.04 million in 2007, reflecting a decrease of US$557.41 million, or 54.53 percent. This substantial decrease was due to the fact that large payments were made on the Promissory Notes and Par Bonds in 2007 and these were no longer applicable in 2008.

Table 3.5 and Figure 3.4 show that the largest debt service payment of US$380.63 million, or 81.92 percent, was made to the Multilateral creditors. The second largest payment amounting to US$41.72 million, or 8.98 percent, was made in respect of Oil Warrants, as Nigeria will continue to service the Oil Warrants till they are finally retired in 2020. Payments to Non-Paris Club Commercial creditors, which had been increasing since 2007 due to new commercial commitments, amounted to US$35.63 million, or 7.67 percent of the total, while US$6.63 million, or 1.43 percent, was paid to Non-Paris Club Bilateral creditors. A further breakdown of external debt service in 2008 (Table 3.5) revealed that IBRD and ADB were the largest debt service recipients in 2008.

TABLE 3.5: EXTERNAL DEBT SERVICE PAYMENTS, 2004-2008 (US$ MILLION)

CREDITOR CATEGORY	2004	2005	2006	2007	2008
A. Official:					
1. Bilateral:					
Paris Club	994.45	8,070.79	4,519.87	0.00	0.00
Non-Paris Club	11.65	11.39	25.56	27.48	6.63
2. Multilateral	487.28	471.67	426.62	392.77	380.63
Sub-Total	1,493.38	8,553.85	4,972.05	420.25	387.26
B. Private:					
1. London Club (oil warrants)[1]	90.15	169.86	1,584.58	102.59	41.72
2. Promissory Notes	171.23	213.55	170.84	476.6	0
3. Others (including Non-Paris Commercial)	0.00	3.67	1.60	22.60	35.65
Sub-Total	261.38	387.08	1,757.14	601.79	77.37
Grand Total	1,754.76	8,940.93	6,729.20	1,022.04	464.63

[1]The 2008 payments made to London Club debt were in respect of Oil Warrants **only**, as there has been no London Club stock since the end of 2007.

FIGURE 3.4: EXTERNAL DEBT SERVICE PAYMENTS, 2004-2008 (US$ MILLION)

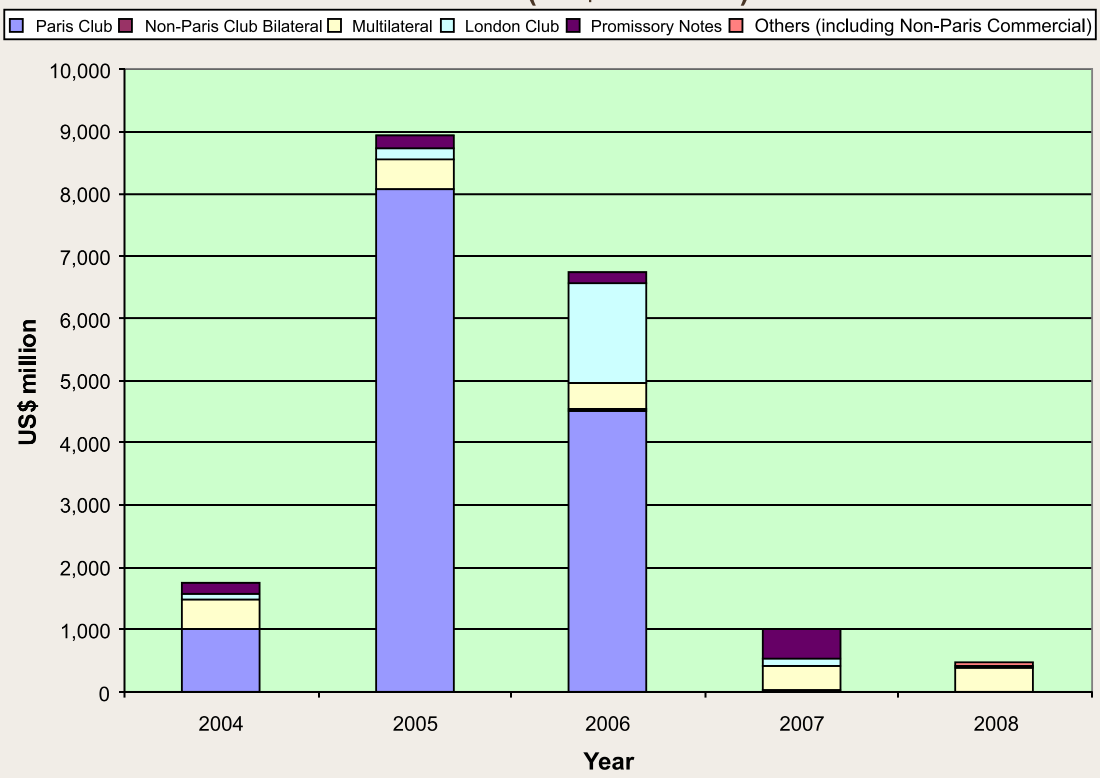
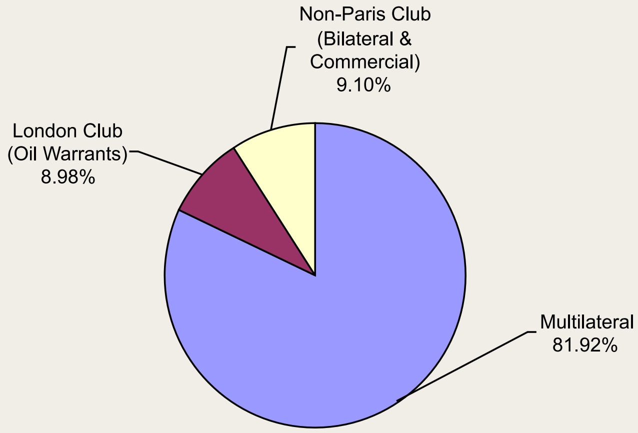


TABLE 3.6: EXTERNAL DEBT SERVICE PAYMENTS BY CREDITOR CATEGORY, (JAN. DEC. 2008) IN US$ MILLION

CATEGORY	PRINCIPAL	INTEREST/ SERVICE FEE	Deferred Principal	Deferred Interest	LATE INT	WAIVER	COMMTT. CHARGES	OTHER CHARGES	TOTAL
MULTILATERAL	**318.41**	**59.90**	**0.83**	**0.99**	**0.14**	**(2.34)**	**2.60**	**0.09**	**380.63**
I.B.R.D.	188.88	16.55	0.82	0.34	0.05	(2.28)	0.00	0.00	204.36
A.D.B	101.31	25.40	0.00	0.00	0.09	0.00	0.00	0.06	126.86
IFAD	1.30	0.54	0.00	0.00	0.00	0.00	0.00	0.00	1.85
EIB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ECOWAS FUND	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ADF	1.84	1.78	0.00	0.00	0.00	0.00	0.98	0.00	4.60
IDA	20.44	14.48	0.01	0.65	0.00	(0.06)	1.62	0.03	37.17
EDF	4.64	1.15	0.00	0.00	0.00	0.00	0.00	0.00	5.79
LONDON CLUB	**41.72**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**41.72**
Oil Warrant	41.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	41.72
NON PARIS BILATERAL	**1.06**	**5.57**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**6.63**
NIGCOMSAT(EXIM CHINA)	0.00	5.44	0.00	0.00	0.00	0.00	0.00	0.00	5.44
EXIM BANK OF KOREA	1.06	0.13	0.00	0.00	0.00	0.00	0.00	0.00	1.19
NON PARIS COMMERCIAL	**24.50**	**11.13**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**35.63**
ARCATEL (National Transmission)	11.08	2.04	0.00	0.00	0.00	0.00	0.00	0.00	13.12
SBI HOLDINGS	7.54	1.04	0.00	0.00	0.00	0.00	0.00	0.00	8.58
ZTE	5.88	8.05	0.00	0.00	0.00	0.00	0.00	0.00	13.93
OTHERS	**0.02**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.02**
Professional Agency Fees for 2008	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	**385.71**	**76.60**	**0.83**	**0.99**	**0.14**	**(2.34)**	**2.60**	**0.09**	**464.63**

* The figure in parenthesis indicates waiver (gains) in favour of FG

FIGURE 3.5: EXTERNAL DEBT SERVICE PAYMENTS BY CREDITOR CATEGORY, (JAN. DEC. 2008) IN PERCENTAGE



3.5 WAIVERS

Nigeria obtained waivers amounting to US$2.28 million in 2008 from IBRD and US$0.06 million from IDA, bringing the total waivers received during the year to US$2.34 million. This was as a result of the diligence of the Nigerian Government in its timely debt service payments in contrast to situations in the 1980s and 1990s when penalties were incurred for late payments.

3.6 EXTERNAL DEBT SERVICE PROJECTIONS (10-YEAR PROJECTIONS)

Table 3.7 shows external debt service projections over a 10-year period. The table shows that a total debt service payment of $2,714.55 million would be made over a 10-year period. The table also reveals that the debt service payment would be decreasing progressively up to 2012, after which it will fluctuate up to 2018. This would be as a result of loans that would fall due after the grace period.

Also, the progressive decline in debt service payments will be as a result of Government's policy of placing more emphasis on domestic as against external borrowing.

TABLE 3.7: EXTERNAL DEBT SERVICE PROJECTIONS, 2009-2018 (US$ '000)

S/N	Category of Debt	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
1	Multilateral											
	Principal	230,185.01	162,158.40	121,705.60	90,395.80	120,506.20	105,225.90	106,199.80	118,182.80	129,497.00	132,029.90	
	Interest	52,527.08	36,463.20	30,732.40	26,757.10	25,248.20	23,747.80	23,309.60	22,900.80	22,624.90	22,222.60	
	Sub Total	**282,712.089**	**198,621.600**	**152,438.000**	**117,152.900**	**145,754.400**	**128,973.700**	**129,509.400**	**141,083.600**	**152,121.900**	**154,252.500**	
2	Non-Paris Club Creditors											
	Principal	124,865.05	103,962.70	100,192.50	100,192.70	94,070.70	31,750.30					
	Interest	22,143.84	16,706.20	12,469.40	8,238.10	3,608.60	609.30					
	Sub Total	**147,008.89**	**120,668.90**	**112,661.90**	**108,430.80**	**97,679.30**	**32,359.60**					
3	Oil Warrants	48,300.00	48,300.00	48,300.00	48,300.00	48,300.00	48,300.00	48,300.00	48,300.00	48,300.00	48,300.00	
4	Financial Advisory Services/Agency Fees	1,012.00	1,012.00	1,012.00	1,012.00	1,012.00	1,012.00	1,012.00	1,012.00	1,012.00	1,012.00	
	Sub Total	**49,312.00**	**49,312.00**	**49,312.00**	**49,312.00**	**49,312.00**	**49,312.00**	**49,312.00**	**49,312.00**	**49,312.00**	**49,312.00**	
	Total Principal (1+2)	**355,050.056**	**266,121.100**	**221,898.100**	**190,588.500**	**214,576.900**	**136,976.200**	**106,199.800**	**118,182.800**	**129,497.000**	**132,029.900**	
	Total Interest (1+2)	**74,670.923**	**53,169.400**	**43,201.800**	**34,995.200**	**28,856.800**	**24,357.100**	**23,309.600**	**22,900.800**	**22,624.900**	**22,222.600**	
	Others (3+4)	**49,312.000**	**49,312.000**	**49,312.000**	**49,312.000**	**49,312.000**	**49,312.000**	**49,312.000**	**49,312.000**	**49,312.000**	**49,312.000**	
	Grand Total	**479,032.98**	**368,602.50**	**314,411.90**	**274,895.70**	**292,745.70**	**210,645.30**	**178,821.40**	**190,395.60**	**201,433.90**	**203,564.50**	2,714,549.479

Assumptions: - Future disbursements will continue as scheduled.
- New commitments on new loans mainly from concessional sources are expected.

- Allowance of 15% increase was made to accommodate servicing of new loans, penalties as well as

3.7: EXTERNAL DEBT DISBURSEMENTS

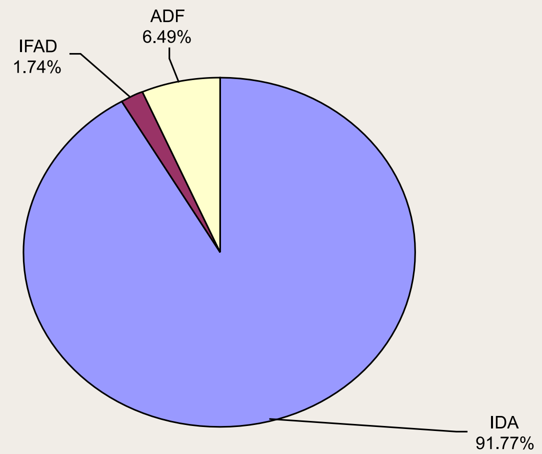
Table 3.8 shows disbursements of external debt by creditor for the period 2004 to 2008. External disbursements (excluding grants) totalled US$360.84 million for 2008, a decrease of US$63.71 million or 15.01 percent, from the level in 2007. The variance was largely due to the decrease in disbursements from Bilateral Creditors and the full disbursement of Private credits in 2007. Table 3.8 also depicts that IDA still maintains its position as the largest provider of new credit to Nigeria.

TABLE 3.8: DISBURSEMENTS[1] BY CREDITOR CATEGORY, 2004-2008 (US$ MILLION)

	2004	*2005*	*2006*	*2007*	*2008*
Official:					
Multilateral:					
IDA	*156.19*	*244.95*	*337.36*	*330.68*	331.13
IFAD	*2.43*	*2.46*	*5.20*	*6.52*	6.28
ADB	*26.26*	*10.42*	*5.53*	*2.34*	0.00
ADF	*0.35*	*6.98*	*10.11*	*47.08*	23.43
Sub-Total	**185.23**	**264.81**	**358.20**	**386.62**	**360.84**
Bilateral	0.00	0.00	119.77	37.94	0.00
Private	0.00	0.00	23.44	0.00	0.00
TOTAL	**185.23**	**264.81**	**501.41**	**424.55**	**360.84**

[1]**Disbursements exclude grants**

FIGURE 3.6: DISBURSEMENTS BY CREDITOR CATEGORY FOR 2008 (US$ MILLION) IN PERCENTAGE



From figure 3.6, it could be seen that most new disbursements by Nigeria were obtained from International Development Association (IDA), which is a concessional window.

3.8: NET RESOURCE INFLOWS ON EXTERNAL DEBT

Table 3.9 shows both the net resource inflow on external debt and net outflows by creditor type in 2008. The sum of US$24.87 million was recorded as an outflow under the net resource flow and reflects declining disbursements. In addition, the net transfers showed a negative sign of US$103.79 million signifying an overall net outflow of resources from the country. This reflects government's policy of cautious borrowing from external sources.

TABLE 3.9: NET FLOWS AND NET TRANSFERS ON EXTERNAL DEBT BY CREDITOR CATEGORY IN 2008 (US$ MILLION)

Creditor Category	Disbursements in 2008	Principal Repayments in 2008	Net resource flow on debt in 2008	Interest paid in 2008	Net Transfers in 2008
	(A)	(B)	C (A-B)	(D)	E(C-D)
Multilateral	360.84	318.41	42.43	62.22	-19.79
Bilateral	0	1.06	-1.06	5.57	-6.63
Commercial	0	66.22	-66.22	11.13	-77.35
Others	0	0.02	-0.02	0	-0.02
Total	360.84	385.71	-24.87	78.92	-103.79

Note: (i) Net resource flow equals Disbursements less Principal Repayments;
(ii) Net transfers equals Net resource flow less Interest payments.

3.9 MATURED EXTERNAL LOANS IN 2008

Table 3.10 shows external loans that matured in 2008. The table shows that all loans which matured in 2008 amounting to US$1,035.62 million were from the IBRD. The table also shows that these loans were contracted in the period 1988/1989.

TABLE 3.10: MATURED EXTERNAL LOANS IN 2008 (US$)

S/N	CREDITOR	PROJECT TITLE	DATE SIGNED	ORIGINAL LOAN AMOUNT
	IBRD			
1		Technical Education	7/1/1988	21,512,794.75
2		Private Small and Medium Enterprises	12/22/1988	109,179,800.57
3		Trade and Investment Policy	12/22/1988	500,000,000.00
4		Lagos State Water Supply	3/31/1989	173,200,000.00
5		Imo Health and Population	5/2/1989	12,338,255.84
6		Highway Sector Loans	9/15/1989	141,697,499.33
7		Second Multi State Agric Dev. Project	2/27/1989	77,700,000.00
	TOTAL			1,035,628,350.49

3.10 OUTSTANDING LOANS BY REMAINING MATURITIES

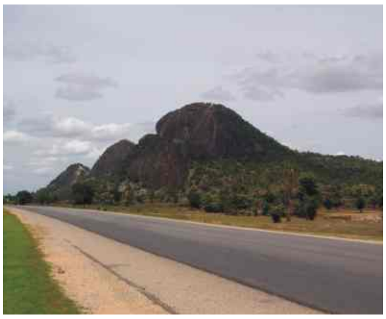
Table 3.11 shows all outstanding debts by remaining maturities. From the table, it could be seen that most outstanding loans have remaining maturity of over three years, implying that most outstanding loans are long-term. The table also shows that, unlike IBRD loans which would all be redeemed within the next three years, loans owed to IDA, IFAD, ADF and EDF have longer term-to-maturity.

TABLE 3.11: EXTERNAL DEBT OUTSTANDING BY REMAINING MATURITIES AS AT 31ST DECEMBER, 2008 (US$ MILLION)

CREDITOR CATEGORY	Short Term (0-1 yr)	Medium Term (>1-3 yrs)	LongTerm (Over 3 years)	Total
1. Multilateral				
IBRD	93.59	141.53	0.00	235.12
IDA	0.00	0.00	2,235.70	2,235.70
IFAD	0.00	0.00	52.54	52.54
ADB	34.36	96.69	126.60	257.65
ADF	0.00	0.00	310.05	310.05
EDF	0.00	0.00	81.82	81.82
2. Others(Non-Paris Club)	0.21	13.63	533.65	547.49
Total	**128.15**	**251.86**	**3,340.35**	3,720.36

Chapter Four





DOMESTIC DEBT ISSUES

4.1 DOMESTIC DEBT STOCK

The securitized domestic debt outstanding as at 31st December, 2008 stood at ₦2,320.31 billion compared to ₦2,169.64 billion as at December 2007, representing an increase of ₦150.67 billion, or 6.94 percent (Table 4.1). The increase in the stock of domestic debt was mainly accounted for by the issuance of FGN bonds in the review period to finance the government budget deficit and other special projects.

TABLE 4.1: DOMESTIC DEBT OUTSTANDING BY INSTRUMENTS FOR 2007 AND 2008, (N'BILLION)

INSTRUMENTS	2007	2008
FGN BONDS	1,186.16	1,445.60
NTBs	574.92	471.93
TREASURY BONDS	407.93	402.26
DEVELOPMENT STOCKS	0.62	0.52
TOTAL	**2,169.63**	**2,320.31**

4.2. TREND AND COMPOSITION OF DOMESTIC DEBT OUTSTANDING BY INSTRUMENTS

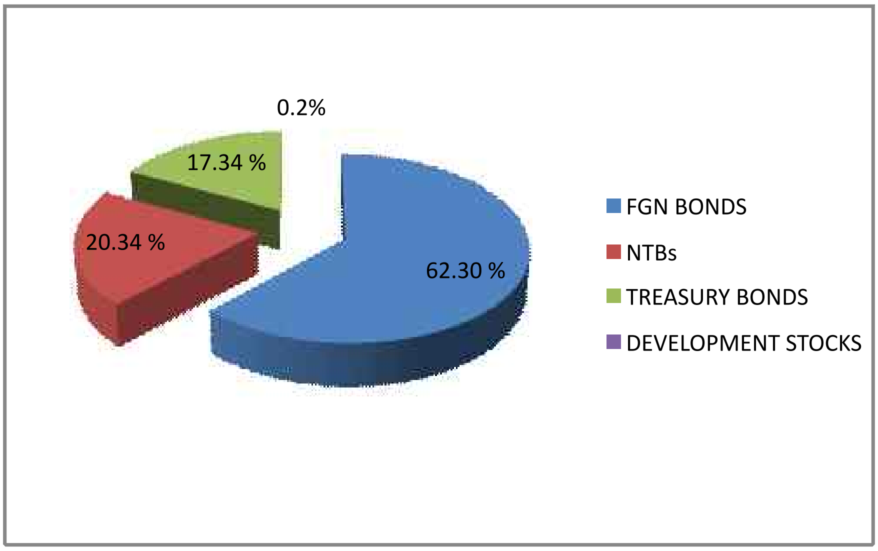
Table 4.2 shows the stock of domestic debt from 2004 2008, broken down on instruments basis. The stock of FGN bonds increased progressively from ₦72.56 billion in 2004 to ₦1,186.16 billion in 2007 and ₦1,445.60 billion in 2008, while NTBs decreased from N871.58 billion in 2004 to ₦574.92 billion in 2007 and ₦ 471.93 billion in 2008. The Treasury bonds and Development Stocks were legacy debt instruments from past issuances of the Federal Government of Nigeria. The stock of Treasury Bonds decreased from ₦424.94 billion in 2004 to ₦407.93 billion in 2007 and ₦402.26 billion in 2008 while Development Stocks decreased from ₦1.25 billion in 2004 to ₦0.62 billion in 2007 and ₦0.52 billion in 2008.

The composition of the domestic debt as at 31st December, 2008 indicated that the share of FGN bonds in the portfolio increased from 54.67 percent in 2007 to 62.30 percent in 2008, while the share of the NTBs decreased from 26.50 percent in 2007 to 20.34 percent in 2008, as a result of the restructuring of some stock of NTBs into 3-year, 5-year, 10-year and 20-year FGN bonds. The objective was to keep the share of NTBs in the portfolio at between 20-25 percent of the entire domestic debt portfolio. Figure 4.1 illustrates the domestic debt portfolio mix as at 31st December, 2008.

TABLE 4.2: TREND OF DOMESTIC DEBT OUTSTANDING BY INSTRUMENTS, 2004 2008 (N'BILLION)

INSTRUMENTS	2004	2005	2006	2007	2008
FGN BONDS	72.56	250.83	643.94	1,186.16	1,445.60
NTBs	871.58	854.83	695.00	574.92	471.93
TREASURY BONDS	424.94	419.27	413.60	407.93	402.26
DEVELOPMENT STOCKS	1.25	0.98	0.72	0.62	0.52
TOTAL	**1,370.33**	**1275.08**	**1753.26**	**2,169.63**	**2,320.31**

FIGURE 4.1: COMPOSITION OF DOMESTIC DEBT STOCK BY INSTRUMENTS AS AT 31ST DECEMBER, 2008



4.3 HOLDINGS OF DOMESTIC DEBT

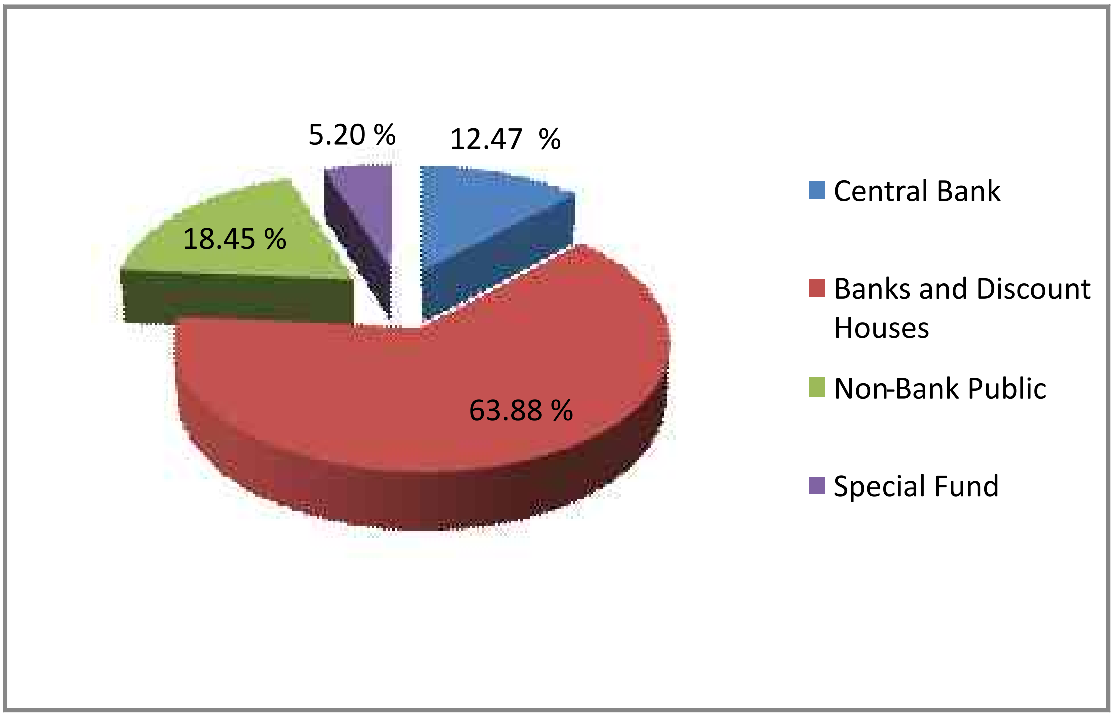
The holdings of the securitized domestic debt by the banking sector have been on the increase since 2004. It increased from ₦669.07 billion in 2004 to ₦1,482.16 billion in 2008 representing an increase of 121.53 percent. This has been attributed to the increased level of activity in the FGN bond secondary market, and increasing acceptability of the debt instruments as an alternative investment outlet among financial market operators. However, the holdings of the securitized debt by the Central Bank of Nigeria which were mostly NTBs and Treasury bonds has marginally decreased from ₦290.59 billion in 2007 to ₦ 289.37 billion in 2008 (Table 4.3). It is necessary to note that in line with best practice in public debt management, the CBN has, since 2003 stopped investing in FGN securities and only holds residuals of pre-2003 investments or securities issued for its monetary management functions. Figure 4.2 shows that Banks and Discount Houses holdings accounted for 63.88 percent, Central Bank of Nigeria's holdings accounted for 12.47 percent, Non-Bank Public holdings accounted for 18.45 percent while Special Fund accounted for 5.20 percent of the domestic debt outstanding as at 31st December, 2008.

TABLE 4.3: DOMESTIC DEBT OUTSTANDING BY INVESTOR TYPE, 2004 - 2008, (N' BILLION)

Investor Type	2004	2005	2006	2007	2008
Central Bank	403.46	501.97	335.53	290.59	289.37
Banks and Discount Houses	669.07	759.61	882.85	1,394.75	1,482.16
Non-Bank Public	297.80	71.88	365.38	484.29	428.03
Parastatals	-	192.45	56.34	-	-
Brokers	-	-	0.84	-	-
Special Fund	-	-	112.31	-	120.75
Total	**1,370.33**	**1,525.91**	**1,753.25**	**2,169.63**	**2,320.31**

Source: CBN

FIGURE 4.2: COMPOSITION OF THE DOMESTIC DEBT OUTSTANDING BY INVESTOR TYPE AS AT 31ST DECEMBER, 2008



4.4 DOMESTIC DEBT BY OUTSTANDING MATURITY

Table 4.4 shows the domestic debt stock outstanding by residual maturity classified into short, medium and long term. Short term refers to the aggregation of instruments with up to one year to maturity, medium term refers to the aggregation of instruments with greater than one year but up to three years to maturity, while long term refers to the aggregation of instruments with three years and over to maturity. In 2006, ₦762.26 billion or 43.48 percent of the total domestic debt have a residual maturity of up to 1 year, ₦337.69 billion or 19.26 percent have residual maturity above 1 year but less than 3 years and ₦653.33 billion or 37.26 percent have residual maturity of 3 years and above.

In 2007, ₦709.77 billion or 32.71 percent of the total domestic debt have a residual maturity of up to 1 year, ₦450.08 billion or 20.74 percent have residual maturity above 1 year but less than 3 years and ₦1,009.79 billion or 46.54 percent have residual maturity of 3 years and above. In 2008, ₦674.77 billion or 29.08 percent of the total domestic debt have a residual maturity of up to 1 year, ₦580.08 billion or 25 percent have residual maturity above 1 year but less than 3 years and ₦1,065.46 billion or 45.92 percent have residual maturity of 3 years and above (Table 4.4).

Table 4.4 further shows that as a result of the DMO's strategic plan of lengthening the maturity profile of the domestic debt portfolio, the quantum of debt instruments with long term residual maturity has been on the increasing trend since 2006. The quantum of long term instruments in the portfolio increased significantly from ₦653.33 billion in 2006 to ₦1,009.79 billion in 2007 and to ₦1,065.46 billion in 2008. This improvement in the maturity profile of the portfolio reduces government's roll-over and refinancing risks.

TABLE 4.4 DOMESTIC DEBT OUTSTANDING BY MATURITY, 2006-2008 (₦'BILLION)

	2006		2007		2008	
Category	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Up to 1yr (Short Term)	762.26	43.48	709.77	32.71	674.77	29.08
>1 to <3yrs (Medium Term)	337.69	19.26	450.08	20.74	580.08	25.00
3yrs and Over (Long Term)	653.33	37.26	1,009.79	46.54	1,065.46	45.92
Total	**1,753.28**	**100.00**	**2,169.64**	**100.00**	**2,320.31**	**100.00**

4.5 DOMESTIC DEBT SERVICE

Total domestic debt service payments for the year 2008 was ₦471,275.74 million, compared to ₦252,627.99 million in 2007, reflecting a substantial increase of ₦218,647.75 million, or 86.55 percent (Table 4.5). The significant increase was as a result of increase in the amount of matured debt redeemed (₦134,842.67 million in 2008 compared to ₦67,256.78 million 2007), interest payments on new FGN bonds issued (₦13,503.852 million), as well as exercise of the Call Option on the Local Contractors' Debts, in 2008 (₦103,449.57 million).

TABLE 4.5: DOMESTIC DEBT SERVICE PAYMENTS, 2007 AND 2008 (₦ MILLION)

INSTRUMENTS	2007	2008
NTBs		
Interest	47,815.63	43,555.22
FGN BONDS		
Interest	97,966.07	149,221.18
Principal	61,486.78	232,522.23
Call premium on Local Contractors Debts	-	916.72
TREASURY BONDS		
Interest	39,504.01	39,220.51
Principal	5,670.00	5,670.00
DEVELOPMENT STOCKS		
Interest	85.50	69.88
Principal	100.00	100.00
Total	**252,627.99**	**471,275.74**

4.6 DOMESTIC DEBT INTEREST PAYMENTS

Table 4.6 shows that the domestic debt interest payments have been on a moderate increase since 2005. It increased from ₦185.37 billion in 2007 to ₦232.98 billion in 2008, representing an increase of 25.68 percent.

TABLE 4.6 DOMESTIC DEBT INTEREST PAYMENTS, 2004-2008 (₦'BILLION)

Year	Domestic Debt Stock	Interest Payments	Interest Payments/Debt Stock
2004	1,370.33	203.64	14.86
2005	1,275.08	150.45	11.80
2006	1,753.26	166.84	9.52
2007	2,169.63	185.37	8.54
2008	2,320.31	232.98	10.04

The increase in interest payments in 2008, and the cost of funds from 8.54 percent in 2007 to 10.04 percent in 2008 was occasioned by an economy-wide increase in borrowing costs, when compared to the previous year.

4.7 2008 FGN BOND PRIMARY MARKET ISSUANCE PROGRAMME

The 2008 bond issuance programme was successful with all the series issued oversubscribed except the 10-year issue in June which was 92.72 percent subscribed. A detailed analysis of the monthly auctions indicates that ₦515, 000.00 million 5th FGN Bond was offered and a subscription of ₦845,951.53 million was recorded representing 164.26 percent subscription. The subscription level in 2008 was however lower (164.26 percent) compared to the 2007 figure (197 percent) recorded for the 4th FGN Bond. The total amount allotted to successful bidders was ₦491,961.15 million which was lower than the amount offered due to under subscriptions recorded in June 2008 and the application of cut-off in July 2008. The relative decline in the rate of subscription in 2008 when compared to that of the 4th FGN Bond series 2007 was as a result of the tightened liquidity condition experienced by the major players in the market up till September, 2008 (Table 4.7). It is noteworthy to mention that in addition to the existing instruments with 3, 5, and 10 year tenors, the DMO extended the yield curve to 20 years in November, 2008. The ₦10 billion 20-year bond was oversubscribed by over 135 percent, showing increasing confidence by investors in the FGN bonds market. The significance of this 20-year bond offer was that a benchmark has been created, that would enable the pricing of sub-national and the corporate bonds in the domestic capital market.

The bonds issued in 2008 were for the following purposes:

- Restructuring of NTBs into FGN Bonds of longer maturities
- Financing the budget deficit for the 2008 fiscal year
- Redemption of Maturing Bonds and exercise of Call Options on the Local Contractors' Bonds
- Funding of Government's Special Needs.

TABLE 4.7: 2008 FGN BONDS ISSUANCE (N' MILLION)

S/N	Series	Issue Date	Description	Tenor	Issue/Offer Amount	Subscription	Allotment	Coupon	Redemption
			3-YEAR TENOR						
1	14	25-Jan-08	4TH FGN BOND 2010 SERIES 14	3-YEAR	30,000.00	49,387.04	30,000.00	8.99%	14-Dec-10
2	14	29-Feb-08	4TH FGN BOND 2010 SERIES 14	3-YEAR	30,000.00	40,400.00	30,000.00	8.99%	14-Dec-10
3	14	28-Mar-08	4TH FGN BOND 2010 SERIES 14	3-YEAR	30,000.00	44,000.00	30,000.00	8.99%	14-Dec-10
4	3	25-Jul-08	5TH FGN BOND 2011 SERIES 3	3-YEAR	25,000.00	31,319.47	15,819.47	10.50%	25-Jul-11
5	3	29-Aug-08	5TH FGN BOND 2011 SERIES 3	3-YEAR	30,000.00	32,337.38	30,000.00	10.50%	25-Jul-11
6	3	26-Sep-08	5TH FGN BOND 2011 SERIES 3	3-YEAR	30,000.00	55,114.85	30,000.00	10.50%	25-Jul-11
7	3	31-Oct-08	5TH FGN BOND 2011 SERIES 3	3-YEAR	30,000.00	47,495.39	30,000.00	10.50%	25-Jul-11
8	3	28-Nov-08	5TH FGN BOND 2011 SERIES 3	3-YEAR	20,000.00	34,975.57	20,000.00	10.50%	25-Jul-11
	Sub-Total				**225,000.00**	**335,029.70**	**215,819.47**		
			5-YEAR TENOR						
9	1	25-Jan-08	5TH FGN BOND 2013 SERIES 1	5-YEAR	20,000.00	45,362.70	20,000.00	9.45%	25-Jan-13
10	1	29-Feb-08	5TH FGN BOND 2013 SERIES 1	5-YEAR	20,000.00	24,745.00	20,000.00	9.45%	25-Jan-13
11	1	28-Mar-08	5TH FGN BOND 2013 SERIES 1	5-YEAR	20,000.00	39,618.00	20,000.00	9.45%	25-Jan-13
12	1	25-Apr-08	5TH FGN BOND 2013 SERIES 1	5-YEAR	30,000.00	53,600.00	30,000.00	9.45%	25-Jan-13
13	1	30-May-08	5TH FGN BOND 2013 SERIES 1	5-YEAR	30,000.00	33,636.70	30,000.00	9.45%	25-Jan-13
14	1	27-Jun-08	5TH FGN BOND 2013 SERIES 1	5-YEAR	30,000.00	44,530.62	30,000.00	9.45%	25-Jan-13
15	4	28-Nov-08	5TH FGN BOND 2013 SERIES 4	5-YEAR	10,000.00	25,886.16	10,000.00	10.50%	28-Nov-13
	Sub-Total				**160,000.00**	**267,379.18**	**160,000.00**		
			10-YEAR TENOR						
16	2	30-May-08	5TH FGN BOND 2018 SERIES 2	10-YEAR	20,000.00	35,083.50	20,000.00	10.70%	30-May-18
17	2	27-Jun-08	5TH FGN BOND 2018 SERIES 2	10-YEAR	20,000.00	18,543.56	18,543.56	10.70%	30-May-18
18	2	25-Jul-08	5TH FGN BOND 2018 SERIES 2	10-YEAR	20,000.00	32,228.15	9,816.13	10.70%	30-May-18
19	2	29-Aug-08	5TH FGN BOND 2018 SERIES 2	10-YEAR	20,000.00	44,257.28	20,000.00	10.70%	30-May-18
20	2	26-Sep-08	5TH FGN BOND 2018 SERIES 2	10-YEAR	20,000.00	46,281.04	20,000.00	10.70%	30-May-18
21	2	31-Oct-08	5TH FGN BOND 2018 SERIES 2	10-YEAR	20,000.00	43,632.00	17,782.00	10.70%	30-May-18
	Sub-Total				**120,000.00**	**220,025.53**	**106,141.69**		
			20-YEAR TENOR						
22	5	28-Nov-08	5TH FGN BOND 2028 SERIES 5	20-YEAR	10,000.00	23,517.13	10,000.00	15.00%	28-Nov-28
					515,000.00	**845,951.54**	**491,961.16**		

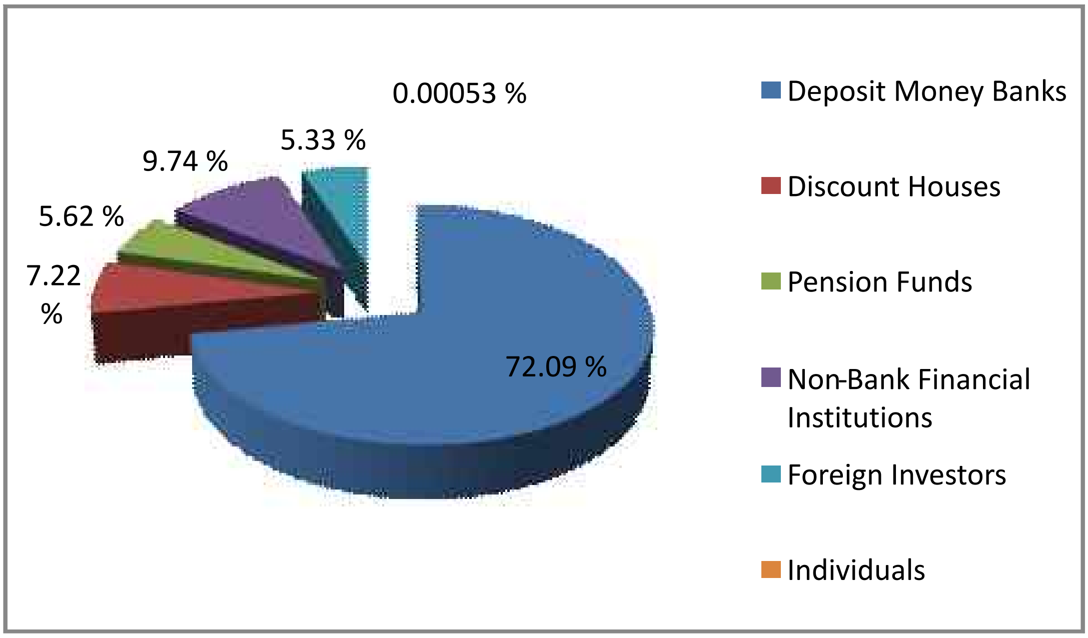
4.8 ANALYSIS OF ALLOTMENTS OF THE FGN BONDS ISSUED IN 2008

Analysis of the allotments of the 5th FGN Bond shows that the Deposit Money Banks accounted for ₦354,647.98 million or 72.09 percent, Discount Houses accounted for ₦35,505.14 million or 7.22 percent, Pension Funds accounted for ₦27,631.50 million or 5.62 percent, Non-Bank Financial Institutions accounted for ₦47,929.98 million or 9.74 percent, Foreign Investors accounted for ₦26,243.95 million or 5.33 percent, while Individuals accounted for ₦2.61million or 0.00053 percent (Table 4.8 and Figure 4.3)

TABLE 4.8: ALLOTMENTS OF THE 5TH FGN BONDS, 2008 (N'MILLION)

TOTAL AMOUNT OFFERED		515,000.00
TOTAL SUBSCRIPTION		845,951.53
RANGE OF BIDS (%)		5.00 - 21.49
RANGE OF MARGINAL RATES (COUPONS) (%)		8.99 - 15.00
PERCENTAGE OF SUBSCRIPTION		
	Amount	**Percentage of Total Allotment**
TOTAL ALLOTMENT:	491,961.15	
Deposit Money Banks	354,647.98	72.09
Discount Houses	35,505.14	7.22
Pension Funds	27,631.50	5.62
Non-Bank Financial Institutions	47,929.98	9.74
Foreign Investors	26,243.95	5.33
Individuals	2.61	0.00053

FIGURE 4.3: 5TH FGN BONDS ALLOTMENT IN 2008



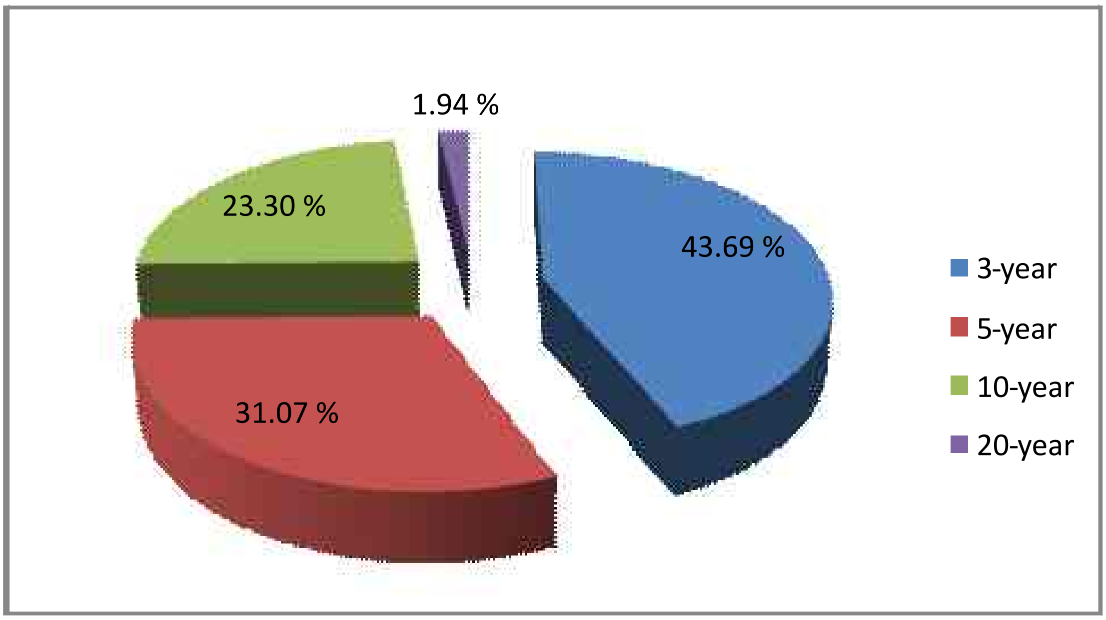
4.9 ANALYSIS OF AUCTION BY TENOR

The ₦515 billion FGN Bonds issued in 2008 were instruments of various tenors as detailed in Table 4.7 and Figure 4.4. The table shows that the government issued more of the 3-year tenor instrument amounting to ₦225 billion or 43.69 percent of the entire issuance, while 5 and 10-year tenor accounted for ₦160 billion or 31.07 percent and ₦120 billion or 23.30 percent respectively. An entirely new 20-year tenor instrument introduced in November, 2008 (which was the last auction month of the year) accounted for ₦10 billion or 1.94 percent.

TABLE 4.9: 5TH FGN BONDS AUCTION IN 2008 BY TENOR

S/N	Tenor	Amount (N' billion)	Percentage
1	3-year	225	43.69
2	5-year	160	31.07
3	10-year	120	23.30
4	20-year	10	1.94
	Total	**515**	**100.00**

FIGURE 4.4: ANALYSIS OF AUCTION BY TENOR IN 2008



4.10 SECONDARY MARKET ACTIVITIES

The prospects for an active secondary market to provide liquidity in the bonds received a significant boost as trading in the secondary market increased significantly in 2008 (Table 4.10). Total number of deals increased by 165.45 percent from 30,188 in 2007 to 80,135 in 2008, while the value increased by 144.40 percent from ₦4,128,595,617,576 in 2007 to ₦10,090,235,806,000 in 2008.

The market started on a relative bearish note in January 2008, with 3,733 deals amounting to ₦464.33 billion but became very bullish in October, reaching an all-time high of 12,153 deals with a market value of over ₦1,457.65 billion. However, there was a marginal drop in turnover to ₦959.9 billion in December 2008, due to the usual lull associated with year-end activities. The remarkable upsurge in trading activities in the year under review could be attributed to; investors' realization of the guaranteed returns in FGN Bonds, the relative stability in prices following the bearish run in the domestic equities market, in the wake of the global financial meltdown, increase in the number of Market Makers, improved skills among operators, and increase participation by the non-bank public.

Details of the secondary market performance are as shown in Table 4.10 and Figures 4.5 and 4.6 respectively.

TABLE 4.10: FGN SECONDARY BOND MARKET TRADES (OTC) IN NUMBER OF DEALS AND VALUE, 2007 AND 2008

	2007		2008	
Month	No. of Deals	Value	No. of Deals	Value
Jan-07	78	35,960,069,980	3,733	464,327,598,000
Feb-07	154	65,344,224,779	5,366	688,412,738,000
Mar-07	1,137	147,922,393,948	5,114	698,157,740,000
Apr-07	999	116,027,474,767	6,245	713,120,912,000
May-07	1,058	177,456,710,340	4,316	532,962,001,000
Jun-07	2,610	362,259,376,179	5,297	738,491,388,000
Jul-07	3,605	508,259,168,002	9,219	1,077,153,761,000
Aug-07	3,194	420,917,146,015	6,181	698,259,825,000
Sep-07	2,184	359,961,932,947	9,520	1,104,230,830,000
Oct-07	5,090	726,360,188,586	12,153	1,457,647,103,000
Nov-07	5,613	706,903,057,380	6,657	957,517,200,000
Dec-07	4,466	501,223,874,654	6,334	959,954,710,000
Total	**30,188**	**4,128,595,617,577**	**80,135**	**10,090,235,806,000**

Source: Central Securities Clearing System (CSCS)

FIGURE 4.5: MONTHLY NUMBER OF DEALS IN THE SECONDARY FGN BOND MARKET, (JANUARY DECEMBER, 2008)

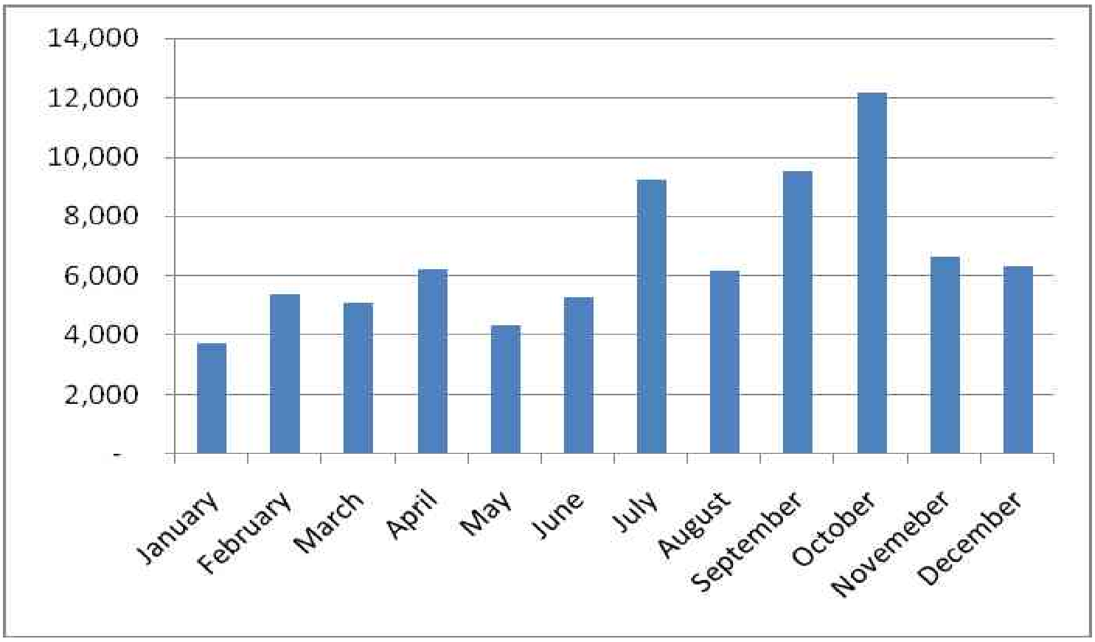
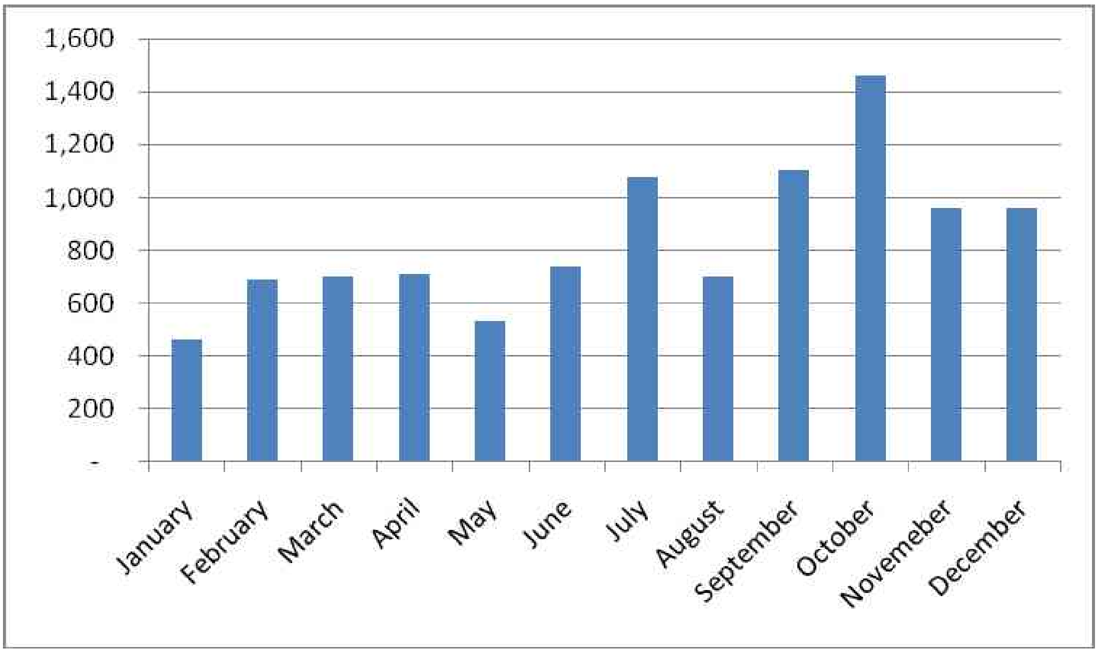


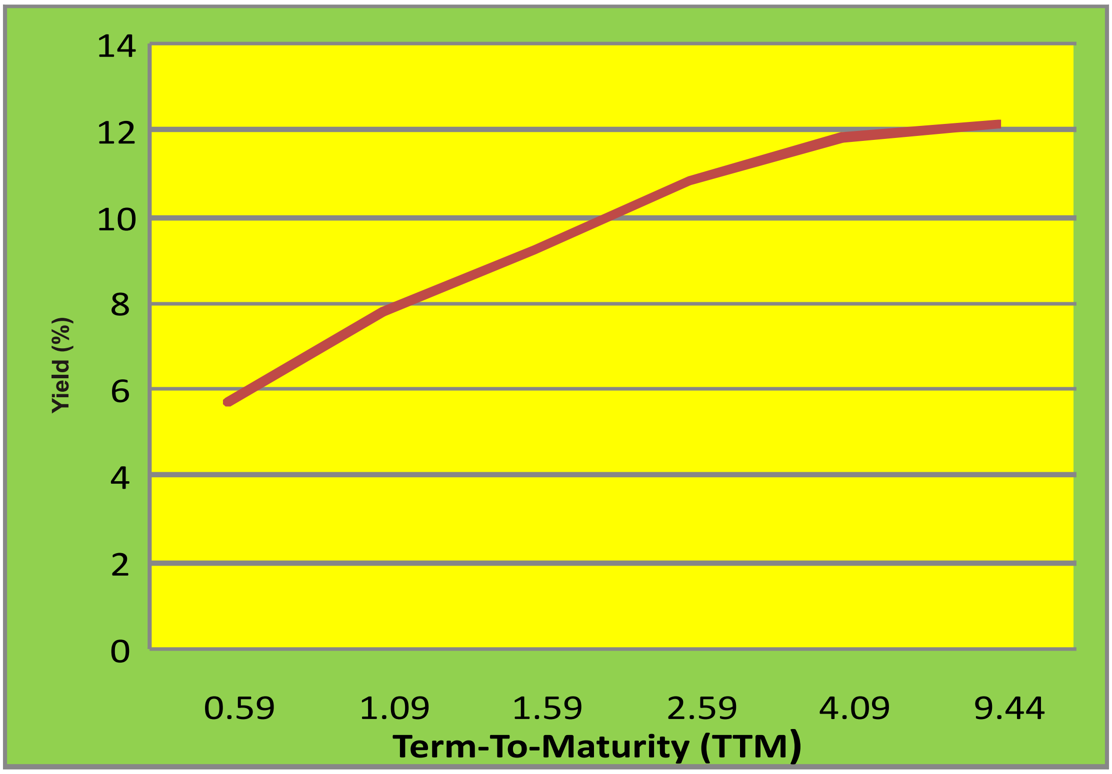
FIGURE 4.6: MONTHLY TRADING VALUE IN THE SECONDARY FGN BOND MARKET IN ₦' BILLION, (JANUARY DECEMBER, 2008)



4.11 FGN BOND MARKET YIELD CURVE AS AT END OF DECEMBER, 2008

In terms of expected returns, the FGN Bond Yield Curve (which is a graphical representation, showing the relationship between Term-To-Maturity of securities and their Yields-To-Maturity) as at the end of December, 2008 was upwardly sloping for a Term-To-Maturity of six months to nine years, indicating a positive relationship between the yield and Time-To-Maturity of the FGN Bond in the year under review (Figure 4.7).

FIGURE 4.7: FGN BOND YIELD CURVE AS AT END OF DECEMBER, 2008*



**The FGN Bond Market closed for the year on December 23, 2008*
Source: Money Market Association of Nigeria

Chapter Five

SUB-NATIONAL DEBT ISSUES

5.0 STATE GOVERNMENTS EXTERNAL DEBT STOCK

The State government external debt stock as at 31st December 2008 was US$ 1,660.49 million compared to US$1,539.93 million in 2007. This represents an increase of US$120.56 million, or 7.83 percent, which was mainly as a result of increase in loan disbursements (Table 5.0).

TABLE 5.0: TREND IN STATE GOVERNMENTS' EXTERNAL DEBT STOCK, 2004-2008 (US$ MILLION)

Years	2004	2005	2006	2007	2008
State Governments External Debt Stock	7,726.20	5,061.15	1,400.34	1,539.93	1,660.49

Table 5.0 shows the trend in the external debt stock of States over the years. The external debt stock decreased significantly from US$7,726.20 million in 2004 to US$1,400.34 million in 2006 due to the Paris Club debt exit deal signed in 2005 and finalized in April 2006, as well as the exit from the London Club (Par Bond) debt obligations in 2006 and 2007. However, an increasing trend was observed in the external debt stock since 2007 due to increase in new disbursements. This is further illustrated in Figure 5.0.

Sub-national external debts are mainly Federal Government on-lent multilateral loans from IDA, IBRD, ADF, ADB and IFAD. These loans were used to finance infrastructural projects in the areas of education, health, water supply, housing and sanitation.

FIGURE 5.0: TREND IN STATE GOVERNMENT'S EXTERNAL DEBT STOCK, 2004-2008 (US$ MILLION)

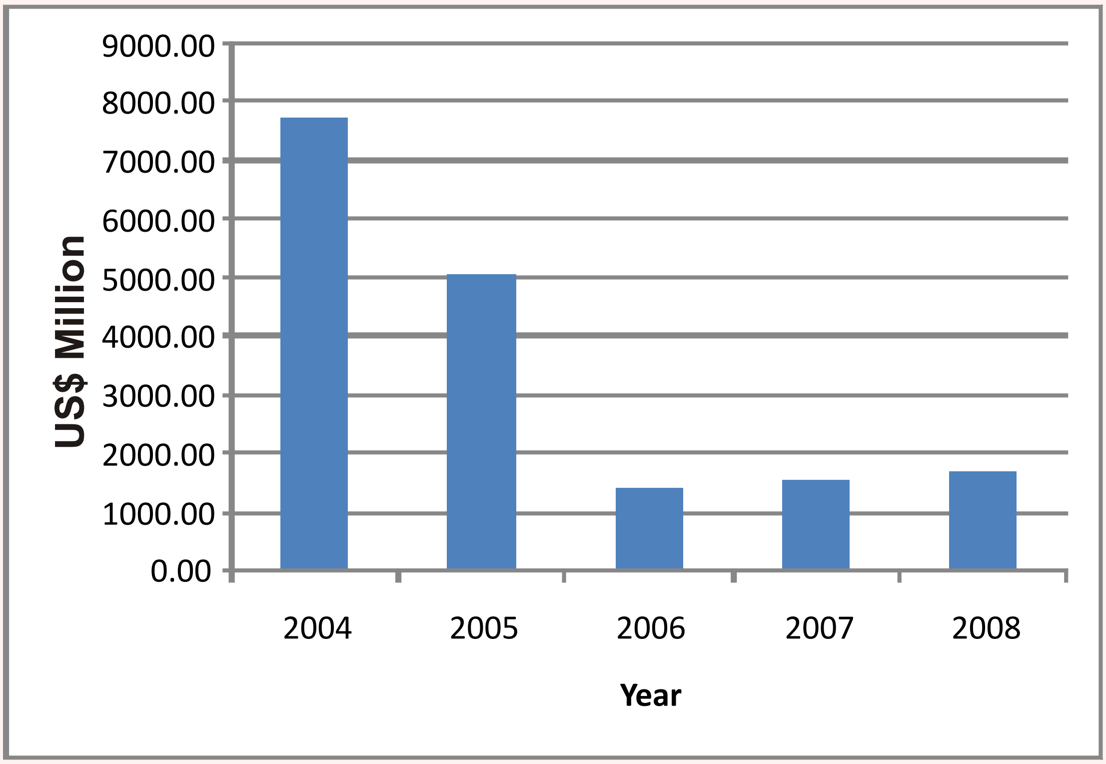
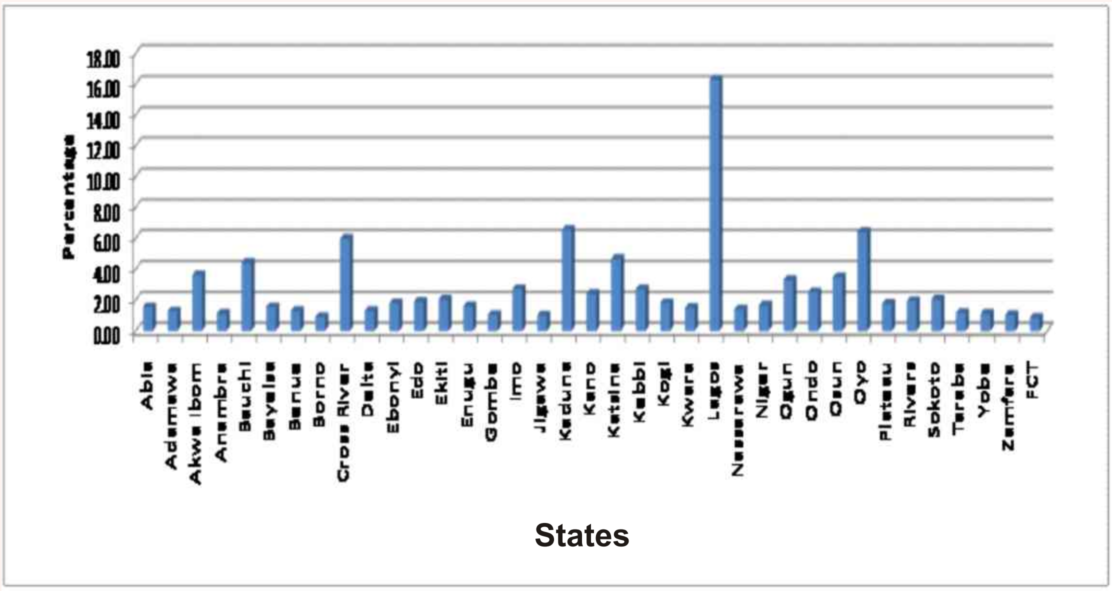


Table 5.1 shows the States' external debt stock as at 31st December, 2008. The detailed breakdown of the State's external debt stock as at 31st December 2008 shows that Lagos, Kaduna and Oyo States have the highest debt stock of US$270, 840,818.98 million, US$109, 102,333.29 million and US$106, 716,971.10 million respectively, representing 16.31 percent, 6.57 percent and 6.43 percent. However, States with the lowest debt stock were Borno, Jigawa and Zamfara State having US$15,077,862.30 million, US$16,889,226.34 million and US$17,233,048.36 million respectively, representing 0.91 percent, 1.02 percent and 1.04 percent. This is further illustrated in Figure 5.1.

TABLE 5.1: STATES' EXTERNAL DEBT STOCK AS AT 31ST DECEMBER, 2008 (US$)

S/NO	States	Debt Stock	% of Total
1	Abia	25,893,422.00	1.56
2	Adamawa	21,206,254.66	1.28
3	Akwa Ibom	60,364,679.75	3.64
4	Anambra	18,892,185.82	1.14
5	Bauchi	73,386,211.63	4.42
6	Bayelsa	25,788,797.44	1.55
7	Benue	21,487,668.97	1.29
8	Borno	15,077,862.30	0.91
9	Cross River	99,387,962.84	5.99
10	Delta	21,570,329.07	1.30
11	Ebonyi	30,088,193.24	1.81
12	Edo	31,679,524.18	1.91
13	Ekiti	33,856,337.62	2.04
14	Enugu	26,620,622.64	1.60
15	Gombe	17,528,514.37	1.06
16	Imo	45,165,416.15	2.72
17	Jigawa	16,889,226.34	1.02
18	Kaduna	109,102,333.29	6.57
19	Kano	39,824,177.00	2.40
20	Katsina	77,700,535.30	4.68
21	Kebbi	45,310,617.91	2.73
22	Kogi	30,352,870.57	1.83
23	Kwara	24,972,143.08	1.50
24	Lagos	270,840,818.98	16.31
25	Nassarawa	23,278,453.38	1.40
26	Niger	27,634,748.90	1.66
27	Ogun	54,868,136.63	3.30
28	Ondo	41,874,347.84	2.52
29	Osun	57,663,946.01	3.47
30	Oyo	106,716,971.10	6.43
31	Plateau	29,255,196.92	1.76
32	Rivers	32,338,802.05	1.95
33	Sokoto	33,974,354.62	2.05
34	Taraba	19,642,836.94	1.18
35	Yobe	18,787,421.83	1.13
36	Zamfara	17,233,048.36	1.04
37	FCT	14,243,206.63	0.86
	Total	**1,660,498,176.35**	**100.00**

FIGURE 5.1: PERCENTAGE SHARE OF STATE GOVERNMENT'S EXTERNAL DEBT STOCK AS AT 31ST DECEMBER, 2008



5.1 STATES' EXTERNAL DEBT SERVICE AND SUSTAINABILITY

Table 5.2 shows the total external debt service payment made by each State in 2008, as well as gross allocations from the Federation Account for the year and the ratio of external debt service to gross allocation for each State. The States as a tier of government as at 31st December 2008 cumulatively had an External Debt sustainability ratio of 1.94 percent.

Cross River State in 2008, had the highest External Debt Service/Revenue ratio of 6.37 percent; followed by Oyo State with 6.12 percent and Lagos State, with 6.00 percent even though all were within the accepted threshold. When compared to 10.40 percent, 8.84 percent and 7.87 percent in 2007 respectively, this shows a decrease, due to the fact that, in the year under review, there was an increase in gross allocation and a decrease in actual external debt service deductions.

TABLE 5.2: GROSS FAAC ALLOCATION TO STATES AND ACTUAL EXTERNAL DEBT SERVICE DEDUCTIONS, 2008 (US$)

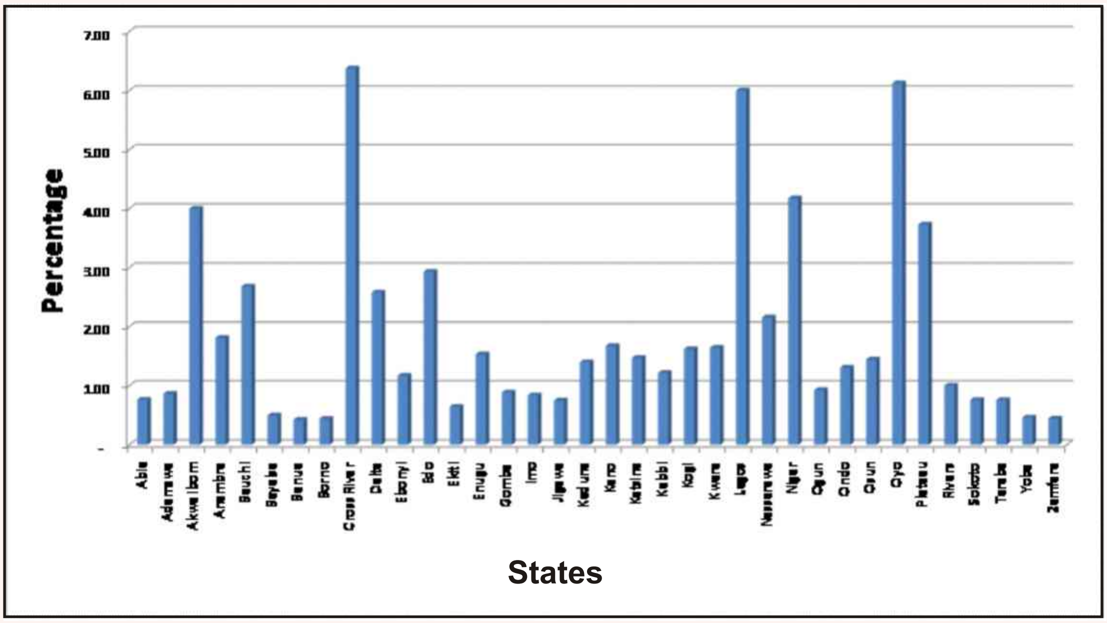
S/No	States	Gross FAAC Allocation	Actual External Debt Service Deductions	External Debt Service as % of Gross FAAC Allocations (%)
1	Abia	193,767,262.55	1,479,400.78	0.76
2	Adamawa	216,316,841.22	1,866,312.78	0.86
3	Akwa Ibom	218,156,503.36	8,723,964.50	4.00
4	Anambra	221,044,838.41	4,000,304.92	1.81
5	Bauchi	245,719,552.62	6,586,932.86	2.68
6	Bayelsa	177,316,619.48	878,199.89	0.50
7	Benue	235,502,011.20	996,006.80	0.42
8	Borno	251,975,441.63	1,110,578.74	0.44
9	Cross River	204,258,157.68	13,019,087.05	6.37
10	Delta	215,225,578.99	5,551,746.50	2.58
11	Ebonyi	181,794,542.70	2,127,708.31	1.17
12	Edo	203,783,539.22	5,972,087.50	2.93
13	Ekiti	182,906,242.25	1,177,551.70	0.64
14	Enugu	202,739,771.99	3,107,957.49	1.53
15	Gombe	193,017,839.26	1,710,918.50	0.89
16	Imo	219,004,470.11	1,831,484.40	0.84
17	Jigawa	241,704,925.33	1,809,365.11	0.75
18	Kaduna	277,287,188.99	3,880,761.39	1.40
19	Kano	332,648,437.98	5,568,995.60	1.67
20	Katsina	255,614,576.97	3,759,479.61	1.47
21	Kebbi	216,448,555.14	2,632,146.91	1.22
22	Kogi	214,686,680.80	3,475,969.60	1.62
23	Kwara	205,833,678.83	3,381,767.50	1.64
24	Lagos	298,343,559.16	17,903,531.08	6.00
25	Nassarawa	190,172,679.08	4,103,887.40	2.16
26	Niger	248,442,983.30	10,367,421.60	4.17
27	Ogun	209,953,284.25	1,944,927.10	0.93
28	Ondo	202,509,562.20	2,643,549.80	1.31
29	Osun	205,119,287.56	2,967,652.50	1.45
30	Oyo	248,585,167.27	15,221,010.60	6.12
31	Plateau	213,982,213.51	7,984,940.00	3.73
32	Rivers	235,158,156.91	2,358,413.60	1.00
33	Sokoto	224,207,147.18	1,703,502.10	0.76
34	Taraba	212,758,401.01	1,615,837.30	0.76
35	Yobe	210,744,197.79	971,776.80	0.46
36	Zamfara	212,258,095.81	943,368.80	0.44
	Total	8,018,987,991.74	155,378,547.12	1.94

Note: Gross FAAC Allocation excludes 13 percent derivation fund.

The State with the lowest External Debt Service ratio in 2008 was Benue with 0.42 percent. This also shows a reduction when compared to its ratio of 0.46 percent in 2007.

The sub-national borrowing guidelines stipulate that the ratio of a state's debt service to its FAAC monthly allocation for the preceding twelve months should not exceed 40 percent. Even though they are at comfortable ratios as at 31 December, 2008, compared to the threshold, Cross River, Oyo and Lagos State have the highest ratios. Figure 5.2 further illustrate States External Debt Service to FAAC ratio.

FIGURE 5.2: EXTERNAL DEBT SERVICE AS A SHARE OF GROSS FAAC ALLOCATION BY STATES FOR 2008



5.2 IMPLEMENTATION OF THE TEMPLATE FOR THE DEVELOPMENT OF DMDS IN STATES

As part of DMO's effort to strengthen sub-national debt management capacities at the sub-national level, the DMO, in collaboration with the States, has developed a Template for the Establishment of Debt Management Departments (DMDs) in the 36 States of the Federation. The Template was developed with inputs from the States and adopted for implementation in late 2007.

5.2.1 ESTABLISHMENT OF DEBT MANAGEMENT DEPARTMENTS (DMDs)

Subsequent to the adoption of the Template, all the 36 States have established Debt Management departments, most of them under their Ministry of Finance. In a number of States, the DMDs have been given prominence by being located in the Office of the Executive Governors. The degrees of functionality of the DMDs differ from one State to the other. Progressing on the full implementation of the template by working closely with the states constitutes a major current preoccupation of the DMO.

5.2.2 CAPACITY BUILDING FOR DEBT MANAGEMENT DEPARTMENTS

The DMO realized that the DMDs would require a lot of assistance in order to fully implement the Template, as such a capacity building programme, designed to improve debt management capabilities at the sub-national level, was developed which involved:

- Attachment programme for staff of DMDs in most of the States;
- Special purpose courses on sub-national debt management (Excel Training for Debt Recording) in two (South-East and South-South) out of the six geo-political zones in the country;
- In-house training for domestic debt data reconstruction for Bauchi and Cross-River States. The programme is under the CIDA-funded Governance Reform Programme. It is expected that the programme would subsequently be extended to the remaining States in 2009.

5.2.3 REGISTRATION OF SUB-NATIONAL DEBT CONSULTANTS

In addition to the capacity building efforts of the DMO, it was realized that there is the need to involve Consultants to assist States in the implementation of the Template. In this regard, the DMO registered a total of 56 firms out of those that applied for registration. The Consultants were registered in four areas of competency:

a) Debt data verification and capacity building in public finance management;

b) Debt issuance and financial advisory services;

c) Development of, and capacity building in, regulatory and institutional frameworks; for public debt management; and,

d) All aspects of public debt management.

5.2.4 STATUS OF LEGAL FRAMEWORK FOR PUBLIC DEBT MANAGEMENT IN THE STATES

In addition to all the efforts to assist States in the implementation of the Template and following the Federal Government example, all the 36 States have pronounced their commitment to enacting the Fiscal Responsibility Legislation. In a collaborative effort involving the DMO, Development Partners, Federal Ministry of Finance, Bureau of Public Procurement and the States Ministry of Justice, a blueprint of a model Fiscal Responsibility Law for States was produced and exhaustively discussed in zonal clinics. Many States have adapted this blueprint to process their bills to the State Assemblies. Five States (Lagos, Kwara, Delta, Bauchi and Ebonyi) have already enacted the Public Debt Management Act and the FRB, respectively; In twelve States, the FRBs have been drafted and sent to the State Assemblies, while in another eleven States, the Justice Ministry is finalizing the drafts, which according to their timelines, would be sent to the State assembly by first quarter, 2009. In eight States, no action appears to have been taken to enact the FRL.

5.2.5 COORDINATION OF DONOR INTERVENTION IN SUB-NATIONAL DEBT MANAGEMENT

As part of efforts to ensure coordination and efficient management of Nigeria's debt, the DMO felt the need to be involved in efforts of donor agencies so as to ensure that such efforts are in tune with the overall debt management strategy of the country. In this regard, the DMO carried out wide consultations with all donor agencies involved in sub-national debt management. Thereafter, an Action Strategy for the Coordination of Donor Intervention was developed and circulated to all relevant donor agencies. As an outcome of the Action Strategy, the Canadian International Development Agency (CIDA) signed a tripartite Memorandum of Understanding (MoU) with DMO and Cross River State, as well as DMO and Bauchi State, stating clearly the areas of assistance and time-lines for their implementation.

5.3 PUBLIC DEBT EDUCATION

In line with DMO's Strategic Objective of building a first rate and internationally competitive bond market, not only to support government financing needs but also to provide the private sector access to long term financing, in line with the Financial System Strategy (FSS 2020), the DMO embarked on a programme of extensive but focused public debt education. The programme, which took the form of seminars, was aimed at increasing the awareness of the university community of the Federal Government Bonds (FGN Bonds). In 2008, a total of 30 seminars were organized in 30 tertiary institutions in the six geo-political zones, with a total number of 18,132 people participating in the seminars across the nation.

Chapter Six

DEBT PORTFOLIO AND RISK MANAGEMENT ISSUES

6.1 INTRODUCTION

Sound debt management practice stresses the importance of analyzing and monitoring the risk inherent in the structure of public debt, as well as mitigating them, while taking into account the cost of doing so. In the trade-off between expected cost and risk, very often cost minimization is given priority over cost mitigation in public debt management. However, an excessive focus on cost savings at the expense of risk reduction can have serious consequences on a nation's debt portfolio and potentially lead to a crisis.

This chapter, therefore, identifies the various risks inherent in the country's debt portfolio and their respective impacts on portfolio performance within the period under review. The following key risk types were identified and analyzed within the context of general thresholds of high, medium low and very low risks levels:

- Interest Rate
- Exchange Rate
- Currency
- Refinancing /Rollover

6.1.1 INTEREST RATE RISK

This is the risk associated with movements of the interest rate in the domestic and international capital markets. Changes in interest rates could affect debt service payments. Costs increase when interest rates rise and debt has to be refinanced. This is true for both fixed and floating-rate debt, when new fixed-rate issues are financed at higher interest rates or when rates go up at the reset rates for floating-rate debt. This is why short-term and floating-rate debt is generally considered more risky than long-term, fixed-rate debt.

In considering interest rate risk, it should be noted that Nigeria's current external commitments are largely at fixed interest rates. Domestic debt is also mainly at fixed interest rates. Nigeria's efforts have lately focused on lengthening the maturity profile of its domestic debt portfolio. This exercise has implications for the interest rate risk that the portfolio could be subjected to. The restructuring exercise started by initially lengthening the maturity of NTBs from 91 to 182 and to 364 days and then moved on to an FGN Bonds Issuance Programme which focused on longer-tenored securities. Lengthening the maturity profile of the domestic debt portfolio would often involve paying higher interest rates on longer-tenored instruments. It is, however, a good hedge against a roll over risk.

At the moment very low interest rate risk exists as only 0.005 per cent of the domestic debt is made up of floating rate instruments which would fully mature in 2013.

6.1.2 EXCHANGE RATE RISK

This is the risk associated with exchange rate movements. Since Nigeria's domestic debt has always been issued in the domestic currency, exchange rate risk has been applicable only to the external portion of public debt.

Movements in exchange rates can increase debt servicing costs. Indeed, this was the case when Nigeria was servicing its Paris Club debts in the 1990s up to the early 2000s. Over the period 2001-2004, there was a 27 percent increase in external debt stock, largely attributable to the depreciation of the US Dollar against other portfolio currencies (as well as due to the accumulation of arrears).

FIGURE 6.1: US DOLLAR EXCHANGE RATE MOVEMENT FROM JANUARY TO DECEMBER, 2008

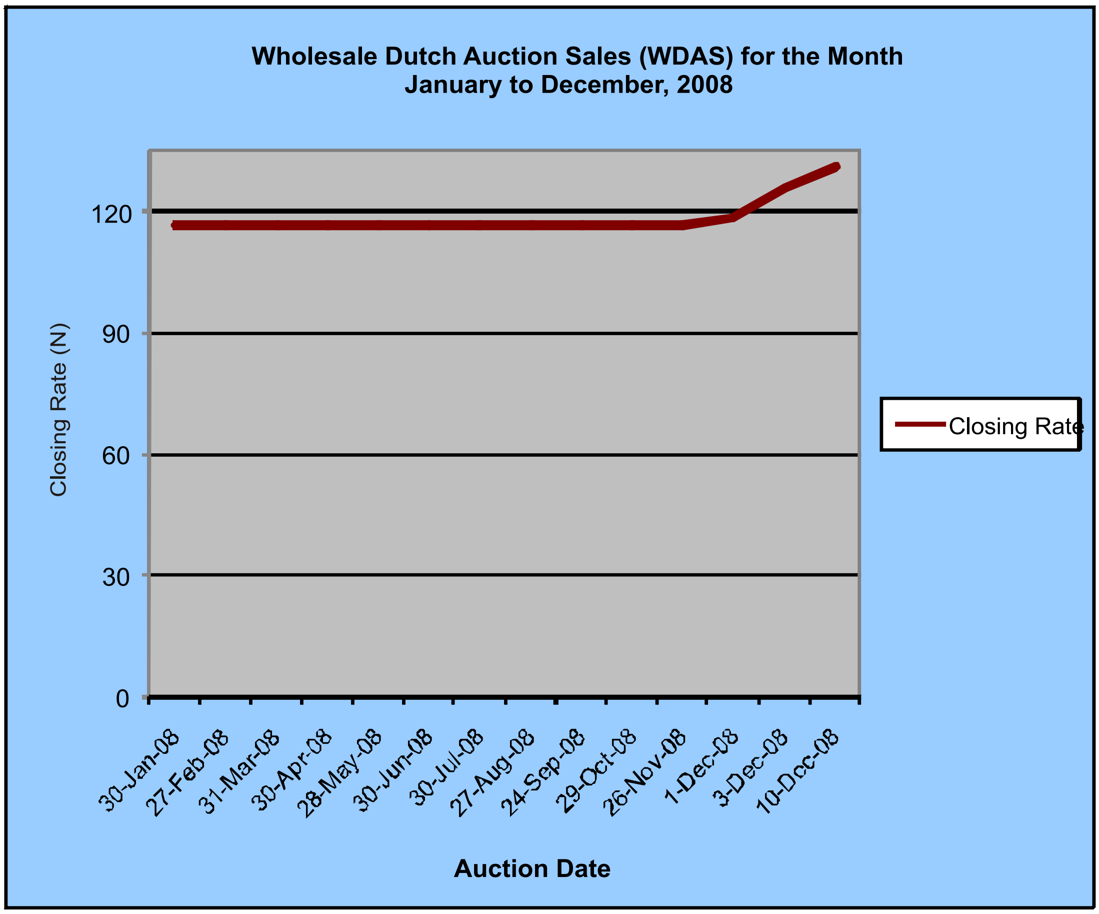


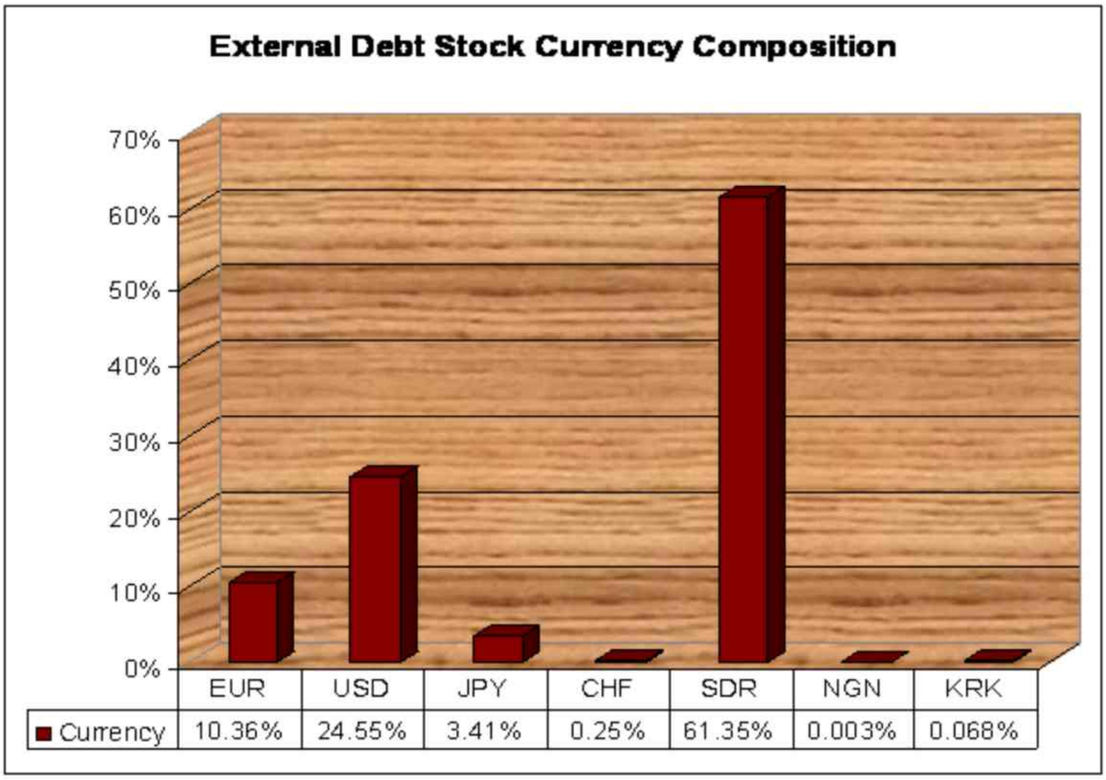
Figure 6.1 shows the dollar exchange rate movements against the naira in 2008. It would be observed that the dollar maintained an average rate of ₦116.93 to a dollar almost throughout the year. The naira only depreciated against the dollar towards the end of the year when it closed at ₦118.32, ₦126.10 and ₦131.25 in the last three auctions of the year, thereby moderately increasing exchange rate risk on the portfolio.

It is instructive to note that only 17.39 percent of the total public debt as at 31st December, 2008 was made up of external debt for which exchange rate risk majorly apply. Exchange rate risk for Nigeria's external debt portfolio in 2008 was, therefore, very low.

6.1.3 CURRENCY RISK

Currency risk refers to the risk that arises as a result of a relative mismatch in the currency composition of a country's external debt. The currency composition of a country's external debt should typically align with its stock of reserve assets in order to form a natural back-to-back hedge against exchange rate risk. Nigeria's external debt currency composition is mainly dominated by SDR which constitutes 61.35 percent of the total (See Figure 6.2).

FIGURE 6.2: CURRENCY COMPOSITION OF NIGERIA'S EXTERNAL DEBT AS AT 31ST DECEMBER, 2008

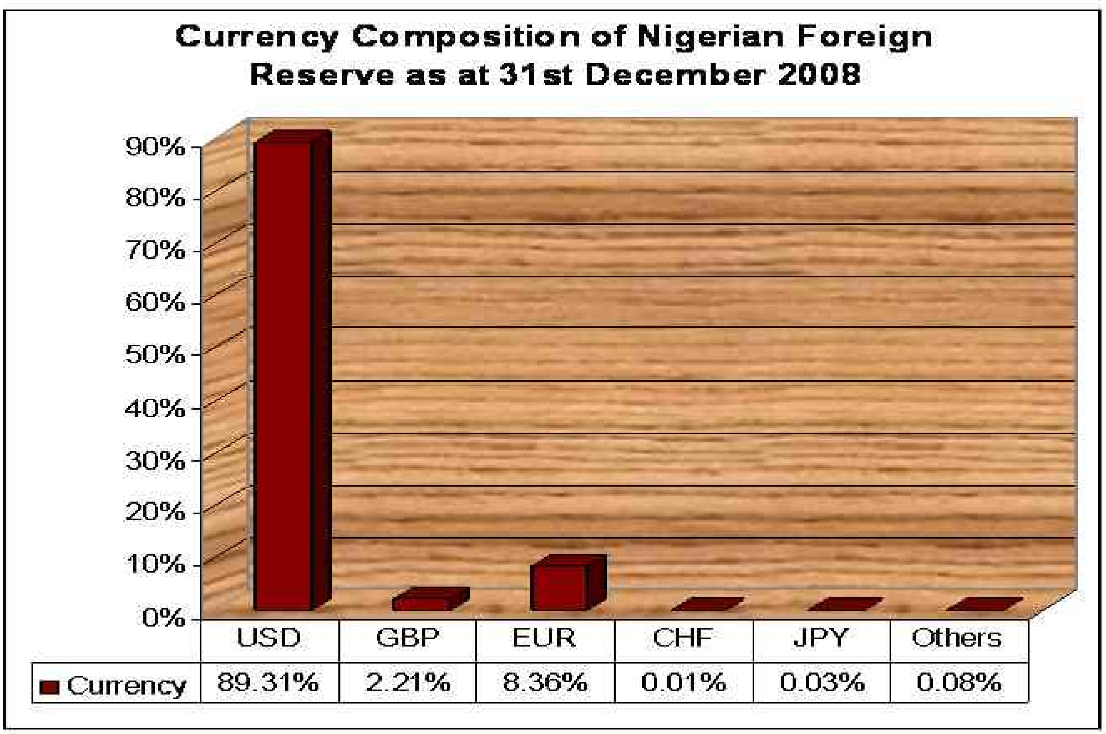


This was followed by the US Dollar which constitutes 24.55 percent, the Euro having 10.36 percent and other currencies making up the remainder of 3.731 percent of the total as at year end 2008.

An analysis of the currency break down of Nigeria's reserve assets as at December end 2008 shows that the US Dollar has the highest contribution of 89.31 percent followed by the Euro with 8.36 percent, and GBP 2.2 percent, while other currencies made up the remainder of the total portfolio (0.12 percent).

It is noteworthy that SDR which has the highest component of Nigeria's external debt stock is made up of a basket of major world currencies which in themselves provide a hedge against one another. This makes it largely insulated against exchange rate movements of other currencies. The two other major currency holdings of the country's external debt stock (USD and Euro) were also adequately mitigated against currency risk considering their significant contribution to the total currency holding in the country's reserve assets as at 31st December, 2008. Currency risk is, therefore, very low in the country's external debt portfolio within the review period.

FIGURE 6.3: FOREIGN RESERVE CURRENCY COMPOSITION AS AT 31ST DECEMBER, 2008



6.1.4 REFINANCING RISK

This is the risk associated with the government's inability to refinance debt at existing terms or to do so only at much higher costs. Hence, the degree of refinancing risk is a function of both the volume and the time distribution of debt payments.

With the final exit from the Paris and London Clubs debts, this risk is more relevant to the domestic debt portfolio. Until recently, the rollover risk was quite high in Nigeria's debt portfolio because of the relative predominance of short-term tenored instruments in the domestic debt portfolio.

As at 31st December 2008, the total market price for the FGN bonds outstanding was ₦1.5134 trillion against a total face value of ₦1.5000 trillion, which implies a premium of ₦13.4 billion. Even though the bonds are of various tenors and command different market demands, if the DMO decided to refinance the whole instruments, it would have done that at a good premium. This shows a very low level of refinancing risk in the portfolio. Furthermore, the short-term component of the total domestic debt has been reduced significantly from 43.48 percent in 2006 to 32.71 percent in 2007 and further to 29.08 percent in 2008 due to the continuous restructuring exercises, thus making the portfolio more stable (Table 4.4).

As the DMO maintains the component of short term debt instruments to a maximum of 25 percent and with the introduction of 20-year papers in November 2008, government's refinancing costs is expected to reduce significantly within the coming years.

Chapter Seven

OVERVIEW OF BORROWING PLAN AND PERFORMANCE BASED ON APPROVED ANNUAL BUDGET

7.1 INTRODUCTION

The annual borrowing plan is usually encapsulated in the fiscal strategy of the Federal Government based on which the annual budget of the federation is drawn. Over the years, borrowing plans which spell out the sources of funding budget deficits for both domestic and external financing have not been properly monitored alongside major borrowing objectives of government. In order to ensure full implementation of borrowing plans based on which proper budget performance evaluation could be conducted, there is need for an appraisal of the annual borrowing plan and performance based on the annual budget.

This chapter, therefore, analyzes the performance of both the external and domestic borrowing plans of the Federal Government in 2008, with a view to ascertaining the level of successful implementation within the context of the set borrowing objectives.

7.2 BROAD OBJECTIVES OF THE EXTERNAL BORROWING STRATEGY

The broad objectives of the external borrowing strategy of the Federal Government as contained in the National Debt Management Framework (NDMF) are as follows:

a) The need to avoid a relapse into an unsustainable debt position by instilling fiscal discipline at all tiers of government, particularly by extending the Fiscal Responsibility Act to the Sub-national level;

b) The need for new financing to be on concessional terms in order to minimize the cost of foreign currency funding of the government's financing gap, while providing additional resources to accelerate growth, development and poverty reduction, as well as meeting other MDG-related targets; and,

c) The need to facilitate private sector participation in the funding of critical infrastructure, in particular, and the real sector in general, using various methods including Public Private Partnership (PPP) models.

7.2.1 CONCESSIONAL BORROWING

Since the exit from the Paris and London clubs debts in 2006 and 2007 respectively, the Federal Government took a pro-active decision on its future external borrowing relationship that would ensure that the country does not relapse into unsustainable debts. Accordingly, government decided that all its future external borrowings would be concessional. This means that the aggregate concession or grant element in a loan in terms of moratorium, interest rate, and tenor should not be less than 35 percent of the loan amount. This has been adequately captured in the portfolio profile of the country's 2008 external borrowings where all the contracted multilateral loans were concessional.

7.2.2 INFRASTRUCTURAL DEVELOPMENT

In line with the Seven-Point agenda of the current administration, infrastructural development is part of the major objectives of Federal Government's external borrowing. It is noteworthy that US$578.64 million representing over half the World Bank-IDA loans contracted in 2008 was dedicated to infrastructural development. This is apart from BUA188.64 million ADB loan to be used for funding the Nigerian-Cameroun Multi-National Highway Project (Table 7.0).

7.2.3 APPRAISAL OF EXTERNAL BORROWING FOR 2008

It is instructive to note that for the year 2008, no figures were provided in the budget for foreign borrowing as only debt service projection for total public debt was made. However, projected external loans to be negotiated for the year has been evaluated against actual negotiated loans with a view to making a simple appraisal of external loans budget. Table 7.0 shows the projected external loans for negotiation in 2008, while table 7.1 outlines the actual loans negotiated in 2008.

TABLE 7.0 PROJECTED EXTERNAL LOANS TO BE NEGOTIATED IN 2008

S/N	PROJECTS/LOAN SOURCES		AMOUNT (Million)
A	**WORLD BANK (IDA)**		
1	Third National Fadama Development Project		US$250
2	Rural Access and Mobility Project (RAMP)		US$100
3	Federal Roads Development Project		US$350
4	State level Growthpole and Infrastructural Facility		US$50
5	Commercial Agricultural Project		US$150
6	Second State Education Sector Project (SESP)		US$60
7	Community Social Development Project		US$200
8	Lagos-Abidjan Transport and Transit Facilitation Project		US$78
	Sub Total		US$**1,238**
B	**INTERNATINAL FUND FOR AGRICULTURAL DEV. FUND (IFAD)**		
1	Rural Micro Enterprises Development Project		US$43
2	Rural Financial Institutions Building Project		US$27
	Sub Total		US$**70**
C	***AFRICAN DEVELOPMENT BANK (ADB)**		
1	Power Transmission Line Project		BUA80
2	Abuja Urban Transport Project		Not available
3	Water and Sanitation Project Yobe and Osun		BUA198
4	Niger Delta Rice Irrigation Project		Not available
5	Commercialization of 12 River Basin Development Authorities		Not available
6	Strengthening Health System		Not available
7	Abuja Mass Rapid Transit (MRT) System		Not available
8	FADAMA III		Not available
	Total		
	i) IDA		**US$1,238**
	ii) IFAD		**US$70**
	iii) **ADB**		**BUA 278**

Note: * African Development Bank-Some projects in respect of ADB loans are yet to be allocated funds as at review date, hence information on the credit is not available.
Source: International Economic Relation Department (IERD), Federal Ministry of Finance.

TABLE 7.1 EXTERNAL LOANS NEGOTIATED IN 2008

S/NO	PROJECT/LOAN SOURCES		AMOUNT (MILLION)
A	**World Bank-IDA Loans:**		
1.	Third Fadama Development Project		US$ 250
2.	Rural Access and Mobility Project (RAMP) I		US$ 60
3.	Federal Roads Development Project		US$ 330
4.	Commercial Agric Development Project		US$ 150
5.	Community Social Development Project		US$ 200
6.	Health System Development Project		US$ 90
7.	Polio Eradication Project (Additional Financing)		US$ 50
	Total		**US$1,130**
B	**AFRICAN DEVELOPMENT BANK-ADF**		
1.	Nigeria-Cameroun Multinational Highway Project		BUA 188.64
2.	Nigerian Trust Fund Guidelines		Not Applicable
	TOTAL		**BUA 188.64**

From the projected figure of US$1,238.00 million under the World Bank IDA loans for 2008, a total of US$1,130.0 million or 91.28 percent was negotiated for the execution of seven different projects including four infrastructural development projects. Two of the negotiated debts valued at US$140.0 million were however not originally part of the budget. The projects are: Health Systems Development Project (US$90.0 million) and Polio Eradication (Additional Financing) US$50.0 million(Table 7.1).

Under the African Development Bank (ADF) facility, only the Nigeria-Cameroun Multinational Highway project loan valued for BUA188.64 million was successfully negotiated, while no loan was negotiated under the International Fund for Agricultural Development (IFAD) Fund as projected.

7.2.4 APPRAISAL OF DEBT SERVICE

The national budget for 2008 provided for both external and domestic debt service payments. The sum of ₦372.3 billion was proposed for total debt service representing an increase of 25.3 percent relative to 2007. This is made up of domestic debt service of ₦306.2 billion and external debt service of ₦66 billion. Table 7.2 shows total actual debt service payment against the budgeted figure for 2008.

TABLE 7.2: ACTUAL TOTAL DEBT SERVICE PAYMENTS AND BUDGETARY PROVISION FOR DEBT SERVICE IN 2008

	DEBT SERVICE BUDGETARY PROJECTION	ACTUAL DEBT SERVICE PAYMENT
EXTERNAL DEBT	₦66.00 BILLION	₦72.348 BILLION
DOMESTIC DEBT	₦306.2 BILLION	₦471.275 BILLION
TOTAL	**₦372.2 BILLION**	**₦543.623 BILLION**

Actual total domestic debt service payments for 2008 stood at ₦471.275 billion, when compared with the budgetary provision of ₦306.2 billion. This shows an increase of ₦165.075 billion or 35 percent. This increase could be attributed mainly to the increase in domestic debt stock, increase in the amount of maturing debt redeemed (₦134.84 billion in 2008 compared to ₦67.25 billion in 2007), interest payments on new FGN bonds, as well as the exercise of the call option on the local contractors' debt amounting to ₦103.45 billion in 2008.

Actual total external debt service payments for 2008 stood at ₦72.348 billion compared with budgetary provision of ₦66 billion. This shows an increase of ₦6.348 billion or 8.77 percent. This increase was attributed mainly to movement in exchange rate within the year.

7.3 BROAD DOMESTIC BORROWING STRATEGY

The main objectives of the domestic debt strategy as provided in the NDMF include:

a) Raising finance in the domestic market to cover the government's borrowing needs;
b) Funding the nation's debt in a non-inflationary manner, without recourse to monetary financing;
c) Minimizing the cost of government's debt over the long term, while taking into account a prudent degree of risk.
d) Promoting the development of the domestic capital market;
e) Developing mechanisms for Sub-national and Agency Bond Markets;
f) Developing various innovative instruments such as derivatives and mortgage-backed securities to meet the various needs of the market; and,
g) Ensuring proper coordination between debt management and

7.3.1 DOMESTIC BORROWING PLAN 2008

The 2008 domestic borrowing plan of the Federal Government was predicated along the following:

		₦ (bn)
I)	Refinancing Maturing obligations	129.06
ii)	Restructuring of NTBs	125.00
iii)	Refinancing Call-Option on Local Contractors' bonds	59.75
iv)	Funding of Budget Deficit	155.47
v)	Special Funding	42.97
vi)	Cost of Issuance	3.25
	TOTAL	**₦515.50**

The above domestic financing needs were sourced through the monthly issuance of FGN bonds. It would be observed that since some of the auctions were re-openings of existing issues and were done at a discount coupled with the fact that only ₦491.96 billion was allotted, a total of ₦448.194 billion was realized for the year as against the projected figure of ₦515.50 billion. This resulted in a negative differential of ₦67.30 billion or 13.06 percent. Instruments of maturities ranging from 3-year, 5-year, 10-year and 20-year were used to source the funds at rates ranging between 8.99 percent and 15 percent.

7.3.2 FUNDING BUDGET DEFICIT

Funding the budget deficit through FGN bond issuance is a major source of creating additional domestic debt for the country. In 2008, ₦155.47 billion, representing 30.16 percent of the total domestic borrowing needs of the Federal Government was sourced for funding the budget deficit. This is against a projected figure of ₦200.0 billion earmarked for that purpose as contained in the annual budget.

7.4 SUMMARY AND CONCLUSIONS

In summary, it is evident that budget performance under domestic borrowing in 2008 was very successful as government was able to raise about 85 percent of the domestic borrowing needs from the FGN bond market to fund various obligations. Even though total subscription received by government on the instruments in 2008 far outstripped projected funding requirement by 64.22 percent, under subscription in July 2008 and under allotment in July 2008 could only allow a disbursement of ₦448.19 billion to government.

On the external front, a total of US$1,130.00 million IDA loans were negotiated in 2008 as against a projected figure of US$1,238.00 million, while negotiated ADB loans for the same period were BUA188.64 million as against a projected figure of BUA 278.00 million. The negotiated ADB loan for the Nigerian-Cameroun Multinational Highway Project was not originally part of the projected external borrowing. No negotiation was also undertaken on the projected US$70.0 million IFAD loans for 2008. On the other hand, actual total debt service exceeded budgeted figure of N373.20 billion by ₦171.42 billion or 46.2 percent.

On the whole, therefore, actual performance of external and domestic borrowing plans with debt service in numeric terms, vis-a-vis approved budget for 2008, could be considered satisfactory.

Chapter Eight

INSTITUTIONAL ISSUES

8.1 NEW STRATEGIC PLAN 2008 - 2012

The expiration of DMO's first Strategic Plan (2002-2006) coincided with Nigeria's exit from the Paris and London Club debts, thereby affirming the realization of DMO's vision of making Nigeria's debt sustainable by 2006.

The achievement of this Vision necessitated the drafting of a new Strategic Plan in the last quarter of 2007, which became operational in 2008. The new Plan is aimed at consolidating the gains made, as well as, move forward DMO's statutory mandate.

8.1.2 BROAD OBJECTIVE OF THE NEW STRATEGIC PLAN

The Broad objective of the new 2008-2012 Strategic Plan is to ensure that National and Sub-national Governments subscribe to the principles of prudent and sustainable borrowing, and effective utilization of resources, and to create a robust domestic debt market supportive of private sector development.

8.1.3 STRATEGIC OBJECTIVES

The following are the Strategic Objectives of the new Plan:

- To establish and develop effective institutions and debt management capabilities at the sub-national level.
- To maintain a comprehensive, reliable and efficient national and sub-national debt database, and to ensure prompt and accurate settlement of debt service obligations.
- To build a first-rate and internationally competitive bond market, not only to support government financing needs but also to provide the private sector access to long-term financing, in line with the Financial System Strategy (FSS) 2020.
- To develop innovative approaches for optimally accessing external financing.
- To make Nigeria an exporter of debt management skills and major destination for out-sourced debt management services.
- To build and maintain a well-motivated and professional workforce that will drive DMO's Strategic Objectives.

The year 2008 is the first year of the implementation of the New Strategic Plan. The appraisal of the implementation process showed that the DMO is well on track towards achieving its Strategic Objectives. Accomplishments recorded by the DMO in the first year of implementation of the Strategic Plan include among others:

- The creation of the Market Development Department (MDD) and the Bond Auction and Trading System (BATS) Implementation Group Unit, to enhance efforts towards the development of the domestic debt market; and,
- The conduct of special training

programmes for State DMD officials to develop their sub-national debt management capacity.

8.2 THE NATIONAL DEBT MANAGEMENT FRAMEWORK

In 2008, the National Debt Management Framework (NDMF) was approved by the Federal Executive Council. Both domestic and external borrowing guidelines were extracted from the Framework, produced and circulated for implementation by stakeholders.

The NDMF seeks to assist Nigeria in maintaining the current sustainable debt portfolio consistent with economic growth and development in line with the development agenda of the government.

The framework also includes a risk management section designed to ensure prudent risk management and sound debt management practices which entail proactively managing debts, such that debt service costs are minimized subject to an acceptable level of risk.

8.3 WORKSHOP ON THE WORLD BANK/IMF DEBT SUSTAINABILITY FRAMEWORK FOR LOW INCOME COUNTRIES (LICS)

In furtherance of the initiative to ascertain the sustainability of Nigeria's debt portfolio and monitor the effects of new borrowings, the National Debt Sustainably Analysis (DSA) Workshop was conducted from the 4th to the 15th of June 2008, in order to assess the sustainability of Nigeria's debt position in the medium to long term. The enhanced World Bank/IMF-DSA Template which incorporates risk analysis to underline the impact of various risk vulnerabilities capable of negatively impacting the debt portfolio, was used for the conduct of the 2008 DSA.

8.4 ACTIVITIES OF THE SUPERVISORY BOARD OF THE DMO

Quarterly Meetings of the Supervisory Board of the DMO were held as at when due in 2008. The following major decisions were taken by the Board during the year:

- Approval to implement the DMO Strategic Plan 2008-2012 which sets out the broad objectives that would be achieved by the Office within this period;
- Approval of the Template on Sub-national debt management to help expose the States to effective and efficient public debt management practices and fiscal responsibility;
- Consideration and endorsement of the National Debt Management Framework which focuses on guidelines for sustainable external, domestic and sub-national debt management through a broad based policy

direction in the form of medium-term public debt strategies;

- Approval of the proposed amendments to the DMO Act; and,
- Approval of the promotion of deserving staff of the DMO who had met all requisite conditions for promotion.

8.5 CREATION OF A NEW DEPARTMENT

An expansion in the organizational structure of the DMO was necessitated with the implementation of the New Strategic Plan.

In January 2008, the Market Development Department was created out of the existing Portfolio Management Department. This was in order to ensure that focused attention is given to domestic debt market development challenges which include, the introduction of new debt instruments; the implementation of the state-of-the-art IT Auctioning Trading Platform and the effective supervision of the Primary Dealer Market Markers (PDMMs).

8.6 STAKEHOLDER EVENTS

During the year under review, several events involving major stakeholders also featured in DMO's activities. Some of the events organized are highlighted below:

8.6.1 RETREAT FOR NATIONAL ASSEMBLY COMMITTEE MEMBERS

As part of a process to update the members of the National Assembly with policies and guidelines on public debt management as implemented by the DMO, the Office organized two Special Retreats for members of the National Assembly.

The first of the retreats, sponsored and hosted by the His Excellency, the Governor of Kaduna State, was held between the DMO and the members of the Senate Committee on Local and Foreign Debts. The second retreat, sponsored by Zenith Bank Plc and hosted by His Excellency, the Governor of Plateau State took place in Jos, and was held between the DMO and the Members of the House of Representatives Committee on Aid, Loans and Debt Management.

8.6.2 INAUGURATION OF DMO SERVICOM UNIT

As part of an initiative to affirm DMO's buy-in to the Federal Government of Nigeria's reform agenda for effective and efficient service delivery within the public sector, the DMO SERVICOM Unit was formally inaugurated in May, 2008. The event which included a SERVICOM Sensitization Workshop for DMO Staff and stakeholders was an affirmation of DMO's renewed commitment to promote its Core Values of Excellence, Commitment, Integrity, Teamwork and Efficiency

EXCITE - in the discharge of service to both internal and external stakeholders.

8.6.3 CONSENSUS BUILDING INITIATIVES

In line with the DMO's objective of building a robust domestic bond market, the DMO continued to engage with various stakeholders on a bilateral basis and at various committee levels, to identify and implement measures that will amongst others, encourage the development of the sub-national and corporate segments of the bond markets and to increase public awareness as well as investor participation in the bond market in general. These initiatives, in terms of coverage, were all encompassing as they included legal/regulatory issues, policies and procedures, which impact on the development of the bond market. The DMO in its commitment to the domestic bond market serves as secretariat to these committees and activities:

i. **The bond market steering committee (bmsc):** This is a Committee chaired by the Honourable Minister of Finance, with membership comprising of regulators in the financial market (CBN, DMO, NSC, SEC, PENCOM, FIRS and NAICOM) and representatives of market operators (PDMMs Association, Association of Corporate Trustees, Association of Issuing Houses, Discount Market Association, and Money Market Association). In 2008, the Committee identified a number of legal and operational issues which need to be amended or streamlined in order to increase participation by issuers and investors in the sovereign, sub-national and corporate bond markets. Some of these issues have been addressed while others are at various stages of completion.

ii. **Monetary and fiscal policy coordinating committee (MFPCC):** this is an Inter-Agency Committee comprising the CBN, FMF, DMO, NBS, NPC, BOF and OAGF, whose main objective is to ensure that fiscal and monetary policies, as well as debt management strategy/operations are coordinated to ensure stability in the financial market.

iii. **Primary Dealer Market Makers (PDMMs) Monthly Interactive Session:** The PDMM System introduced by the DMO in 2006, has been a very successful means of growing the domestic sovereign bond market. The DMO has through this forum with the 19 PDMMs (14 banks and 5 discount houses), identified and implemented measures to improve the auction, trading and settlements processes. The

Group also serves as a platform for the introduction of new products. The Group includes other stakeholders in the financial market namely the Central Bank of Nigeria, Central Securities Clearing System, and the Securities and Exchange Commission.

8.7 CAPACITY BUILDING

8.7.1 HUMAN CAPACITY BUILDING

The DMO continued its Capacity Building Programme in 2008 by granting approval to five staff to pursue post graduate courses in selected Universities in the United Kingdom in the 2008/2009 academic session.

In the area of training and staff development, several local and foreign courses were funded by both the DMO budget and the DFID Capacity Building Support Project.

8.7.2 STAFFING ISSUES

In furtherance of efforts to strengthen and reposition the DMO for the new challenges, twenty one (21) new members of staff were recruited. The promotion of eligible and deserving members of staff was also carried out in line with DMO's Human Resources policy.

8.7.3 IT SYSTEM UPGRADE

In line with DMO's resolve to maintain its status as a world-class organization and in furtherance of DMO's Strategic Plan 2008 2012, a review and upgrade of DMO's IT infrastructure was embarked upon in 2008. Significant milestones achieved include the following:

- Rebuilding and movement of DMO server platform on DMO-NG domain to the officially registered DMO.GOV.NG domain;
- Migration from Microsoft Exchange 5.5 to Microsoft Exchange 2003;
- Migration of debt recording software CS-DRMS v 1.2 and its application server platform Oracle 9 to higher levels of CS-DRMS v 1.3 and Oracle 10g;
- Upgrade of internal memory capacity of DMO systems to a minimum of 1GB RAM size and the use of shared drive folders across all Departments and Units; and,
- Operation at zero shutdown of all DMO servers/Local Area Network following 24-hour dedicated power supply from NDIC and the acquisition of an inverter/battery powered backup system.

Chapter Nine

FINANCE STATEMENTS AND ACCOUNTS

9.1 2008 BUDGET

Following pre-budget meetings with the officials of the Federal Ministry of Finance, the supervising ministry of the Debt Management Office (DMO) in late 2007, a total budgetary allocation of ₦1,089,385,206 (one billion, eighty nine million, three hundred and eighty five thousand, two hundred and six naira) only was approved for the funding of projects and operations of the Office for the 2008 fiscal year. This amount consisted of ₦261,799,216 for personnel emolument, ₦327,585,990 for goods and non-personal services (overhead) and ₦500 million for capital expenditure.

In total, the amount budgeted for 2008 was substantially more than the total budget for the previous fiscal year. The reason being that in the 2008 budget, provision was made for the renovation/building of a new office complex for the DMO. This resulted in the allocation of N500 million for capital projects for the year, as against ₦9,550,255 allocated under the same expenditure head in 2007. But due to the delay in the release of the capital budget and the failure of the Bureau of Public Procurement to issue us with the appropriate Due Process certificates, we were unable to utilize the N500 million released for capital in 2008. The amount was subsequently returned to the Sub-Treasurer of the Federation (STF) at the end of the year. As for the personnel emoluments and overhead budgets, the budgeted amounts were released in full by the Office of the Accountant-General of the Federation (OAGF) in monthly installments during the year under reference. Out of the allocation for personnel emolument for 2008, a total of ₦235,601,513 was spent for the payment of staff salaries and allowances, an increase of about 12 percent on the previous year's total. Provision of goods and non-personal services, from where most DMO operations are usually funded, cost ₦327,579,878 in 2008, an increase of 27 percent from 2007. This increase was mainly due to the expansion in the activities of the DMO during the year under review to cover even more areas under its approved mandate.

Overall, strict budgetary discipline ensured that we were able to get value for money while meeting our overall corporate objectives, despite obvious budgetary constraints. In comparative terms, there were significant efficiency savings under several expenditure sub-heads in 2008, relative to the preceding year. Details of our budgetary performance and financial results for the year are contained in our audited financial statements for 2008, reproduced in the subsequent pages of this section.

9.2 FINANCIAL STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2008

CORPORATE INFORMATION FOR THE YEAR ENDED 31ST DECEMBER, 2008

SUPERVISORY BOARD

The Supervisory Board has overall responsibility for supervision of the operations of the Debt Management Office. The composition of the Board which was inaugurated in August, 2007 is as follows:

Dr. Goodluck E. Jonathan, (GCON)	- Vice-President of Nigeria. (Chairman)
Dr. Mansur Muhtar	- Minister of Finance (Vice Chairman from Nov. 2008)
Mr. Michael K. Aondoakaa, SAN	- Attorney-General of the Federation and Minister of Justice (Member)
Mallam Tanimu Yakubu	- Chief Economic Adviser to the President (Member)
Prof. Chukwuma C. Soludo, CFR.	- Governor, Central Bank of Nigeria (Member)
Alh. Ibrahim H. Dankwambo, OON	- Accountant-General of the Federation (Member)
Dr. Abraham Nwankwo	- Director-General, DMO (Member/Secretary to the Board)

Dr. Shamsudeen Usman, OFR, (former Minister of Finance) was the Vice-Chairman of the Supervisory Board up to November, 2008.

PRINCIPAL OFFICERS

The following principal officers who constituted the Senior Management Team were responsible for the day-to-day affairs of the Office during the period under consideration:

Dr. Abraham Nwankwo	-	Director -General
Mr. Muhammad Yusufu	-	Director, Portfolio Management Department
Dr. Magaji Mahmoud	-	Director, Policy, Strategy & Risk Management
Mrs. Funmi Ilamah	-	Director, Debt Recording & Settlement.
Ms. Patience Oniha	-	Director, Market Development Department.
Mrs. Asma'u. M. Mohammed	-	Head, Organizational Resourcing Department
Dr. Godson Dinneya	-	Head, Stretegic Programmes Department

DEBT MANAGEMENT OFFICE

CORPORATE INFORMATION
FOR THE YEAR ENDED 31ST DECEMBER, 2008

REGISTERED OFFICE
NDIC Building (1st Floor),
Plot 447/448 Constitution Avenue,
Central Business District
P.M.B. 532,
Garki-Abuja.

EXTERNAL AUDITORS
Ben Ugwu & Co
(Chartered Accountants)
Suite 214 Anbeez Plaza
15 Ndola Crescent Wuse Zone 5,
P.O. Box 77, Garki-Abuja.

BANKERS
(1) Central Bank of Nigeria,
Garki - Abuja.
(2) Zenith Bank Plc
No. 63 Usman Street Branch
Maitama - Abuja.
(3) United Bank for Africa Plc.,
Area 3 Branch, Garki Abuja.

9.2.1 REPORT OF AUDITORS

B&C BEN. UGWU & CO

(Chartered Accountants & Consultants)

HEAD OFFICE:
Suite 214, Anbeez Plaza,
Opp. Corporate Affairs Commission
15 Ndola Crescent Wuse Zone 5,
P. O. Box 77 Garki - Abuja.
☎: 08037202120, 080377378537
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OUR SERVICES:

- Auditing
- Accounting
- Taxation
- Secretarial Services
- Investigation
- Management Consultancy
- Investment Advisory Services
- Computer & Info-tech Services
- Debt Management
  - Negotiation
  - Rescheduling
  - Receivership &

AUDITORS REPORT TO THE MEMBERS OF THE BOARD OF THE DEBT MANAGEMENT OFFICE

We have audited the Financial Statement of **Debt Management Office (DMO)** for the year ended 31st December, 2008 set out on pages 5 to 7, which have been prepared under the historical cost convention and cash accounting basis, together with the accounting policies set out on page 4. We have examined the books of accounts and carried our procedures and obtained all the information and explanation we considered necessary.

RESPECTIVE RESPONSIBILITIES OF THE BOARD AND AUDITORS.

The Board of Debt Management Office is responsible for the preparation of the financial statement. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted the audit in accordance with Accounting Standards issued by the Nigeria Accounting Standard Board. An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Executive Committee in the preparation of the financial statements and whether the accounting policies are appropriate to the circumstance of the Debt Management Office, 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 misstatement. In forming our opinion, we also evaluate the 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 Debt Management Office as at 31st December, 2008 and of the excess of Income over Expenditure and cash flow for the year ended, and have been properly prepared in accordance with the provisions of the Debt Management (Establishment) Act, 2003.

BEN. UGWU & CO
Chartered Accountants
Abuja-Nigeria.

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
126953

Date: 02/06/2009

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31ST DECEMBER, 2008

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 RECEIPTS

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

C FIXED ASSETS/ DEPRECIATION

The Fixed Asset are stated at cost. Depreciation of fixed assets here are computed for notional purposes as the account is prepared on cash accounting and not accrual basis. Therefore, no depreciation was charged to the account under review. However, annexure 111 on page 25 was prepared for management information and could be useful in decision making.

D STOCKS

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

E TAXATION

There was no provision for both Income and Education Taxes during the period ended 31st December, 2008 because the office is a non-profit making organization.

DEBT MANAGEMENT OFFICE
BALANCE SHEET AS AT 31ST DECEMBER 2008

ASSETS EMPLOYED	NOTES	2008 ₦	2008 ₦	2007 ₦	2007 ₦
Fixed Assets	3		203,352,244		194,014,294
Current Assets -Bank and Cash	4	88,870,393		20,632,781	
Deduct Current Liabilities		-		-	
			88,870,393		20,632,781
			292,222,637		**214,647,075**
FINANCED BY:					
Accumulated Fund	5		292,222,637		214,647,075
			292,222,637		**214,647,075**

The Financial Statements were approved by the Management Team on .01/.06/. 2009 and signed on its behalf by:

Director – General ------------------------------ **Dr. Abraham Nwankwo**

Head, Organisational Resourcing Dept. ------------------------------ **Mrs. A.M. Mohammed**

The notes on pages 9-20 form an integral part of these Financial Statements.

9.2.2 STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31ST DECEMBER, 2008

RECEIPTS	NOTES	2008 ₦	2007 ₦
Votes Received	6	1,072,393,465	479,087,281
Additional Funds from Budget Office	6(a)	27,359,882	65,446,659
SPECIAL ITEM			
FGN Bond Floatation	6(b)	260,000,000	288,254,498
10% WHT on PDMMs' Comm.	6 (c)	752,893,102	
Debt Conversion Funding	6(d)	-	50,564,930
Miscellaneous Account	6(e)	70,197,584	182,017,936
		2,182844,033	**1,065,371,304**
EXPENDITURE			
Recurrent Expenditure	7a	1,090,415,397	534,983,685
SPECIAL ITEMS:			
FGN Bond Floatation Expenditure	7b	261,589,606	278,363,488
10% WHT on PDMM's Comm.		752,893102	--
Debt Conversion	7c	--	39,131,597
Paris Club Redemption Proceeds	7ci	13,481,792	--
Miscellaneous Account	7d	49,447,694	164,370,118
		2,167,827,591	**1,016,848,888**
Excess of Income over Expenditure	8	**15,016,442**	**48,522,416**

9.2.3 CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2008

	2008	2007
	₦	₦
Excess of Income over Expenditure	15,016,442	48,522,416
Add: Adjustment for items not involving Movement of cash:		
- Accumulated fund adjustment	-	(83,741,903)
Cash generated/(expended) from Operation	15,016,442	(35,219,487)
Operating Income before working Capital Change:		
	15,016,442	(35,219,487)
Cash from Investing Activities		
Purchase of fixed Assets	(9,337,950)	(27,889,635)
Net Cash Flow for the Year	5,678,492	(63,109,122)
Cash balance as at January 1st	20,632,781	83,741,903
Prior year Adj-Paris club Red. Proceed A/c	62,559,120	
Cash as at 31st December	**88,870,393**	**20,632,781**

The notes on pages 9-20 form an integral part of these Financial Statements.

9.2.4 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2008

1. ESTABLISHMENT OF THE DEBT MANAGEMENT OFFICE

The Debt Management Office (Establishment , etc) Act, 2003 established a separate Debt Management Office for Nigeria which, although under the direct supervision of the Federal Ministry of Finance, is formed as a separate entity, located away from the Ministry and does not form part of the Central Bank of Nigeria. It was created as a separate accounting agency, with an efficient, well organized structure headed by a Director General (equivalent of a Permanent Secretary) as the Chief Executive Officer, who reports to a Supervisory Board.

2. NATURE OF ACTIVITIES

The principal responsibility of the Debt Management Office is to prudently fund Federal Government's budget deficits, using an optimal combination of costs and risks over the medium and long terms and to efficiently manage the government's outstanding debt portfolio from time to time.

The Debt Management Office started operation in October, 2000.

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

	MOTOR VEH & CYCLE	COMPUTER	OFFICE EQUIPMENT	TOTAL
3. FIXED ASSETS (Capital Expenditure)	₦	₦	₦	₦
Value as at 1/1/08	64,852,834	35,090,576	94,070,884	194,014,294
Addition in the year	-	3,942,000	5,395,950	9,337,950
Disposal	-	-	-	-
Written off	-	-	-	-
	64,852,834	39,032,576	99,466,834	203,352,244
DEPRECIATION				
As at 01/01/08	-	-	-	-
Charge for the year	-	-	-	-
Net book Value 31/12/08	64,852,834	39,032,576	99,466,834	203,352,244

	NOTES	2008	2007
4. CURRENT ASSETS		₦	₦
Bank Balances	9	88,870,393	20,632,781
		88,870,393	20,632,781

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

	NOTES	2008	2007
5. **ACCUMULATED FUND**		₦	₦
As at 31/ 12/ 2007		214,647,075	249,866,562
Deduct: Excess of 2006 expended in 2007		-	(83,741,903)
Prior Year Adjustment: Paris club A/c		62,559,120	
Excess of Income over Expenditure		15,016,442	48,522,416
Balance Transferred to Balance Sheet		**292,222,637**	**214,647,075**
6. **VOTES RECEIVED**			
Capital	10	509,200,617	9,550,255
Overhead	11	327,585,989	258,532,040
Personnel Emolument	12	235,606,859	211,004,986
		1,072,393,465	**479,087,281**
SPECIAL ITEMS			
6a Additional fund from Budget office	13	27,359,882	65,446,659
6b FGN Bond Floatation	14	260,000,000	288,254,498
6c CBN Receipt for 10% WHT & Comm.		752,893,102	
6d Debt Conversion	15A	-	50,564,930
6e Miscellaneous	15B	70,197,584	182,017,936
		1,110,450,568	**1,065,371,304**

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

	NOTES	2008	2007
7a **RECURRENT EXPENDITURE**		₦	₦
Personnel Emolument	16	235,601,513	210,976,680
Overheads	17	327,579,878	258,508,083
Additional Release from Budget Office	18	27,358,882	65,446,659
Amount Returned to Chest/ Sub-Treasury	19	499,874,124	52,263
		1,090,415,397	**534,983,685**
SPECIAL ITEMS			
7b FGN Bond Floatation	20	261569,606	278,363,488
7c 10% WHTon PDMM's Comm.		752,893,102	
7c Debt Conversion	21a	--	39,131,597
7ci Paris Club Redemption Proceeds	21b	13,481,792	--
7d Miscellaneous	22	49,447,694	164,370,118
		1,077,412,194	**1,016,848,888**

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

	NOTES	2008	2007
9. BANK BALANCES		₦	₦
UBA		-	-
Zenith Bank I		-	-
Central Bank of Nigeria (FGN Bond Account)		1,395,357	2,964,963
C.B.N. Paris Club Redemption Proceeds		49,077,328	-
Zenith Bank II (Miscellaneous Account)		38,397,708	17,647,818
		88,870,393	**20,632,781**
10 VOTES-CAPITAL			
2007 Allocation Released in 2008		7,895,950	-
1st Installment		1,442,000	4,567,905
2nd Installment		250,000,000	4,584,350
3rd Installment		250,000,000	398,000
Less 2007 WHT Paid in 2008		(137,333)	
		509,200,617	**9,550,255**

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

	2008	2007
	₦	₦
11. VOTES–OVERHEADS		
Jan. Allocation	13,018,654	26,037,308
Feb. Allocation	13,018,654	26,037,308
March. Allocation	13,018,654	26,037,308
April. Allocation	39,055,962	26,037,308
May. Allocation	39,055,962	26,037,308
June. Allocation	7,569,146	26,037,308
July. Allocation	39,055,963	17,051,365
August. Allocation	27,298,832	17,051,365
Sept.. Allocation	27,298,832	17,051,365
Oct.. Allocation	27,298,832	17,051,365
Nov.. Allocation	27,298,832	17,051,365
Dec.. Allocation	54,597,665	17,051,365
	327,585,989	**258,532,040**

	2008	2007
12. VOTES-PERSONNEL		
Jan. Allocation	19,633,905	17,583,749
Feb. Allocation	19,633,905	17,583,749
March. Allocation	19,633,905	17,583,749
April. Allocation	19,633,905	17,583,749
May. Allocation	19,633,905	22,858,874
June. Allocation	19,633,905	17,583,749
July. Allocation	19,633,905	20,221,311
August. Allocation	19,633,905	20,221,311
Sept.. Allocation	19,633,905	20,221,311
Oct.. Allocation	19,633,905	20,221,311
Nov.. Allocation	19,633,905	10,989,843
Dec.. Allocation	19,633,905	8,352,280
	235,606,859	**211,004,986**

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

		2008	2007
		₦	₦
13	**ADDITIONALFUND FROM BUDGET OFFICE (SERVICE WIDE VOTE)**		
	Rent Arrears (Office)	15,320,982	29,369,539
	Pension for CBN staff on secondment	-	29,874,668
	Arrears of increase in Trans allowance	-	660,636
	DSAWorkshop 2008	12,038,900	-
	Workshop on Public Policy & Management	-	5,541,816
		27,359,882	**65,446,659**
14.	**VOTES-FGN BOND FLOATATION**		
	Balances Brought Forward	-	39,454,498
	Fund Released for FGN Bond Operation	260,000,000	160,000,000
	CBN Fund for WHT & Comm. Remittances	752,893,102	
	Transferred from Japanese Grant Aid Acct.	-	88,800,000
		1,012,893,102	**288,254,498**
	SPECIAL ITEMS:		
15a	**.DEBT CONVERSION ACCOUNT**		
	Balance Brought Forward.	-	32,975,657
	Miscellaneous Receipts (Debt Conversion Funding)	-	9,475,000
	Receipts for Advocacy/Paris Club Activities		8,114,273
		--	**50,564,930**
	PARIS CLUB DEBT REDEMPTION EXPENSES		
	Trans. from CBN Paris Club Redemption Proceeds	62,559,120	-
		62,559,120	--

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

CONTINUED	2008	2007
	₦	₦
15b. SPECIAL ITEMS:		
MISCELLANEOUS RECEIPTS		
Balance Brought Forward	--	11,311,748
-Capacity Bulding Fund	11,898,666	4,848,463
-Tax Refund 1st FGN Bond	835,446	2,908,112
-FAAC for State Debt reconciliation	--	186,529
-Sales Books/General Receipts	21,480	682,752
-Expression of interest/Train the Trainers	20,350,000	--
-SAP Training Crown Agents	4,475,250	--
-DSA 2007 Report/Workshop	1,711,537	5,738,497
-Retreat (Sponsored by Zenith Bank)	5,000,000	--
-Study of India by Oceanic Bank	9,922,272	--
-DFID SNDM Zonal Excel Training	13,952,487	--
-Air Ticket (DFID Sponsored Training)	2,030,446	--
-Documentary London Club	--	4,329,340
-Debt relief media interaction	--	2,917,500
-FGN Bond Market -AIT/IT System	--	39,348,706
-Publicity Paris Club & London Club Debt Exit.	--	19,339,052
-Loan To Other Countries.	--	22,035,682
-Committee on Local Contractors	--	2,520,000
-London Club Debt Restructuring	--	31,028,325
-Reimbursement from Paris Club Redemption proceeds Account	--	420,000
-Insurance claims	--	1,586,459
-Establishment of Debt Management Unit	--	2,177,700
-Advertorial Placement	--	11,932,862
	70,197,584	**182,017,938**

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2008

	2008 ₦	2007 ₦
16. EXPENDITURE - CAPITAL		
Computers	3,942,000	2,397,905
Motor Vehicles	-	--
Office Equipment	5,395,950	7,152,350
	9,337,950	**9,550,255**
16a EXPENDITURE - PERSONNEL		
Basic Salary	228,374,195	196,275,762
Regular Allowances	7,060,319	14,700,918
Non-Regular Allowances -Overtime	167,000	--
	235,601,514	**210,976,680**
17. EXPENDITURE-OVERHEADS		
Local Travels	36,446,193	28,916,698
Int'l Travels & Transport	23,939,248	34,205,308
Local Travels & Transport Training	7,108,537	1,888,375
Int'l Travels & Transport Training	29,810,879	14,964,844
Electricity	450,000	205,491
Telephone Charges	5,576,090	3,631,312
Internet Access Charges	5,170,821	2,874,818
Office Materials & Supplies	13,160,192	6,078,553
Library Books & Periodical	3,416,805	1,761,953
Water Rates	393,346	416,000
Computer Material & Supplies	7,131,909	10,259,795
Printing of Non-Security Documents	12,010,702	7,899,392
Drugs & Medical Supplies	375,350	618,650
Other Materials & Supplies	5,850,848	3,107,311
Uniforms & other clothing	1,328,800	--
Maintenance of Motor Vehicles	3,181,367	3,495,663

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

	2008 ₦	2007 ₦
Maintenance of Office Furniture	987,700	4,907,822
Maintenance of Building–Office	5,858,575	2,117,939
Maintenance of Building–Residential	2,848,765	3,652,009
Maintenance of Office Equipment	5,405,016	3,500,665
Maintenance of Computers & IT Equipment	10,140,004	3,158,300
Maintenance of Plant & Generators	353,324	91,805
Local Training	7,059,270	12,314,060
Int'l Training	82,256,375	53,109,097
Security Services	710,000	994,737
Cleaning & Fumigation Services	2,518,000	2,605,000
Office Accommodation Rent	15,320 982	20,000
Financial Consulting	1,933,500	1,964,750
Information Technology Consulting	2,060,000	2,838,917
Legal & Other Professional Charges	--	685,110
Bank Charges	45,446	14,700
Insurance Charges/ Premium	802,023	1,573,028
Motor Vehicle Fuel costs	6,136,000	5,815,800
Generator fuel cost	1,395,000	1,024,360
Refreshment & Meals	5,588,620	9,167,580
Publicity & Advertisements	16,675,949	8,777,405
Postages & Courier	1,429,942	1,058,126
Welfare Packages	1,620,000	8,859,600
Subscription to Professional Bodies	1,064,300	63,200
Contribution to Local Organizations	--	300,000
Scholarship Awards / Grants	--	100,000
	327,579,878	**258,508083**

18. ADDITIONAL FUND FROM BUDGET OFFICE

	2008	2007
Rent Arrears (Office)	15,320,982	29,369,539
Payment of outstanding pension	--	29,874,668
Local Travel & Transport	6,823,962	--
Payment of Transport Allow arrears	--	660,636

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

	2008 ₦	2007 ₦
Printing of Non-security documents	670,500	--
Payment for workshop on public policy	--	5,541,816
Refreshment and Meals	2,530,438	--
Honorarium & Sitting Allowance	2,014,000	--
	27,359,882	**65,446,659**

19. AMOUNT RETURNED TO CHEST

	2008 ₦	2007 ₦
Capital	499,862,667	.
Overheads	6,111	23,957
Personnel Emolument	5,346	28,305
	499,874,124	**52,262**

20. EXPENDITURE - FGN BOND

	2008 ₦	2007 ₦
Local Travels & Transport	16,222,250	902,825
Int'l Travel & Transport	5,943,250	53,236
Int'l Travel & Transport - Training	1,037,000	26,264,029
Local Training	3,984,458	22,499,989
Int'l Training	3,001,231	16,402,298
Office Accommodation Rent	10,163,399	--
Electricity Charges	--	22,724
Bank Charges	1,500	4,500
Refreshment & Meals	3,271,755	2,228,945
Publicity & Advertisements	217,864,763	58,460,164
Other Miscellaneous Expenses	100,000	3,310,600
Training & Seminars - Local	--	23,138,880
Printing of Non-Security Documents	--	1,320,500
Telephone, Postages & Courier services	--	370,537
Japanese Grant Aid expenses	--	88,800,000
Insurance Charges	--	345,302
Financial Consulting	--	7,500,000

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

	2008 ₦	2007 ₦
Honorarium & Sitting Allowances	--	300,000
Internet Access charges	--	300,000
Office materials and supplies	--	1,343,010
Library Books & Periodicals	--	143,110
With-Holding Tax (WHT)	752,893,102	--
Computer Material & Supplies	--	651,220
Maintenance of Office Furniture	--	1,480,000
Maintenance of Motor Vehicles	--	34,834
Maintenance of Building-Office	--	316,500
Maintenance of Building-Residential	--	1,400,000
Maintenance of Computers & IT Equipment	--	2,770,085
	1,014,482,708	**278,363,488**

21a. DEBT CONVERSION ACCOUNT

EXPENDITURE	2008 ₦	2007 ₦
Int'l Training	--	4,903,764
Miscellaneous Expenses	--	6,140,900
Int'l Travel & Transport	--	1,143,000
Bank Charges	--	7,500
Local Tavels & Transport	--	4,020,080
Refreshment & Meals	--	50,000
Cash Transfer to NIPC	--	22,866,353
	--------------	**39,131,597**

21b. PARIS CLUB DEBT REDEMPTION EXPENSES

	2008 ₦	2007 ₦
Technical Committee Reconciliation of State External Debt.	1,625,680	--
Publicity: Paris & London Clubs	11,856,112	--
	13,481,792	

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

	2008 ₦	2007 ₦
22. SPECIAL ITEMS:		
MISCELLANEOUS ACCOUNT		
FAAC State Debt Reconciliation	402,600	149,529
Capacity Building Fund	2,261,890	4,109,269
Tax Refund: 1st FGN Bond	2,908,118	--
Workshop DSA Report	870,000	6,906,247
Advertisement & Publicity	--	11,932,862
Loan to other Countries	2,176,900	12,882,097
Debt Conversion	86,000	--
Tender (EOI) Expenses	6,450,700	--
SAP training Crown Agents	4,475,250	--
Train the Trainers	9,480,462	--
Retreat for Members of House	5,000,000	--
Study Tour of India expenses	--	--
Publicity, Paris club & London club Debt Exit	--	19,339,052
FGN Bond market AIT/IT System	--	35,732,706
Committee on Local Contractors	--	2,520,000
Debts relief media interactive forum	--	2,917,500
Miscellaneous Expenses	--	11,085,928
Documentary London Club Debt	--	4,329,340
Paris Club Red. Proceeds.	--	17,047,775
DFID Support on SNDM Training	13,305,328	--
Air Ticket (DFID) Training	2,030,446	--
London Club -Debt Restructuring	--	30,970,902
Sales of Books	--	682,752
Insurance Claims	--	1,586,459
Establishment of Debt Mgt. unit	--	2,177,700
	49,447,694	**164,370,118**

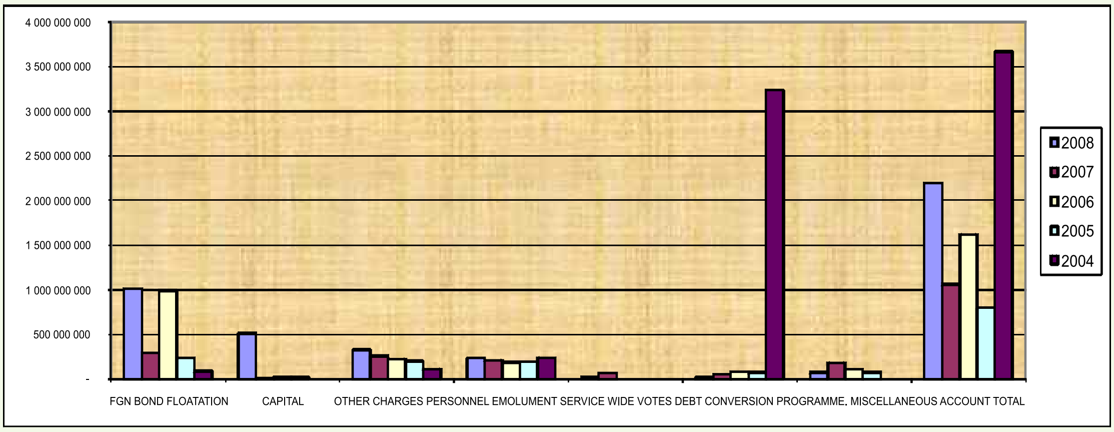
9.2.5 ANNEXURE TO THE FINANCIAL STATEMENTS

ANNEXURE 1

SUMMARY OF TOTAL VOTES
FOR THE YEARS 2004-2008

	2008	2007	2006	2005	2004
FGN BOND FLOATATION	1 012 893 102	288 254 498	990 618 000	237 296 798	86 892 104
CAPITAL	509 200 617	9 550 255	21 485 202	20 000 000	-
OTHER CHARGES	327 585 989	258 532 040	224 705 980	200 490 562	110 021 909
PERSONNEL EMOLUMENT	235 606 859	211 004 986	190 474 511	192 303 988	237 855 498
SERVICE WIDE VOTES	27 207 282	65 446 659	-	-	-
DEBT CONVERSION PROGRAMME.	13 481 792	50 564 930	82 168 433	71 292 031	3 234 388 163
MISCELLANEOUS ACCOUNT	70 197 584	182 017 936	106 472 890	75 673 062	-
TOTAL	***2 196 173 225***	***1 065 371 304***	***1 615 925 016***	***797 056 441***	***3 669 157 674***

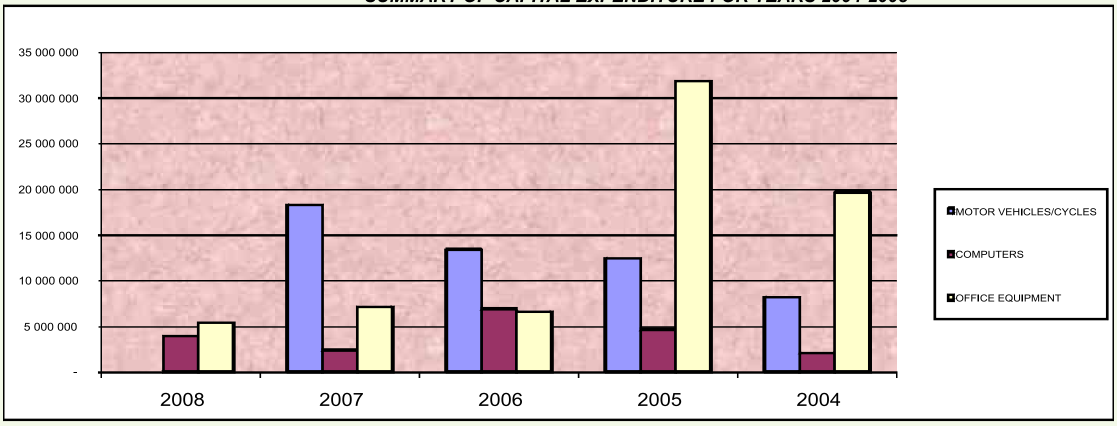
SUMMARY OF TOTAL VOTES FOR THE YEAR 2004-2008.



ANNEXURE 1 CONT'D
SUMMARY OF CAPITAL EXPENDITURE
FOR THE YEARS 2004-2008

	2008	2007	2006	2005	2004
MOTOR VEHICLES/CYCLES		18 339 380	13 438 997	12 483 531	8 228 325
COMPUTERS	3 942 000	2 397 905	6 910 000	4 698 500	2 091 000
OFFICE EQUIPMENT	5 395 950	7 152 350	6 602 350	31 890 923	19 697 098
	9 337 950	27 889 635	26 951 347	49 072 954	30 016 423

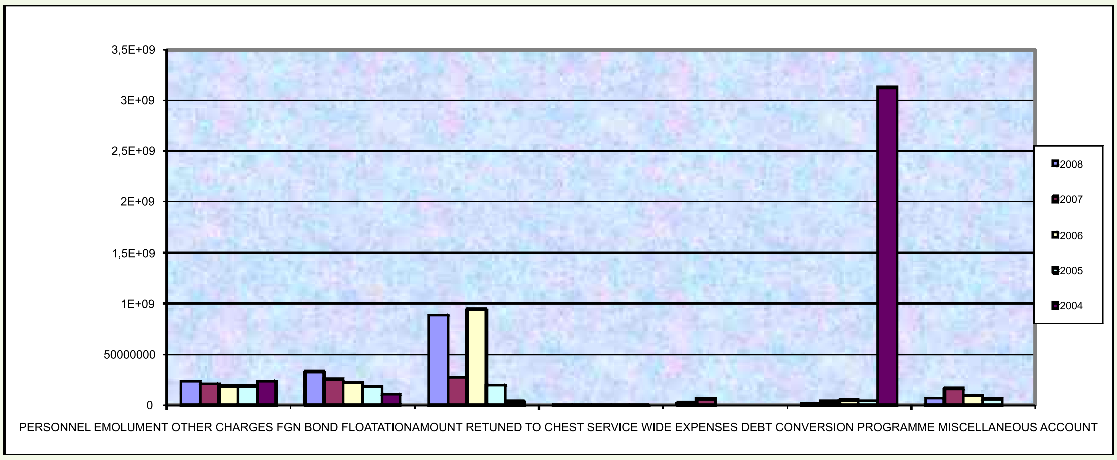
SUMMARY OF CAPITAL EXPENDITURE FOR YEARS 2004-2008



ANNEXURE 1
DEBT MANAGEMENT OFFICE
SUMMARY OF EXPENDITURES

	2008	2007	2006	2005	2004
PERSONNEL EMOLUMENT	235601514	210976680	190388315	192264110	237812358
OTHER CHARGES	330006954	258508083	224296931	184482204	109973161
FGN BOND FLOATATION	888253706	278363488	946217357	199096967	38153343
AMOUNT RETUNED TO CHEST	6111	52263	125245	45976	91888
SERVICE WIDE EXPENSES	24932806	65446659	0	0	0
DEBT CONVERSION PROGRAMME	13481792	39131597	49042776	41913754	3132875216
MISCELLANEOUS ACCOUNT	69081599	164370118	95161142	66349996	0
	1561364482	1016848888	1505231766	684153007	3518905966

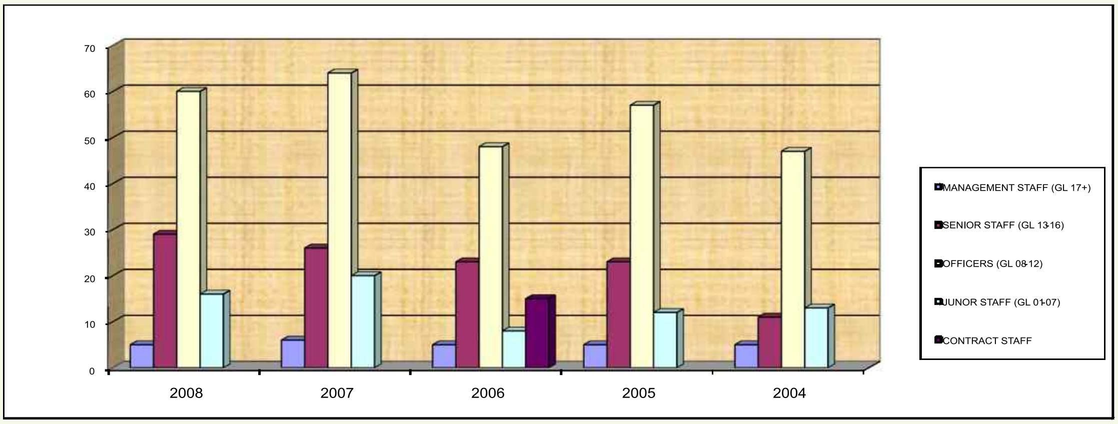
SUMMARY OF RECURRENT EXPENDITURE FOR THE YEARS 2004-2008.



ANNEXUTRE 11
DEBT MANAGEMENT OFFICE
SCHEDULE OF STAFF STRENGTH FOR THE YEARS 2004 - 2008

	2008	2007	2006	2005	2004
MANAGEMENT STAFF (GL 17+)	5	6	5	5	5
SENIOR STAFF (GL 13-16)	29	26	23	23	11
OFFICERS (GL 08-12)	60	64	48	57	47
JUNOR STAFF (GL 01-07)	16	20	8	12	13
CONTRACT STAFF			15		

SCHEDULE OF STAFF STRENGTH FOR THE YEARS 2004-2008



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

	MOTOR VEHICLE AND CYCLE	COMPUTER	OFFICE EQUIPMENT	TOTAL
FIXED ASSETS	N	N	N	N
(CAPITAL EXPENDITURE)				
COST AS AT 01/01/08	64 852 834	35 090 576	94 070 884	194 014 294
ADDITIONS		3 942 000	5 395 950	9 337 950
DISPOSAL				
WRITTEN OFF				
	64 852 834	**39 032 576**	**99 466 834**	**203 352 244**
DEPRECIATION				
AS AT 01/01/08	38 525 459	26 634 621	57 396 047	122 556 127
CHARGE FOR THE YEAR	16 213 208	9 758 144	19 893 367	45 864 719
DISPOSAL				
WRITTEN OFF				
	54 738 667	**36 392 765**	**77 289 414**	**168 420 846**
NET BOOK VALUE AT 31/12/08	**10 114 167**	**2 639 811**	**22 177 420**	**34 931 398**
NET BOOK VALUE AT 31/12/07	**26 327 375**	**8 455 955**	**36 674 837**	**71 458 167**

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 since the cash basis of accounting is the method being used in public sector.