DEBT MANAGEMENT OFFICE
NIGERIA

NATIONAL DEBT MANAGEMENT FRAMEWORK

2013 - 2017

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GLOSSARY

AMCON	Assets Management Corporation of Nigeria
ATM	Average Term-to-Maturity
ATR	Average Term-to-Refixing
BAS	Bond Auction System
BOF	Budget Office of the Federation
BMSC	Bond Market Steering Committee
CBN	Central Bank of Nigeria
CLM	Contingent Liability Management
CMC	Cash Management Committee
CLMC	Cash and Liquidity Management Committee
CRF	Consolidated Revenue Fund
CRR	Cash Reserve Requirements
CSCS	Central Securities Clearing System
DAS	Dutch Auction System
DMDs	Debt Management Departments
DMO	Debt Management Office
DRSD	Debt Recording and Settlement Department
DSA	Debt Sustainability Analysis
EMIT	Economic Management Implementation Team
FCT	Federal Capital Territory
FDI	Foreign Direct Investment
FEC	Federal Executive Council
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
FLAC	Fiscal and Liquidity Management Committee
FMDA	Financial Markets Dealers Association
FMF	Federal Ministry of Finance
FRA	Fiscal Responsibility Act, 2007
FRN	Federal Republic of Nigeria
FSS	Financial System Strategy
GDP	Gross Domestic Product
GIFMIS	Government Integrated Financial Management Information System
GS	Government Stockbroker
HMF	Honourable Minister of Finance
ICM	International Capital Market
IFC	International Finance Corporation
IMF	International Monetary Fund
IPPIS	Integrated Personnel Payroll Information System
ISA	Investment and Securities Act, 2007
ISPO	Irrevocable Standing Payment Order
IT	Information Technology
MDAs	Ministries, Departments and Agencies
MDD	Market Development Department

MDGs	Millennium Development Goals
MFPCC	Monetary and Fiscal Policy Coordinating Committee
MPR	Monetary Policy Rate
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
NAICOM	National Insurance Commission
NASS	National Assembly
NBS	National Bureau of Statistics
NCS	Nigerian Customs Services
NDMF	National Debt Management Framework
NEMT	National Economic Management Team
NNPC	Nigerian National Petroleum Corporation
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
OMO	Open Market Operations
ORD	Organizational Resourcing Department
ORM	Operational Risk Management
OTC	Over-The-Counter
PDMI	Public Debt Management Institute
PDMMs	Primary Dealer Market Makers
PENCOM	National Pension Commission
PMD	Portfolio Management Department
PPPs	Public-Private-Partnerships
RMC	Risk Management Committee
SEC	Securities and Exchange Commission
SND	Sub-national Debt
SNGs	Sub-national Governments
SPD	Strategic Programmes Department
SPG	Special Programmes Group
TBs	Treasury Bonds
TCs	Treasury Certificates
TSA	Treasury Single Account
US$	United States Dollar
WB	World Bank

CHAPTER ONE

INTRODUCTION

The Debt Management Office (DMO) developed and published the first medium-term National Debt Management Framework (NDMF), 2008-2012, to guide the maintenance of a sustainable debt portfolio that is consistent with the economic growth and development agenda of the government in 2007. It was adopted soon after the country's exit from the Paris and London Club debts overhang and following series of consultations with relevant stakeholders. It was designed to provide a broad Framework for effective public debt management and to ensure that the country does not relapse into debt unsustainability.

The Framework, which was approved by the Federal Executive Council (FEC), provided guidance for public debt management decisions in the country. Its specific objectives, amongst others, were to:

i. make public debt management a visible instrument for growth, development and poverty reduction;
ii. maintain public debt sustainability; and,
iii. strengthen the existing legal, institutional and policy frameworks for efficient debt management in the country.

The NDMF, 2008-2012, contained, *inter alia,* a review of the Federal Government of Nigeria (FGN) domestic and external debt portfolio, information on the legal framework for debt management, the organizational structure of the DMO, the macro-economic underpinnings, and the broad policy objectives of public debt management. It also contained guidelines on external and domestic borrowing by States and Federal Government's On-lending or Guarantees to States and their agencies.

The imperative for the review of the NDMF, 2008-2012, arose not only because of its expiration in terms of timeline and the accomplishments of most of the set goals, but most especially, to update and keep pace with the dynamics of evolving public finance and debt management practices and to set new trajectories. The new NDMF also seeks to sustain the gains recorded under the previous framework and address the perceived limitations.

Accordingly, the NDMF, 2013-2017, has been developed to consolidate on the laudable achievements under the NDMF, 2008-2012, and to provide the broad policy direction that will serve as a reference document for the effective and efficient conduct of public debt management operations for the Federal and Sub-national Governments in the country. In summary, it seeks to actualize the DMO's broad strategic objective of *"ensuring efficient public debt management in terms of a comprehensive, well diversified and sustainable debt portfolio, supportive of Government and private sector needs."*

Following the experience garnered in the implementation of the previous Framework, including suggestions and inputs by stakeholders, the current one has been designed as a reference document for debt management operations in the country. It presents in broad terms, the policies and strategies put in place to meet government's borrowing requirements at minimal cost and prudent degree of risk, as well as, ensure the growth and development of the countries local and international securities' markets. Being an operational document, the policies and strategies may be varied as the need arises to keep pace with changes in the domestic and global financial and economic environment.

The Framework is delineated into six broad Chapters, starting with this introductory part as Chapter One. Chapter Two presents an in-depth review of the debut NDMF, 2008-2012, accomplishments and outstanding debt management issues under it. Chapter Three outlines the legal and institutional arrangement for public debt management in the country and the organizational structure of the DMO, as well as, the approval process for public borrowing by the Federal Government of Nigeria (FGN). Chapter Four contains the specific policy frameworks and strategies for public debt management in Nigeria. Chapter Five deals with the initiatives aimed at sustaining the development of government's securities market, while Chapter Six contains the revised and abridged External and Domestic Borrowing Guidelines for Federal and State Governments and their Agencies.

CHAPTER TWO

REVIEW OF THE NATIONAL DEBT MANAGEMENT FRAMEWORK, 2008-2012

2.1 The Objectives of the NDMF, 2008-2012

The broad policy objectives of the NDMF, 2008-2012, were as follows:

a) Making public debt become a visible instrument for growth, development and poverty reduction.
b) Maintaining debt sustainability.
c) Strengthening existing legal, institutional and policy frameworks for efficient debt management.
d) Adopting a holistic view of debt as composed of both public and private debt and to keep track of the evolution of both components, as well as, identifying and managing contingent liabilities.
e) Maintaining a comprehensive, reliable and efficient national and sub-national debt database, and to ensure prompt and accurate settlement of debt service obligations.
f) Integrating cash management with debt management to reduce the cost of funding to government.
g) Mobilising additional financing, such as grant and concessional loans to accelerate growth and poverty reduction and meeting other Millennium Development Goals (MDG)-related targets.
h) Borrowing from concessional sources in the short to medium-term, while working towards establishing a viable and competitive presence in the International Capital Market (ICM) in the medium to long-term, in order to finance key infrastructure projects.
i) Development of a multi-instrument domestic debt market with deepened participation to support private sector-led growth through enhanced access to credit.
j) Widening the scope of the financial and capital markets in line with the Financial System Strategy (FSS), 2020 through the use of derivatives and other instruments.
k) Developing a debt market for State Governments that will allow them to have access to borrowing through the issuance of State bonds.
l) Creatively using FGN guarantees to support the financing of projects under Public-Private-Partnership (PPPs) initiatives, Joint Ventures Schemes and on-lending to sub-national entities.
m) Modelling and implementing effective risk management strategies.

2.2 Assessment of the Implementation of the NDMF, 2008-2012

It may be recalled that the NDMF, 2008-2012, was developed as part of the objective of launching public debt management in Nigeria into a new phase following the exit from the Paris and London Club debts in 2006. It served as a very useful complement to the DMO's second Strategic Plan, 2008-2012, which was then the pivotal tool of implementation of all the articulated goals of public debt management. In this regard, the assessment of the Framework will be undertaken along the line of general developments in the core strategic objectives enumerated above, while noting a few others pertaining to its specific provisions, principally to show the progression and status of public debt management in Nigeria.

a) Making public debt become a visible instrument for growth, development and poverty reduction - To a very large extent, public debt management in Nigeria has been transformed into a visible vehicle for growth, development and poverty reduction as evidenced by the proportion of fiscal deficits and special needs of the Federal Government funded over the years, which are shown in Table 1. The special borrowings include the Commercial Agriculture Credit Scheme managed by the Central Bank of Nigeria (CBN), Rehabilitation of Abuja Airport and Kubwa Expressways, and Cotton and Garments Stimulus Fund.

Table 1: Funded Fiscal Deficits and Special Borrowings, 2008-2012

Year	2008	2009	2010	2011	2012
Fiscal Deficit (₦' Billion)	537.95	836.6	1,993.36	1,136.62	1,136.20
Fiscal Deficit/GDP (%)	*0.84*	*3.02*	*6.11*	*2.96*	*2.85*
Portion of Fiscal Deficit Funded by Domestic Borrowing (₦' Billion)	155.47	524.11	1,360.14	852	744.44
Domestic Borrowing % of Fiscal Deficit	*29*	*63*	*68*	*75*	*65*
Government's Special Borrowing	42.94	340.8	178.49	46.5	-

b) Maintaining debt sustainability - The Framework and other debt management tools, such as the National Debt Sustainability Analysis (DSA) workshop, which has been conducted annually since 2005, have helped to maintain debt sustainability. Table 2 highlights the country's commitment to the maintenance of public debt sustainability as the Debt/GDP ratio remained below the self-imposed country-specific debt limit of 25 percent, when compared to the international standard peer group threshold of 40 percent throughout the period under review.

Table 2: Total Public Debt and Sustainability Ratios, 2008-2012

Year	2008	2009	2010	2011	2012
External Debt (₦' Million)	3,720.36	3,947.30	4,578.77	5,666.58	6,276.03
% Share of Total	*17.39*	*15.29*	*13.05*	*13.64*	*13.46*
Domestic Debt (₦' Million)	17,678.55	21,870.12	30,514.33	35,882.86	40,354.96
% Share of Total	*82.61*	*84.71*	*86.95*	*86.36*	*86.54*
Total Debt Stock (₦' Million)	21,398.91	25,817.42	35,093.10	41,549.44	46,630.99
Total Debt/GDP Ratio	11.56	15.50	17.20	17.45	19.40
Peer Group Threshold	30	40			

c) Strengthening existing legal, institutional and policy frameworks for efficient debt management - Efforts were made to strengthen the existing legal, institutional and policy framework for debt management in the country through stakeholder collaborations and the review of existing regulations and guidelines. For instance, the DMO's Act is being amended to broaden the scope of debt management in the country. The External and Domestic Borrowing Guidelines were revised after various stakeholder engagements (see details in Chapter Six).

In addition, the DMO also undertook comprehensive review of its Operational Circulars Nos. 1 and 2 for the FGN Bond Market to bring them in line with developments in the financial system. These are Operational Circular No 1 ('A Guide to Operations for the Debt Management Office, Nigeria in the FGN Bond Market') and Operational Circular No 2 ('General Rules and Regulations Governing the Primary Dealer Market Makers (PDMMs) System in FGN Securities'), also referred to as the PDMMs Guidelines.

d) Maintaining a comprehensive, reliable and efficient national and sub-national debt database, and to ensure prompt and accurate settlement of debt service obligations – As at date, the national debt database has remained comprehensive, while debt service obligations were met as and when due. At the sub-national level, the publication of the Report on the Establishment of Debt Management Departments (DMDs) and Domestic Debt Data Reconstruction of the States and the FCT as at end of December, 2011, by the DMO, completed the quest to have a comprehensive and reliable debt database for the Federal Republic of Nigeria (FRN). Thus, with the publication, the country for the first time, now has a national debt database comprising both the Federal and State Government's debt stocks as at the end of 2011. The data would serve as the base for subsequent collation, review and publication of comprehensive total public debt data of the FGN, States and the FCT on a regular basis.

e) Mobilising additional financing, such as grants and concessional loans to accelerate growth and poverty reduction and meeting other MDG-related targets - The DMO has pursued this task relentlessly in a multi-dimensional way. First, is the institutionalisation of the policy which stipulates that governments' borrowing would be mainly from the concessional windows of the multilateral financial institutions. Second, and closely related is ensuring that all new external debts are tied to developmental projects which would have significant impact on economic growth and poverty reduction in the country. Third, is the gradual increase of the component of concessional debt in the external debt portfolio, that is, from 77 percent of the total external debt stock in 2008 to about 90.98 percent in 2012.

f) Borrowing from concessional sources in the short to medium-term, while working towards establishing a viable and competitive presence in the ICM in the medium to long-term, in order to finance key infrastructure projects - Table 3 shows that on the average, about 92 percent of external borrowings were from the concessional windows under the Framework. The DMO also worked to establish Sovereign Benchmark in the ICM through its debut US$500 million 10-year 6.75 percent Sovereign Eurobond issuance in January, 2011. The establishment of the sovereign benchmark has opened access for the private sector to source relatively less expensive financing from the ICM. By the end of 2012, two Nigerian corporates, Guaranty Trust Bank Plc and Access Bank Plc, had raised a total of US$850 million from the ICM, that is, US$500 million and US$350 million, respectively.

g) Development of a multi-instrument domestic debt market with deepened participation to support private sector-led growth through enhanced access to credit - Under the Framework, the DMO pursued an aggressive domestic debt market transformation initiatives along with stakeholders, which include, amongst others:

   i. the diversification of the holding structure of FGN securities to achieve about 93 percent private sector holdings, while CBN's holdings arose from it discounting operations in the secondary market (Table 4);
   ii. streamlining of the different types of outstanding debt instruments to mainly FGN Bonds and NTBs as at the end of December, 2012 (Table 5); and,
   iii. the establishment of a sovereign bond market yield curve of 3 months to 20 year tenor (Figure 1).

Table 3: External Borrowing by Creditor Category as a Percentage of Total External Debt (US$' Billion)

Category of Creditors	2008	2009	2010	2011	2012
A. Official: Concessional					
Bilateral	4.90	4.60	3.56	8.01	10.77
Multilateral	85.28	88.78	92.12	80.63	80.70
Sub-Total	**90.19**	**93.38**	**95.68**	**88.64**	**91.47**
B. Commercial					
Eurobond	0.00	0.00	0.00	8.82	7.66
Other Commercials	9.81	6.62	4.32	2.54	0.87
Sub-Total	**9.81**	**6.62**	**4.32**	**11.36**	**8.53**
Grand Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

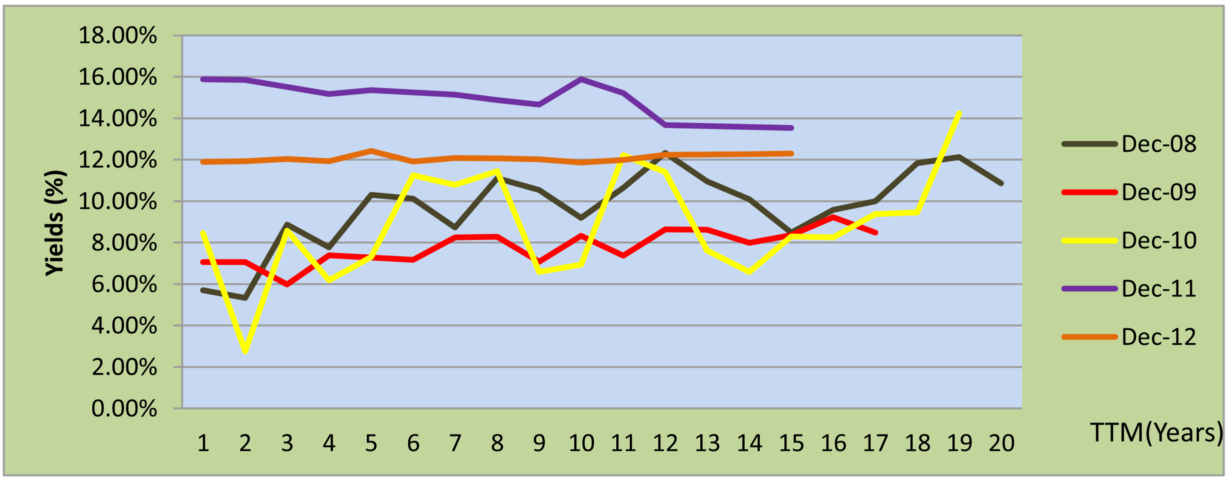
Table 4: Domestic Debt Outstanding by Holders, 2008-2012 (₦'Billion)

Holders	2008	2009	2010	2011	2012
CBN	289.37	323.18	343.14	348.84	398.27
Banks and Discount Houses	1,482.16	1,274.58	2,605.01	3,790.90	3,580.42
Non-Bank Public	428.03	1,345.55	1,459.30	1,336.61	2,398.52
Sinking Fund	120.75	284.72	44.37	146.49	160.32
TOTAL	**2,320.31**	**3,228.03**	**4,551.82**	**5,622.84**	**6,537.53**

Table 5: Trend in Domestic Debt Outstanding by Instruments, 2008–2012 (₦' Billion)

Instruments	2008	2009	2010	2011	2012
FGN Bonds	1,445.60	1,974.93	2,901.60	3,541.20	4,080.05
NTBs	471.93	797.48	1,277.10	1,727.91	2,122.93
Treasury Bonds	402.26	392.07	372.90	353.73	334.56
Dev. Stock	0.52	0.52	0.22	-	-
Promissory Notes	-	63.03	-	-	-
Total	**2,320.31**	**3,228.03**	**4,551.82**	**5,622.84**	**6,537.54**

Figure 1: FGN Bond Yield Curves as at end-December, 2008-2012



The remarkable achievements recorded in the development of the domestic debt market led to its endorsement by two reputable international financial institutions, notably, J. P. Morgan and Barclays Capital, which included FGN Bonds in their local currency tradable index on October 1, 2012 and March 01, 2013, respectively. These have effectively led to the externalization of the FGN Bond market, thereby integrating the Nigerian bond market into the global financial market. Another milestone recorded in the externalization process was the issuance of Naira-denominated debt instrument worth US$76 million in the domestic market by a member of the World Bank Group, the International Finance Corporation (IFC) in March, 2013, to increase the range of products available in the domestic debt market, set benchmark for other international bond issuers and attract foreign investments into the country.

In addition to the foregoing, the goal of deepening participation was also pursued through the amendments of the Personal Income Tax, Companies Income Tax and the Value Added Tax Acts to grant institutions and individuals tax exemptions on income on Bonds issued by State Governments, Corporates and Supra-nationals. These tax waivers were aimed at creating a level playing field for all Bonds issued in the domestic bond market to reduce the cost of borrowing for other debt issuers with the overall objective of incentivising corporates to access the bond market for long-term funds to grow the real sector.

h) Developing a debt market for State Governments that will allow them access to borrowing through the issuance of State bonds - The development of the domestic debt market highlighted above had other salutary effects of increasing market confidence and opening up of access for States and Corporates to raise long-term funds from the debt market. Part of this, is the fact that the CBN is ready to grant liquid assets statute to eligible State Government bonds that qualifies to enhance secondary market activities on sub-nationals bonds and further deepen the domestic bond market. Table 6 shows the trend of States and Corporate debt issuance within the period under review.

Table 6: Debt Issuance by States and Corporates, 2008-2012 (₦' Billion)

Issuer	2008	2009	2010	2011	2012
States	50.00	91.50	107.50	92.00	157.00
Corporates	5.17	15.41	73.50	72.42	32.04

Source: Securities and Exchange Commission

i) Creatively using FGN Guarantees to support the financing of projects under PPP initiatives, Joint Venture Schemes and on-lending to sub-national entities - The DMO has continued to discharge and pursue this objective in several ways. Notably, the DMO served as the Secretariat to the Technical Committee that evaluated and packaged the US$1.2 billion Lekki Deep Sea Port project owned by the Eurochem Corporation Pte Limited, the Nigerian Ports Authority and the Lagos State Government. The DMO has also worked in partnership with the private sector to set up a resolution mechanism for the settlement of local contractors' arrears through the establishment of a Special Purpose Vehicle and issuance of 5-year split-coupon bonds.

j) Modelling and implementation of effective risk management strategies - The realisation of this objective effectively commenced with the holding of a national workshop in 2011 that led to the development of the Medium-Term Debt Strategy (MTDS), 2012-2015, in December, 2011. The MTDS analytical tool is designed to model and evaluate various borrowing strategies available to a country with particular reference to cost and risk trade-offs and preferences and enables the choice of an optimal portfolio mix, amongst several portfolio composition options. The MTDS tool, which focuses on costs and risks inherent in present and future debt portfolio, is complementary to the DSA, which is concerned with the ability of the country to honour its current and future debt obligations without undue adjustments. Though, these are efforts in the right direction, current debt management trends indicate that more work needs to be done in the area of risk modelling, evaluation and analysis.

2.3 Outstanding Matters in the NDMF, 2008-2012

Although significant progress has been made in the pursuit of the key objectives of the NDMF, 2008-2012, there are a few areas in the Framework that are yet to be fully implemented. These include:

a) Adopting a holistic view of debt as composed of both public and private debts and to keep track of the evolution of both components, as well as, identify and manage contingent liabilities - The effort to comprehensively identify and manage the country's contingent liabilities commenced with the establishment of a recording Unit in the DRSD, but it came to the fore with the establishment of the Special Programmes Group (SPG), a non-departmental Unit in the DMO in 2011. It was only in the later part of 2012 that the efforts made over the years to identify and include private sector external debts in the annual DSA of the country began to yield result through the establishment of a

Committee on Private Sector Foreign Debts made up of the FMF, DMO and CBN. These have set the stage for the pursuit of this objective, and it would be of high priority, going forward.

b) Integrating cash management with debt management aimed at reducing the cost of funding to the government – The implementation of this objective involves other key stakeholders in the fiscal operations of the government. The DMO, along with other stakeholders, has been pursuing this objective using its membership of the Cash and Liquidity Management Committee (CLMC) of the government as a platform. In this regard, concrete and on-going effort towards realising the objective effectively commenced in 2012 with the introduction of Government Integrated Financial Management Information System (GIFMIS) and Treasury Single Account (TSA), both of which are being located in the Office of the Accountant-General of the Federation (OAGF).

c) Widening the scope of the financial and capital markets in line with the FSS 2020 through the use of derivatives and other instruments – Though the government approved the introduction of Securities Lending into the FGN Bond market towards the end of 2012, this could not be implemented due to the inability of the CBN's T-24 IT system to handle the instrument. The CBN had already commenced the upgrade of its system, while the DMO has also initiated moves to procure and install an integrated Electronic Bond Auctioning Platform. The introduction of Bond Buybacks had been deferred due to budgetary constraints, while the approval for Switches was still being awaited by the end of 2012. The Guidelines, Procedure Manual and Tender Forms for Securities Lending and Switches have also been prepared.

d) It is important to state that while the objective of developing the domestic debt market for the private sector to access long-term funds has been reasonably achieved, there are outstanding issues that require stakeholders' collaboration. For instance, the Presidential approval received in 2010 for the reduction of Stamp Duties on re-issues of debentures and waiver of Capital Gains Tax on securities would require the amendment of the relevant laws. This is the task of the National Assembly (NASS) and activities in this regard fall within the purview of the Federal Inland Revenue Services (FIRS), which are still on-going.

CHAPTER THREE

LEGAL AND INSTITUTIONAL FRAMEWORK FOR PUBLIC DEBT MANAGEMENT, 2013-2017

3.0 Introduction

Sound international practices in public debt management require laws that clearly define and assign responsibilities to government institutions and agencies with respect to managing, issuing new debts, and carrying out other debt related activities for the government. This Chapter of the NDMF, 2013-2017, outlines the basic legal and institutional arrangements for public debt management in Nigeria, the organizational structure and key functions of the DMO - the agency charged with public debt management, special inter-agency relations and inter-agency debt management committees, as well as, the approval process for all FGN's borrowing. The purpose is to situate and put in proper perspective the roles of each government institutions and agencies involved in contracting and managing public debt in Nigeria.

3.1 Legal Framework for Public Debt Management

The following set of legal instruments and their inherent provisions provide the legal framework for public debt management in the country.

3.1.1 The Constitution of the Federal Republic of Nigeria, 1999 (as amended): The 1999 Constitution vests on the National Assembly (NASS) the exclusive powers to make laws to regulate domestic and external borrowing in the country. The Second Schedule of the Exclusive Legislative List, Items 7 and 50 confer this authority on the NASS. Pursuant to its constitutional authority and mandate, the NASS enacted the DMO (Establishment) Act, 2003, and the Fiscal Responsibility Act (FRA), 2007, to manage the country's public debt and enforce fiscal discipline in the management of the nation's resources, respectively. The NASS also has the statutory mandate to approve, through appropriation, all domestic borrowing by the Federal Government, and by resolution, all external borrowing by all tiers of government in Nigeria. In other words, the FGN cannot borrow any money, both domestic and external, without prior approval of the NASS.

3.1.2 The Debt Management Office (Establishment) Act, 2003: This Act establishes the DMO as an autonomous government agency, charged with the responsibility of managing the country's public debt. Among other things, the Act empowers the DMO to:

a) advise government on how to fund its financing gap and determine borrowing limits;

b) issue guidelines on domestic and external borrowing by Federal and Sub-National Governments (SNGs) and their agencies; and,

c) determine the level of Federal Government's contingent liabilities that may result in extra-budgetary spending and recommend appropriate action for dealing with them.

3.1.3 The Local Loans (Registered Stock and Securities) Act, CAP. L17 (LFN): This Act provides for the creation, issuance and redemption of registered stocks, Government Promissory Notes and bearer bonds for the purposes of raising loans in Nigeria by the Federal Government.

3.1.4 The Treasury Bills Act, CAP. T18 (LFN): This Act empowers the Federal Minister of Finance (FMF) to issue Treasury Bills through the CBN on behalf of the government and credit the Consolidated Revenue Fund (CRF) with the proceeds of the issuance. The Minister is also allowed to pay out any charges and expenses arising thereof.

3.1.5 The Treasury Certificate Act, CAP. T19 (LFN): This Act makes provisions which enables the FGN to raise short-term loans of not more than two (2) years tenor through the issuance of Treasury Certificates (TCs). The proceeds of the TCs may be on-lent to States.

3.1.5 The Government Promissory Notes Act, CAP. G4 (LFN): The Act empowers the Federal Government to issue Promissory Notes to raise any sum of money by loan or repay any money borrowed by the government.

3.1.6 Investment and Securities Act (ISA), 2007: The ISA makes provisions for borrowing from the domestic capital market by all-tiers of government and the private sector. It gives legal backing to the Securities and Exchange Commission (SEC) and empowers it to regulate borrowing from the domestic capital market by all tiers of government and their agencies, as well as, private sector enterprises. Pursuant to the provisions of this Act, the SEC has made rules and issued guidelines to regulate borrowing from the capital market in the country.

3.1.7 The Central Bank of Nigeria Act, 2007: This Act enables the CBN to, among other things, act as bankers to the government, register, discount or rediscount bonds issued by any tier of government and their agencies, being bonds, which have been publicly offered for sale and with maturity not exceeding three years, as well as, grant advances to the Federal Government, as may be appropriate.

3.1.8 Fiscal Responsibility Act (FRA), 2007: The FRA makes provisions, which seek to promote fiscal discipline on the Federal, and to some extent the State Governments and their Agencies, in the management of the nation's resources. This is with particular reference to the setting of a consolidated borrowing limit for the federation, fiscal deficit/GDP ratio for the FGN (currently set at 3 percent of the GDP) and adoption of an oil-price based fiscal rule within a Medium-Term Expenditure Framework (MTEF) for budgetary purposes. It is also stipulates that all borrowing must be tied to capital projects and no tier of government will be allowed to borrow if it is in arrears of debt service. The States are expected to make similar legislation. The FRA established a Fiscal Responsibility Commission for the country.

3.1.9 The Office of the Accountant-General of the Federation (OAGF): The OAGF, established under the Civil Services Re-organization Decree No. 43 of 1988, is responsible for the overall management of all receipts and payments of the FRN; maintain and operate the Federation Account, the CRF, Department Fund, Contingencies Fund and other public funds; provides cash backing for the operation of the Federal Government; and, undertake externalisation of debt servicing, amongst others.

Subject to any statutory changes, the DMO shall continue to draw its operational powers from the various legislations for the efficient and effective management of the nation's public debt within the period of this Framework.

3.2 Institutional Framework for Public Debt Management

3.2.1 The Debt Management Office: The DMO was established in October, 2000, with the mandate of managing the country's external and domestic debt. Part III, Section 6 of the DMO Establishment Act, 2003, outlines the functions and powers of the DMO, thus:

a) Maintain a reliable database of all loans taken or guaranteed by the Federal or State Governments or any of their Agencies;
b) Prepare and submit to the Federal Government a forecast of loan service obligations for each financial year;
c) Prepare and implement a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels compatible with desired economic activities for growth and development and participate in negotiations aimed at realising these objectives;

d) Verify and service external debts guaranteed or directly taken by the Federal Government;

e) On 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, 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 an 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 Office shall also have power to:

a) Issue and manage Federal Government loans publicly issued in Nigeria upon such terms and conditions as may be agreed between the Federal Government and the Office;

b) Issue, from time to time, guidelines for the smooth operation of the debt conversion programmes of the Federal Government; and,

c) do such other things, which in the opinion of the Board relate to the management of the external debts of the Federal Government.

In addition, the Act also empowers the Office to issue periodic guidelines to regulate the conduct of external and domestic borrowing as approved by the FEC and NASS.

3.2.2 Board and Management Structure of the DMO

The DMO Act provides for a 7-member Supervisory Board as follows:

i.	The Vice President of the Federal Republic of Nigeria	Chairman
ii.	The Honourable Minister of Finance (HMF)	Vice Chairman
iii.	The Attorney-General of the Federation and Minister of Justice	Member
iv.	The Chief Economic Adviser to the President of the Federation	Member
v.	The Governor of the Central Bank of Nigeria	Member
vi.	The Accountant-General of the Federation	Member
vii.	The Director-General of the DMO	Member/Secretary

3.2.3 Departments and Operational Responsibilities

Besides the Director-General's Office, the DMO has six (6) departments, structured into Front, Middle, Back Offices and one support department, in line with international sound practices in public debt management. These are briefly described as follows:

Portfolio Management Department (PMD): Front Office – The PMD is responsible for issuance of domestic debt instruments, negotiation of loans and other financing products, management of contingent liabilities and other risk assets.

Market Development Department (MDD): Front Office – The MDD is responsible for the development, regulation and supervision of the FGN Bond market in particular, and the domestic bond market as a whole.

Strategic Programmes Department (SPD): Front Office – The SPD implements the Office's initiatives on the development of debt management capacities at the Sub-national levels of government, including debt management training and coordinates external support programmes.

Policy, Strategy and Risk Management Department (PSRMD): Middle Office – The PRSMD is responsible for the formulation of debt management policies and strategies; statistical analysis; risk management; task compliance and management of operational risks.

Debt Recording and Settlement Department (DRSD): Back Office – The DRSD is responsible for the collation and recording of public debt data (domestic, external and other special accounts) and debt servicing.

Organisational Resourcing Department (ORD): Support Office – The ORD is in charge of finance and accounts, human resources management and general administration of the Office.

3.3 Special Inter-Agency Relations

3.3.1 Approvals: In matters of policy, strategies and procedures for its operations, the DMO obtains the approval of the Supervisory Board, which has the Vice President of the FRN as the Chairman. The DMO also obtains the approval of the FEC with respect to borrowing guidelines issued by the DMO, issuances of FGN guarantees, debt management frameworks and debt strategies. The DMO reports to the Federal Minister of Finance (FMF) on routine basis.

3.3.2 Authority to Borrow: It is important to further emphasize that the statutory authority to borrow any money on behalf of the FGN, both domestic and external lies with the NASS. Domestic borrowing must be duly appropriated through the Appropriation Act, while external borrowing may be appropriated or approved through a special resolution by both Houses of the NASS. Appendix I illustrates the hierarchy of authority or the approval process to borrow on behalf of the FGN. It also briefly outlines the functions of the departments in the DMO.

3.3.3 Grants: The National Planning Commission (NPC) by its mandate is responsible for managing grants from development partners. To enable the government have a holistic view of capital flows, the DMO liaises closely with the NPC to obtain grant data.

3.3.4 Registrars for FGN Securities: The CBN serves as the registrar for FGN Bonds, Nigerian Treasury Bills (NTBs) and other categories of debt instruments. It conducts all domestic securities' auctions for, and on behalf of the DMO on agency basis.

It is important to state that the CBN also issues its own securities called Open Market Operations Bills (OMO Bills) for monetary policy purposes and these are different from NTBs being issued on behalf of the DMO.

3.3.5 Stakeholder Collaborations: The Office collaborates with other government agencies on such activities as the conduct of the annual DSA workshops, the development of MTDS, debt servicing and settlement, and issuance of sovereign guarantees and Irrevocable Standing Payments Orders (ISPOs) to States. The Ministries, Departments and Agencies (MDAs) which collaborate with the DMO along these lines are as follows:

i. Federal Ministry of Finance (FMF)
ii. Budget Office of the Federation (BOF)
iii. National Planning Commission (NPC)
iv. National Bureau of Statistics (NBS)
v. Central Bank of Nigeria (CBN)
vi. Office of the Accountant-General of the Federation (OAGF)
vii. Bureau of Public Enterprises (BPE)
viii. Infrastructure Concession and Regulatory Commission (ICRC)
ix. Securities and Exchange Commission (SEC)

3.4 Debt Management Related Committees

The DMO serves as Secretariat to the following debt management advisory Committees: *Monetary and Fiscal Policy Coordinating Committee (MFPCC) and Bond Market Steering Committee (BMSC),* while the CBN co-ordinates *Fiscal Liquidity and Assessment Committee (FLAC).*

3.4.1 Monetary and Fiscal Policy Coordinating Committee (MFPCC): This Committee provides a platform for the sharing of information and harmonization of the objectives of public debt strategies, fiscal and monetary policies, among other issues. Members of the Committee are drawn from the DMO, FMF, CBN, BOF, OAGF, NPC and the NBS.

3.4.2 Bond Market Steering Committee (BMSC): This Committee is charged with the function of reviewing developments in the bond market. It serves as a consultation platform on strategy and policy matters, and examines, as well as, make recommendations with respect to any conflicting policy issues that may hinder the orderly development of the Nigerian bond market. Members of the Committee are drawn from the FMF, DMO, CBN, SEC, FIRS, National Insurance Commission (NAICOM), National Pension Commission (PENCOM), The Nigerian Stock Exchange (NSE), and Market Operators.

3.4.3 Fiscal Liquidity and Assessment Committee (FLAC): This Committee is responsible for providing information on the operations of the Treasury to the Liquidity Assessment Group of the CBN, which forecasts the level of liquidity in the economy. It provides policy advice on fiscal rules to the CBN and generates a robust database on the operations of the Treasury that have implications on domestic liquidity. Members are drawn from all relevant departments in the CBN that have responsibility for monetary policy formulation, the FMF, DMO, BOF, OAGF, FIRS, NNPC and the Nigerian Customs Services (NCS).

CHAPTER FOUR

PUBLIC DEBT MANAGEMENT STRATEGY, 2013-2017

4.0 Introduction

Public debt management seeks to design and execute a comprehensive strategy for managing the total public debt portfolio of the federation with the broad objectives of raising money to meet government's funding needs, achieve an optimal balance between costs and risks, develop and maintain a functional and efficient market for government securities and meet other goals that may be set by the government. These objectives would require the understanding of the operating environment and putting in place, frameworks, strategies, procedures and initiatives, which will direct the pursuit of the set goals. In this regard, public debt management will have to function within the context of a pre-determined policies and strategies as follows:

1. Macroeconomic Framework
2. Debt Management Coordination with Fiscal and Monetary Policy
3. Portfolio Management Objectives and Guidelines
4. Debt Management Strategy
5. Debt Sustainability Analysis
6. Risk Management Framework
7. Contingent Liability Management
8. Transparency and Accountability
9. Cash Management Strategy
10. Sub-national Debt Management Strategy

4.1 Macroeconomic Framework

Public debt management has implications for overall macroeconomic stability. This is because, government's debt portfolio, which is the largest financial portfolio (inclusive of guarantees and contingent liabilities) in the country, could consists of complex and risky financial instruments that could generate substantial risks to the country's financial stability. Poorly structured public debts have been known to trigger economic crisis in history. On the other hand, clarity about the direction of monetary and fiscal policies, as well as, consistency are required for stable growth of the financial markets and proper planning by the government and other borrowers in the domestic debt market. Thus, for public debt management to be effective, it needs to function not only within the context of a clear macroeconomic framework, it has to be intricately linked with it. Public debt management has to, within the context of the macroeconomic framework of the country, ensure that the level and rate of growth of public debt are sustainable and consistent with the overall growth and development priorities of the government.

Accordingly, the DMO will continue to utilise and align public debt management strategies with the overall macroeconomic objectives of the Transformation Agenda, the MTEF, Appropriated Budgets of the FGN, and the monetary policy of the government to ensure effectiveness. The DMO would also continue to leverage on its Supervisory Board; its membership of high-level Federal Government's economic management teams - National Economic Management Team (NEMT) and Economic Management Implementation Team (EMIT); active involvement of all relevant stakeholders (CBN, FMF, BOF, NPC, NBS and OAGF) in the conduct of annual DSA and development of MTDS; and, various channels of information sharing on government's current and future liquidity needs, such as the CLMC, to ensure that public debt management are in harmony with the overall macroeconomic objectives of the government so as to achieve stability, growth and development.

4.2 Debt Management Coordination with Fiscal and Monetary Policy

In Nigeria, though there is a clear statutory division of functions and responsibilities between debt management, fiscal and monetary operatives, the MDAs responsible for these share the same macroeconomic policy goals as highlighted in section 4.1 above. The delineation of duties is as follows:

4.2.1 Fiscal Policy: This is the exclusive preserve of the FMF. It focuses on budgeting (revenues and expenditures) and deficit financing, amongst other policy matters. The appropriated budget deficit by the NASS is part funded with the proceeds from the securities issued by the DMO.

4.2.2 Monetary Policy: The control of monetary aggregates is the function of the CBN. The CBN has an array of monetary policy tools, which it uses to influence monetary aggregates and other macroeconomic variables – interest and exchange rates and the general price level. These tools include Monetary Policy Rate (MPR), Cash Reserve Requirements (CRR), Liquidity Ratio and conduct of Open Market Operations (OMO). The securities issued by the CBN are for its own monetary operations and not for government financing.

4.2.3 Debt Management Policy: This is formulated by the DMO, usually in conjunction with other stakeholders, including the FMF and CBN, as may be appropriate. They participate in the workshops (DSA and MTDS) that determine debt management policies, such as the setting of the annual borrowing limit and the medium-term debt strategy.

Other efforts at coordination include the platform of the MFPCC, which the DMO serves as the Secretariat, and whose members are drawn from the CBN, OAGF, BOF, FMF, NPC and NBS. There are also the Cash Management Committee (CMC), which comprises the DMO, CBN, OAGF, BOF, FIRS, Customs and the Nigerian National Petroleum Corporation (NNPC), headed by the HMF; and, the Fiscal Liquidity Assessment Committee (FLAC), which the CBN coordinates (see Chapter Three, Section 3.5 for more details).

4.3 Portfolio Management Objectives and Guidelines

The broad objective of public debt management is to efficiently meet government's financing needs, at the lowest possible long-term cost and at a prudent degree of risk. It also includes maintaining a comprehensive, well diversified and sustainable debt portfolio and development of the domestic and external securities market to meet government and private sector financing needs.

Based on these, the long-term guidelines set under this Framework for public debt portfolio management are as follows:

i. To maintain a sustainable public debt portfolio.
ii. To sustain the issuance of long-term domestic debt instruments in order to achieve an optimal mix between short and long-term debt composition of 25:75 percent, respectively.
iii. Introduce the issuance of Inflation-Linked Bonds.
iv. To set appropriate risk benchmarks, such as Average Term-to-Maturity (ATM) and Average Term-to-Refixing (ATR) for the domestic debt portfolio.
v. Smoothening of the maturity profile of FGN securities to avoid bunching of redemption and to mitigate refinancing risks through an appropriate liability management strategy, which include Bond Switches, Bond Buybacks and Sinking Fund.
vi. Deepening of FGN securities secondary market liquidity through the issuance of benchmark securities and introduction of Securities Lending.
vii. Develop the retail end of the FGN Bond market.
viii. Ensure transparency in all securities issuance operations to enhance investor confidence.
ix. Sustain and increase the visibility of the sovereign in the ICM.

4.4 Debt Management Strategy

The debt management strategy usually sets out the government's strategy and plans for the management of its domestic and external debt and other financial liabilities. It aims at ensuring that borrowing activities support the refinancing of maturing government debt obligations, the execution of the budget plan and other financial operations of the government, including developing other non-debt financing options and establishing a prudent debt portfolio. It also seeks to ensure that the borrowing plan takes into account costs and risks within an optimal portfolio mix between external and domestic borrowing in the medium to long-term.

Nigeria's debt management strategy is contained in the Medium-Term Debt Management Strategy (MTDS), 2012-2015, document developed by the DMO, in collaboration with stakeholders and approved by the FEC. Based on the existing debt structure and borrowing options available to the government, the debt management strategy, going forward, will be targeted at:

i. significantly reducing the rate of growth of public debt in general, and domestic debt in particular, to ensure long-term public debt sustainability;
ii. reducing the amount spent on debt service by substituting the relatively more expensive domestic debt with less expensive external debt. At the end of 2012, the difference between the domestic and external average cost of borrowing was about 8% per annum;
iii. achieving an optimal mix between domestic and external debt composition in order to arrive at a more balanced public debt portfolio – preferably, in the ratio of 60:40 for domestic and external debt, respectively - whilst allowing adequate liquidity in the domestic bond market to ensure a vibrant fixed-income securities market, which is an essential component of a robust capital market;
iv. encouraging direct budgetary provisions for the repayment of part of maturing FGN securities obligations instead of refinancing in order to reduce the rate of accumulation of domestic debt through the establishment of a sinking fund;
v. reducing issuance of short-term domestic debt instruments in favour of long-term debt instruments, within the limited and prudent amount to be borrowed, to hedge against refinancing and other market risks;
vi. attaining appropriate mix in terms of currency composition, interest rate structure, and concessional versus commercial borrowing;

vii. stabilising and deepening the domestic debt market to attract other debt issuers, especially corporates and more foreign investment inflows; and,

viii. creating more borrowing space for the private sector to access long-term funds to grow the real sector, as well as, incentivises them to play a more prominent role in the development of commercially viable critical infrastructure projects for economic growth and development, in line with the policy posture of the Transformation Agenda.

In summary, Nigeria's public debt management strategy will be directed towards achieving low-cost funding by striking a balance between cost and risk structure and maintaining refinancing risks at prudent levels. It will also involve supporting a well-functioning FGN domestic and external securities market that will guarantee the government and private sector access to long-term funds.

The MTDS, like the DSA, will be subjected to regular review, preferably on an annual basis, to keep it in line with the realities of government's borrowing and developmental plans, as well as, with developments in the financial market.

4.5 Debt Sustainability Analysis (DSA)

The DMO has been consistent in conducting the annual DSA on the nation's debt portfolio since 2005 and will sustain the tradition under this Framework. The policy objectives of the DSA are to analyse the current and future debt portfolio with a view to assessing debt sustainability, detect any potential risks and advise on mitigating measures; provide guidance to the government on its borrowing decisions in order to ensure that financing needs and future repayment ability are taken into account; set borrowing limits and advise on funding options; and, to also provide inputs into the national budget and information necessary for the updating of the MTEF.

The results of the DSA, including the stress tests, focus on the evaluation of solvency and liquidity indicators, namely: NPV of Total Public Debt/GDP Ratio, NPV of Total Public Debt/Revenue Ratio, NPV of Total Public Debt/Exports Ratio, Debt Service/Revenue Ratio and Debt Service/Export Ratio against established international benchmarks for Nigeria's peer group for external and domestic debt. The government has also choosen the path of setting annual borrowing limits by using the gap between the estimated baseline NPV of Public Debt/GDP ratio and the projected GDP for the next fiscal year to determine the available borrowing space for the FGN. This practice has helped to moderate the rate of debt accumulation and keep the NPV of Public Debt/GDP ratio within sustainable limits. Though the standard threshold for Nigeria's peer group was increased to 56 percent from 40 percent towards the end of 2012, the country would, nevertheless, remain conservative in its approach towards the utilization of the additional space.

4.6 Risk Management Framework

As earlier noted, a poorly structured public debt portfolio could give rise to, or amplify macroeconomic instability. This possibility is further heightened by the changing nature of the global economic and financial operating environment. Though opportunities lie in a truly global and expanded market for public debt, leading to potentially lower cost of debt, but risks also exist in increased financial market volatility, which may also increase the vulnerability of the market, and ultimately the country's exposure to financial and economic instability.

Thus, one of the most critical essentials in public debt management is the establishment of a consistent and sustainable strategy for monitoring and evaluating risks in the debt structure. This would require a risk management framework that is coherent, objective and which recognizes, measures, monitors and manages the full range of risks bearing on the debt portfolio with generally quantifiable basis for performance reporting. The DMO, in addition to the annual conduct of the DSA and development of the MTDS, shall continuously recognize, measure, monitor and manage the following major risk elements encountered in public debt management and debt portfolio.

4.6.1 Market Risk: This encompasses risks associated with changes in market prices, such as interest and exchange rates on government's debt service. The DMO debt issuance programmes will ensure that there is appropriate balance between short and long-term debts and variable and fixed-rated debts in the debt portfolio to mitigate interest rate risk. Part of government's debt policy aimed at reducing interest rate sensitivity is that borrowing shall be mainly with fixed-rate instruments. With respect to risks associated with changes in exchange rates, appropriate care will be taken to ensure that the currency composition of the external debt portfolio is congruent with the currency composition of the nation's external reserves to avoid wide fluctuations.

4.6.2 Refinancing Risk: This exists where debt will have to be rolled over at a higher cost or cannot be rolled over at all. Exceptionally higher cost of government funding or inability to rollover debt could trigger a debt crisis. To mitigate the risks associated with refinancing, the current practice of setting limits to the issuance of particular debt instruments will be sustained. In addition, efforts will be directed towards implementing already approved liability management frameworks, such as Bond Switches and Buybacks in order to maintain a smooth redemption profile of the debt portfolio. The government will also be encouraged to sustain and increase its contribution to the Sinking Fund introduced in 2012 to facilitate smooth redemption of maturing debt obligations instead of resorting to refinancing.

4.6.3 Liquidity Risk: This risk relates to difficulty in raising the required amount of financing from the market at a given time or diminished volume of market liquidity leading to inability to conclude market transactions. Either way, the DMO will continue to interact with market operators and stakeholders in order to ensure that the market depth and liquidity are sustained and deepened. Part of the debt management strategy is to maintain a minimum level of securities issuance necessary to sustain market liquidity, as well as, build benchmark securities to further deepen the FGN securities market. Other liability management initiatives will also be utilized to enhance the FGN securities market liquidity.

4.6.4 Credit and Settlement Risks: The institutional arrangement for the management of guaranteed or on-lent loans to State Governments and MDAs has effectively put under control the issue of credit risk. The subsisting settlement system for FGN securities, which was put in place collectively by relevant stakeholders, is currently adequate. Changes may be made as IT upgrades are made by stakeholders.

4.6.5 Operational Risks: This encompasses different types of risks, such as transaction errors, inadequate or loose internal controls, system failures, legal, security, fraud or money laundering or acts of God that may affect business activity. The DMO will continue to strengthen its Operational Risk Management Unit to be able to continue to articulate and evolve ways of dealing with this range of risks.

Risk Management Committee (RMC)

Part of the risk management strategy will be the setting up of a standing inter-departmental RMC, which will be responsible for monitoring, evaluating, reporting and proffering ways to manage and mitigate the constituent risks associated with the public debt portfolio.

4.7 Contingent Liability Management (CLM)

Contingent liabilities are potential financial claims against the government, which are yet to materialize, but which could translate into actual financial obligations. These could be explicit, in the case of outright financial guarantees or implicit, where the government may have a moral obligation to assume a liability to avoid unacceptable high cost to the economy, for example, banking sector bailout witnessed in 2008/2009. The DMO has already commenced the process of tracking and evaluating such government's contingent liabilities through the Contingent Liability and Risk Assets Management Unit in the PMD. The FGN contingent liabilities, which are currently being captured are PPPs-related transactions, pension and gratuity arrears, outstanding contractors' arrears, judgment debts, Asset Management Corporation of Nigeria (AMCON) guaranteed bonds and private sector external debts.

The focus of CLM, going forward, will be to institutionalize the process of incurring, capturing, monitoring, evaluating FGN contingent liabilities in line with sound practices. Attention will also be directed towards ensuring that CLM will serve as a vehicle to support both public and private sector initiatives in facilitating the provision of infrastructure and other developmental projects in the country. The DMO will also continue to deploy appropriate contingent liability resolution mechanisms to manage crystallized obligations of government whose continued non-payment could endanger national economic interest. Towards this end, a general purpose policy will be designed to manage FGN's contingent liabilities.

Sovereign Guarantee

A key component of the contingent liability is the issuance of Sovereign Guarantee, a non-debt financing instrument, whereby the FGN may undertake to guarantee and redeem a financial obligation owed by a third party to a creditor, in the event of credit default by the third party. The FGN may issue Sovereign Guarantees in order to financially promote the development of commercially viable critical infrastructure projects with high multiplier effects, which are deemed to be in the public interest. The evaluation criteria for granting sovereign guarantee shall be on a case-by-case basis. It shall, however, include the execution of a memorandum of understanding with the DMO for the management of the contingent liability, part of which shall include the establishment of a sinking fund for the repayment of the guaranteed amount in the event of crystallization, project monitoring; securitisation of the project receivables as may be applicable; and, existence of necessary approvals from appropriate authorities.

4.8 Transparency and Accountability

The credibility of public debt management is intrinsically linked to public disclosures of comprehensive and accurate debt data, cost and risk measures, debt issuance programmes and related information on a timely basis. It also includes regular authentication and updating of procedures and processes through formal audit of debt management operations. These will enhance investor and stakeholders' confidence, help reduce market uncertainties and make government's decisions more transparent. As part of DMO's transparency programme, it shall continue to prepare and publish the following reports and documents:

i. *Debt Management Strategy*, which presents policy direction of public debt management.
ii. *Approved Medium-Term Borrowing Plans*, which provides information on proposed government's borrowing.
iii. *Annual Report and Statement of Accounts*, which contains detailed report of public debt management activities.
iv. *Quarterly Debt Management Report*, which gives statistical information on developments in the debt portfolio.
v. *Quarterly (as may be appropriate) FGN Securities Issuance Calendar*, which states the dates of auction and the amount likely to be auctioned within the quarter.
vi. *Monthly FGN Bond Offer Circular*, which states the dates of auction, amount and specific instruments to be auctioned, and other basic subscription details.
vii. *Stakeholder Engagements*, interactive fora, which the DMO participates or organises and where the outcomes are required to be published.
viii. *Press Briefing*, through which the DMO regularly shares information and provides useful explanations to the public on issues in public debt management.

The DMO shall continuously enhance the visibility of its website to ensure that relevant information is made available to investors and the general public. The DMO shall also open its doors to requests for information from local and foreign investors, creditors, stakeholders and institutions as may be appropriate.

Auditing of Public Debt Management Operations

As part of its transparency and accountability framework, the DMO shall engage the services of reputable international audit firms to conduct the audit of its public debt management operations every three (3) years. This will enable the Office to constantly authenticate, update and enhance its operational manuals, rules, procedures and processes, in line with international standards and sound practices in public debt management.

4.9 Cash Management Strategy

Cash management involves the efficient management of government's receipts and payments within the government and its agencies and other associated accounts. It streamlines short-term cash flows and cash balances for more cost-effectiveness. It also facilitates timely processing, reduce incidence of idle balances and government borrowing needs.

In Nigeria, the Cash Management Committee (CMC) of the FGN is headed by the HMF and comprised the DMO, BOF, CBN, OAGF, FIRS, Customs and the NNPC. The CMC establishes the quarterly cash projection, estimates the receivables and determines the funding gap of the FGN. In this regard, this institutional arrangement for cash management fully integrates public debt management; thereby ensuring that government's borrowings are based on pre-determined funding gaps. The on-going implementation of the Treasury Single Account (TSA) would further enhance the efficiency of the FGN's cash management policy.

4.10 Sub-national Debt Management Strategy

The DMO had, between 2007 and 2012, implemented a debt management strategy at the Sub-national level of government, leading to the establishment of DMDs, reconstruction of the domestic debt data of all the States and the FCT, enactment of public finance management laws and development of debt management capacities, amongst others. The net result was the publication of a comprehensive domestic debt data for 36 States and the FCT, for the first time in Nigeria by the DMO. The whole exercise took cognisance of the fact that Nigeria practices fiscal federalism, such that an unwholesome debt structure at the Sub-national level could be detrimental to overall macroeconomic stability. Going forward, the Sub-national debt management strategy will focus mainly on strengthening the debt management institutions and human capacity to enable the States conduct their own individual DSA and MTDS workshops and thereby integrate debt management into the States' public finance management. It shall also include working with the States to establish an integrated platform for debt data recording and reporting to facilitate the availability of accurate and timely debt data towards achieving long-term total public debt sustainability for the federation.

CHAPTER FIVE

FGN SECURITIES MARKET DEVELOPMENT STRATEGY, 2013-2017

5.0 Introduction

As part of its strategic objectives, the DMO seeks to further develop innovative approaches for optimally accessing domestic and external finance, to deepen and broaden the FGN securities market and to sustain the development of other segments of the bond market in order to support government and private sector financing needs. The DMO recognises that an efficient government securities market would support the development of the domestic bond market and, thereby, facilitate access to long-term capital for the development of critical infrastructure projects and the real sector in the economy. It would provide a viable alternative to other sources of funding, such as bank financing and issuances of equities and help lower funding costs and risks over the medium to long-term for both the government and corporates. In addition, an efficient government securities market will help to provide a buffer against the effects of domestic and international shocks on the economy and sustain macroeconomic stability.

Under the current Framework, the FGN securities market development strategy will focus on consolidating the gains of the past and developing new initiatives to handle market dynamics, as may be appropriate. These strategies will be discussed under three broad outlines: FGN primary and secondary securities markets, and corporate bond issuance.

5.1 FGN's Primary Securities Issuances

This consists broadly of the domestic and external securities issuances, which are presented as follows:

5.1.1 Domestic Securities Issuances: The DMO shall continue to use the traditional and market-based mechanisms to raise money domestically on behalf of the FGN. Quarterly Auction Calendars, Monthly Offer Circulars and information on new securities issuances shall be published or made available to the market, to enhance market transparency, as appropriate. The DMO shall, for the time being, maintain the existing Single-Price Dutch Auction System (DAS) in respect of FGN Bonds, using the marginal rate (the bid rate at which the amount offered is cleared) rule for its primary market activities. The Multiple-Price DAS may be introduced at the appropriate time after due consultations with market operators and other stakeholders as the need arises, based on market conditions.

The operational rules regulating FGN Bond issuance, for the time being, are contained in the revised Operational Circular No. 1 ('Guide to Operations for the DMO in the FGN Bond Market'), which remains valid till December, 2014, subject to any amendments made prior to that date.

5.1.2 Fixed Interest Rate Securities: Government's policy is to maintain the issuance of fixed rate and tradable debt instruments in the primary market, while other debt instruments, such as ILBs may be introduced, as appropriate.

5.1.3 Portfolio Diversification: The MTDS, 2012-2015, recommended the introduction of Inflation-Linked Bonds (ILBs) to manage costs and risks in government's debt portfolio and diversify investor-base; partly in response to investors' demand for more options in the range of available debt instruments. The ILBs and other debt instruments, such as Infrastructure Bonds, Retail Bonds, securities with embedded options and other forms of derivatives will be considered and introduced, as appropriate, to complement the plain vanilla bonds currently being offered as the domestic securities market develops. Another reason for portfolio diversification is the need to further broaden the investor-base for FGN securities.

5.1.4 Benchmark Securities: The DMO had successfully built benchmark securities and established a yield curve across a 3-month to 20-year spectrum. Securities issuance will be executed in such a manner as to sustain and deepen secondary market liquidity in FGN securities in this regard.

5.1.5 Bond Auction Platform: The DMO commenced the process of procuring and installing an automated Bond Auctions Platform in 2012. The objectives are to further promote market efficiency, transparency and integrity of the FGN securities auctioning process and other new debt instruments that may be issued in accordance with sound market practices. The proposed platform is expected to seamlessly integrate with other stakeholders' IT systems in the securities market, such as the CBN, Central Securities and Clearing System Plc (CSCS), Financial Market Dealers Association (FDMA) and the PDMMs.

5.1.6 The Primary Dealer Market Makers (PDMMs): The PDMMs system was introduced in 2006 as part of the FGN securities market structure, whereby the DMO licensed securities dealers are obliged to take up, market and distribute primary issues of FGN securities, as well as, provide two-way quotes for securities in the secondary market to ensure market liquidity. The current PDMMs system comprises seventeen (17) financial institutions, make up of thirteen (13) deposit money banks, one (1) investment bank and three (3) discount houses. The rules and regulations guiding the operations of the PDMMs are contained in Operational Circular No.2, referred to as the PDMMs Guidelines, which is valid till 2014 subject to any amendments made prior to that date. It spells out the obligations of the Dealers and what it seeks to achieve. The dealers are evaluated every six (6) months based on pre-determined performance targets.

The DMO, as part of its overall development agenda for the FGN securities market, will continue to monitor and evaluate developments in the securities market and hold regular consultations with stakeholders through the platforms of the BMSC, PDMMs, and the FDMA with a view to reviewing the extant rules and regulations for market participants as the need arises.

5.1.7 Sovereign Bond Issuance in the ICM: In line with the recommendations of the MTDS, 2012-2015, the country plans to strategically establish a visible presence in the ICM to take advantage of the relatively cheaper external financing and reduce debt costs to the government in the long-run. The strategy would include further development of a sovereign benchmark yield curve of different tenors through the issuance of US Dollar-denominated Eurobonds and securities targeted at different categories of investors. These include the issuance of plain vanilla Eurobonds and Diaspora Bonds in the ICM. Part of the strategy is to develop a medium-term borrowing plan to guide issuance activities in the ICM. It is expected that the Prospectus and the Roadshows would further make available requisite information on Nigeria to the international financial community, boost the inflows of FDIs and facilitate private sector access to long-term funds in the ICM.

5.2 FGN's Secondary Securities Market

5.2.1 Trading, Settlement and Clearing System: A sizeable proportion of the FGN securities are traded Over-The-Counter (OTC) and through the electronic trading system using the ICAP Electronic Trading Platform. These have enhanced market transparency, better price discovery of the traded assets, increased liquidity and greater accessibility to a broader range of investors. The settlement and clearing systems are electronically undertaken by the CSCS, while the CBN acts as registrar to FGN securities. These have helped to minimize transaction costs and risks and also ensured that the market becomes more competitive.

5.2.2 Externalization of the FGN Securities Market: The FGN securities market witnessed an upsurge in market activities from August, 2012, as a result of the announcement and subsequent landmark inclusion of FGN Bonds in the tradable emerging markets index of JP Morgan and Barclays Capital, respectively. This externalization comes with numerous benefits to the economy and some elements of market risks. Efforts will be directed toward strengthening the existing market structure to ensure that trading practices and systems reflect best practices. More emphasis will be placed on disclosures and market supervision to ensure that the externalization do not engender systemic risks in the financial system.

5.2.3 Deepening Liquidity: The DMO has secured necessary approvals for the introduction of Securities Lending into the secondary market of FGN Bonds and is collaborating with stakeholders to fast-track its implementation. Other initiatives aimed at deepening secondary market liquidity, such as Bond Switches/Exchange and Bond Buybacks will also be introduced into the secondary market, as soon as, all relevant rules, processes and procedures are put in place.

5.2.4 Government Stockbroker: Part of the secondary market structure put in place to further enhance market liquidity, especially at the retail end of the secondary market, is the appointment of a duly licensed stockbroking firm, as a Government Stockbroker in November, 2012. The Government Stockbroker is acting as a liaison between the DMO and the NSE on all issues relating to FGN Securities, including listing of new securities and de-listing of matured ones. The Government Stockbroker is expected to provide liquidity for FGN Securities on the Floors of the NSE, by acting as a buyer and seller of last resort. The main objective of this initiative is to encourage retail investors to participate in the buying and selling of FGN Bonds.

5.3 Corporates and Other Bond Issuers

While the DMO will sustain the implementation of measures aimed at promoting the primary and secondary market activities in FGN securities, it remains committed to the growth of the corporate bond issuance both in the domestic and external bond markets. Accordingly, the DMO will continue to work with stakeholders in the capital market individually, as well as, in committees and groups in order to introduce and implement initiatives aimed at encouraging corporates to take advantage of the windows of opportunities in the domestic and external securities market to raise long-term capital to fund the real sector. In this regard, the DMO will sustain its active engagement with relevant stakeholders: the CBN, SEC, NSE, PENCOM, CSCS, FIRS, PDMMs, and the Pension Operators Association of Nigeria (PenOp).

It is essential to re-state that under the previous NDMF, the DMO in collaboration with some of the stakeholders, secured income tax exemption status for all local bonds issued by corporates and sub-nationals, reduction of issuance and secondary market fees by the SEC and NSE, and a presidential approval for reduction of Stamp Duties and waiver of capital gain tax for re-issues of Debentures. In addition, SEC, PENCOM and the NSE have also made changes to their rules to incentivise corporates to access long-term funds from the domestic debt market.

CHAPTER SIX

REVISED EXTERNAL AND DOMESTIC BORROWING GUIDELINES, 2013-2017

6.0 Introduction

The country's first External and Domestic Borrowing Guidelines for Federal and State Governments and their Agencies was developed and issued by the DMO in 2008 and it formed part of the NDMF, 2008-2012. The Guidelines were revised in 2012 following the review of the Guidelines by stakeholders, including the NASS through the public hearing organized by the House of Representatives Adhoc-Committee on the Investigation into Foreign Loans obtained by both the Federal and State Governments held in February, 2010. The final document arose from the report of a review Committee set up by the HMF in May, 2010, comprising the FMF, NPC and the DMO.

The country now has an enriched single document, containing guidelines for both external and domestic borrowing for the Federal and State Governments and their Agencies. The major improvements under the Revised Borrowing Guidelines include the provision of responsibilities of all the stakeholders in the borrowing process and the outline of the relevant laws supporting their responsibilities. It also contains an Appendix on Processes and Control Measures for borrowing by the Federal and State Governments and their Agencies.

6.1 Role of the National Assembly (NASS)

S/N	Requirement(s)	Legal Basis
a	Approval of the Borrowing Program for every succeeding year.	DMO Act, 2003, Sections 19 (1) & 19 (2)
b	Approval (by resolution) of the terms and conditions of external debt as contained in the Borrowing Program.	DMO Act, 2003, Section 21 (1) DMO Act, 2003, Section 27 (1)
c	Approval of overall limits, for the amounts of consolidated debt of the Federal, State and Local Governments, to be set by the President on the advice of the Minister, as specified in the Borrowing Program.	FRA, 2007, Section 42 (1)
d	Prior authorization in the Appropriation or other Act or Law for the purpose for which the borrowing is to be utilized.	FRA, 2007, Section 44 (2) (a)

6.2 Requirements for External Borrowing by FGN, States and their Agencies

S/N	Requirement(s)	Responsibility	Legal Basis
a	Preparation of a National Debt Management Strategy for the approval of the Honourable Minister of Finance.	FMF/NPC/DMO	FRA, 2007, Section 11 (3) (b)
b	Appraisal of Project Documents ▪ Conduct project appraisal to ascertain conformity with National Debt Management Strategy, Borrowing Guidelines and national priorities. ▪ Prepare and Forward Project Appraisal Report (PAR) to HMF	DMO DMO	FRA, 2007, Section 44; External Borrowing Guidelines, 2008 – 2012, paragraph 2.1 (i)
c	Preparation of Proposed Borrowing Plan ▪ Identify project(s) and submit project documents to be funded with the loan, in line with national development priorities and Creditors' Country Partnership Strategies. ▪ Prepare annual borrowing plan	Borrowing Entity – MDAs & States DMO (in collaboration with FMF, NPC and BOF)	FRA, 2007, Section 44; External Borrowing Guidelines, 2008 – 2012, paragraph 2.1 (i) DMO Act, 2003, Sections 19 (1) & (2) FRA, 2007, Section 44.
d	Federal Executive Council's (FEC's) Approval and Presentation to NASS ▪ Approved Project Appraisal Reports and approved Borrowing Plan to be incorporated into the draft budget proposal and presented to FEC ▪ Annual Borrowing Plan submitted as an integral part of the proposed annual budget to NASS for approval.	HMF FMF & BOF	FRA, 2007, Section 42 (1)
e	Governments at all tiers shall only borrow for capital expenditure and human development on **Concessional terms.**	HMF & DMO	FRA, 2007, Section 41 (i) (a)
f	The Federal Government **may** borrow from the capital market (non-concessional) subject to the approval of the National Assembly.	FMF/ NASS	FRA, 2007, Section 41 (2)

6.3 Documentation Requirements for Borrowing by State Governments and their MDAs

S/N	Requirement(s)	Responsibility	Legal Basis
a	Any State Government or its agencies can only obtain external loans through the Federal Government and such loans must be supported by Federal Government "s Guarantee. **NO** State, Local Government or Federal Agency shall, on its own borrow externally.	States & MDAs	FRA, 2007, Section 44; DMO Act, 2003, Section 21; External Borrowing Guidelines, 2008 – 2012, paragraph 2.1 (i)
b	State Governments and their agencies wishing to obtain external loans shall obtain Federal Government "**approval-in-principle**, from the Federal Ministry of Finance.	States	FRA, 2007, Section 44; External Borrowing Guidelines, 2008 – 2012, paragraph 2.2 (ii)
c	The Executive Council of the State wishing to contract external loan **must** approve the loan proposal which must be followed by a **Resolution** of the State House of Assembly.	States & MDAs	External Borrowing Guidelines, 2008 – 2012, paragraph 2.2 (vii)
d	All external borrowing proposals of the Governments and their agencies for the next fiscal year must be submitted **not later than 90 days** preceding that year to the Minister of Finance for incorporation into the public sector external borrowing program for the coming year.	States & MDAs	External Borrowing Guidelines, 2008 – 2012, paragraph 2.2 (v)
e	The borrowing proposal must be submitted to the Federal Ministry of Finance and the DMO for consideration. The proposal should include the following: ▪ The purpose for which the borrowing is intended and its link to the developmental Agenda of the Government; ▪ Cost-benefit analysis showing the economic and social benefits to which the intended borrowing is to be applied; ▪ Cashflow Statements of the MDAs, to ascertain their viability and sustainability; and, ▪ Copies of the State's Executive Council's approval and the Resolution of the State House of Assembly.	States & MDAs	External Borrowing Guidelines, 2008 – 2012, paragraph 2.2 (vii)
f	To receive approval-in-principle, State Governments **Debt Sustainability** is ascertained to ensure that they have not over-borrowed externally.	DMO	External Borrowing Guidelines, 2008 – 2012, paragraph 2.2(iii)
g	The Borrowing Proposal is incorporated into the Annual Budget for Federal Executive Council "s approval.	FMF/BOF/NPC	FRA, 2007, Section 44 (2) (a)
h	Governments at all tiers shall only borrow for capital expenditure and human development on **Concessional terms.**	FMF & DMO	FRA, 2007, Section 41 (i) (a)
i	**Negotiation and signing** of external loans and on-lending to the Sub-National Governments. Upon NASS approval of the Annual Budget, a Negotiation Team to be led by FMF, is formally constituted. Submission of Negotiation Report to HMF. Submission of Negotiated documents to Federal Ministry	FMF leads the Negotiation Team, comprising of NASS, DMO, Fed. Min. of Justice, and the States or MDAs FMF	DMO Act, 2003, Section 19 – 21; External Borrowing Guidelines, 2008 – 2012, paragraph 2.2 (i)

	of Justice for clearance. ▪ Presentation of Memo for FEC's consideration and approval. ▪ Processing of Loan Agreements and Legal Opinion. ▪ Signing of Loan Agreement.	FMF/FMOJ FMF FMF FMOJ/FMF	
j	Every Participating State shall execute a **Subsidiary Loan Agreement (SLA)** with the Federal Government.	FMF & States	External Borrowing Guidelines, 2008 – 2012, paragraph 2.2 (iv)

6.4 Domestic Borrowing by the Federal Government

	Requirement	Responsibility	Legal Basis
a	Details of the domestic borrowing by the Federal Government shall be specified in the **Annual Borrowing Plan** and presented to the National Assembly as part of the proposed annual budget approval.	FMF, DMO & NASS	DMO Act, 2003, Section 19 (1) & (2); FRA, 2007, Section 44 (2) (a)

6.5 Domestic Borrowing by States and their Agencies

S/N	Requirement(s)	Responsibility	Legal Basis
a	Any internal loan to be raised from the Domestic Capital Market must conform to the requirements of the Investments and Securities Act (ISA), 2007.	SEC	ISA, 2007, Sections 222 -273
b	Approval of the State's Executive Council and Resolution of the State House of Assembly.	States	ISA, 2007, Sections 222 -273
c	The total amount of loans outstanding at any particular time including the proposed loan **shall not exceed 50% of the actual revenue** of the body concerned for the preceding 12 months[1].	SEC	ISA, 2007, Sections 222 -273
d	All applications to raise funds from the Capital Market shall among other documents be accompanied by an original copy of an **Irrevocable Standing Payment Order (ISPO).**	States	ISA, 2007, Sections 222 – 273

[1] *A recommendation to amend the relevant section in the Investments and Securities Act, 2007 which stipulates 50% has been proposed to the SEC.*

e	Request for issuance of **ISPO** to be forwarded to the Honourable Minister of Finance for approval, which will include the following: ▪ The purpose for which the borrowing is intended and its link to the developmental Agenda of the Government; ▪ Cost-benefit analysis showing the economic and social benefit to which the intended borrowing is to be applied; ▪ Cashflow Statements of the State and their Agencies, to ascertain their viability and sustainability; and, ▪ Copies of the State's Executive Council approval and the Resolution of the State House of Assembly.	States & HMF	ISA, 2007, Sections 222 – 273; Domestic Borrowing Guidelines, 2008 – 2012, paragraph 2.2.3
f	Following from (e) above, the DMO shall conduct a **debt sustainability analysis** to ascertain that the monthly debt service ratio of a sub-national, including the servicing of the proposed debt issuance being contemplated, does not exceed **40% of its actual monthly Revenue of the preceding 12 months**, and recommends to HMF as appropriate.	DMO	External Borrowing Guideline, 2008 – 2012, paragraph 2.2(iii); Domestic Borrowing Guidelines, 2008 – 2012, paragraph 2.2.4
g	States are to satisfy other requirements of ISA, 2007 and the issuance requirements of the Securities and Exchange Commission (SEC).	States & SEC	ISA, 2007, Sections 222 -273

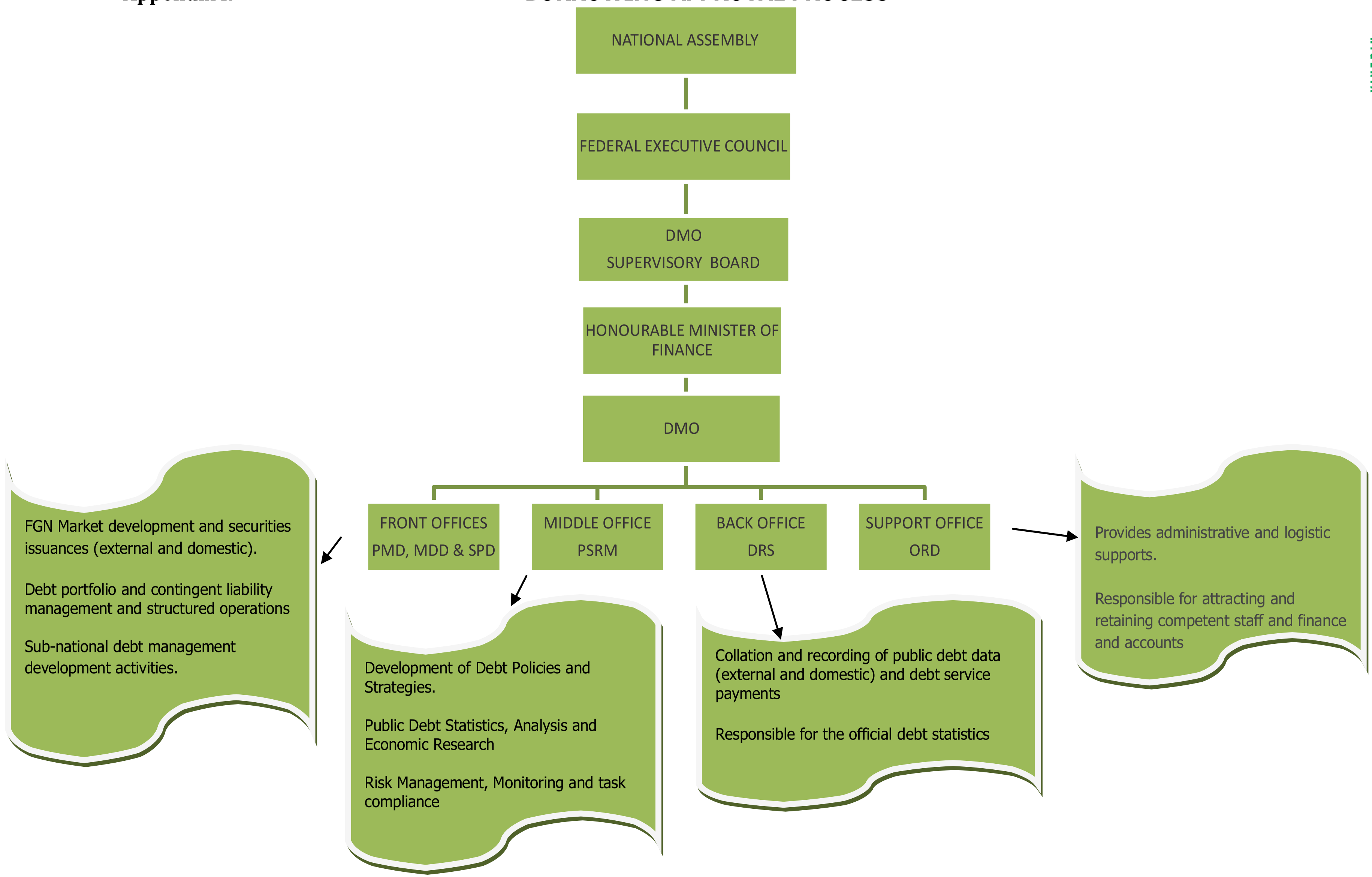
6.6 Borrowing from the Commercial Banks by States and their Agencies

S/N	Requirement(s)	Responsibility	Legal Basis
a.	All banks and financial institutions requiring lending money to the Federal, State and Local Governments or any of their agencies, shall obtain the prior approval of the Minister of Finance and shall state the purpose of borrowing and the tenor.	Lending Bank	DMO Act, 2003, Section 24; Domestic Borrowing Guidelines, 2008 – 2012, paragraph 2.2.4
b	Request for issuance of clearance on Debt Sustainability forwarded to the HMF for approval, which will include the following: ▪ The purpose for which the borrowing is intended and its link to the developmental Agenda of the Government; ▪ Cost-benefit analysis showing the economic and social benefits to which the intended borrowing is to be applied; ▪ Copies of the State's Executive Council's approval and the Resolution of the State House of Assembly; and, ▪ Copy of State's Appropriation Act, highlighting the proposed borrowing, as a financing item.	States & HMF	Domestic Borrowing Guidelines, 2008 – 2012, paragraph 2.2.4

c	Following from (b) above, the DMO shall conduct a debt sustainability analysis to ascertain that the monthly debt service ratio of a sub-national, including the servicing of the proposed bank loan being contemplated, **does not exceed 40% of its actual monthly Revenue of the preceding 12 months**, and recommends to HMF as appropriate.	DMO	Domestic Borrowing Guidelines, 2008 – 2012, paragraph 2.2.4
d	Upon contracting a commercial bank loan, States are to furnish the DMO with the details of such loan. The Lending bank is also required to furnish the DMO and States' Debt Management Departments (DMDs) with periodic reports on the drawdown and utilization of same by the Borrower.	States & Lending Bank	Domestic Borrowing Guidelines, 2008 – 2012, paragraph 2.2.4

Appendix I:

BORROWING APPROVAL PROCESS



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