UNITY AND FAITH, PEACE AND PROGRESS

DEBT MANAGEMENT OFFICE

NIGERIA

2011

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

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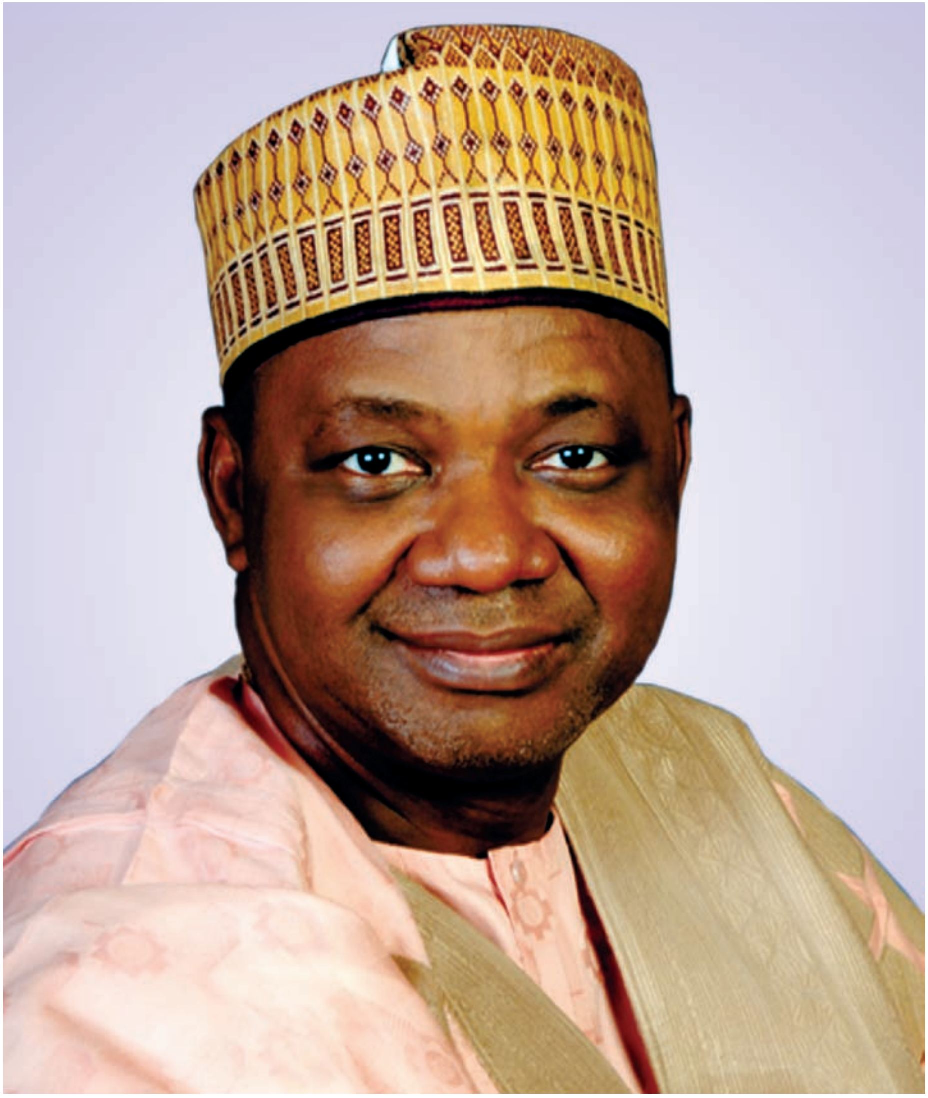
Federal Republic of Nigeria.



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Vice President

Federal Republic of Nigeria

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Coordinating Minister for the Economy &
Honourable Minister of Finance
Federal Republic of Nigeria

DR. YERIMA LAWAL NGAMA
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Federal Republic of Nigeria

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Mrs. Hannatu Suleiman
Head, Debt Recording and Settlement Department

Mr. Joe Ugoala
Head, Public Debt Management Institute

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23	SOLOMON N. OKOLI	ASSISTANT DIRECTOR	TEAM LEADER, MARKET SUPERVISION & REGULATION UNIT (MDD)

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF BOXES

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 Limited
DAS	Dutch Auction System
DFI	Development Finance Institution
DFID	Department for International Development
DMBs	Deposit Money Banks
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	Govt. Integrated Financial 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
IsDB	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 (N)	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
VP	Vice President
WAIFEM	West African Institute for Financial and Economic Management
WDAS	Wholesale Dutch Auction System

DEBT MANAGEMENT OFFICE

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: Excellence
Commitment
Integrity
Teamwork
Efficiency

MANDATE OF THE DEBT MANAGEMENT OFFICE

The mandate of the Debt Management Office as articulated in Part III, Section 6 of the Debt Management Office (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

It is with great pleasure that I present the Annual Report and Statement of Accounts of the Debt Management Office (DMO) for the year ended December 31, 2011. The Report covers the activities of the DMO and an overview of major relevant economic and financial developments in the global and domestic economy.

On the international front, the global economy, which was relatively robust in 2010, weakened in 2011. The global economy grew by 3.8 percent in 2011, less than the expected 4.2 percent growth and significantly below the 5.2 percent recorded in 2010. The factors that contributed to the slow growth included: the earthquake in Japan, unrest in oil-producing countries in North Africa, notably Libya and the sovereign debt crisis in Europe. Output growth in some developed and developing countries, particularly the USA, the UK, Russia, China, India and Brazil were lower in 2011 when compared to the growth rates in 2010, according to International Monetary Fund (IMF) estimates. Sub-Saharan Africa, which recorded a growth rate of 4.9 percent, was, however, a major exception to the observed global sluggish growth.

The global financial market was also more volatile in 2011 than in 2010 as the sovereign debt crisis in Europe dipped further, making it increasingly expensive to finance new debt in some industrialised nations. The USA and some European nations had their credit ratings downgraded in the course of the year. All these weakened the global financial environment in 2011.

In Nigeria, the GDP growth rate in 2011 was 7.36 percent, lower than the 7.98 percent recorded in 2010. The main growth drivers were agriculture and services sectors, coupled with the recovery in crude oil output. The year-on-year headline inflation dropped to 10.3 percent at the end of 2011, from the 11.8 percent recorded as at end-2010.

Despite the fact that Nigeria's reference crude oil price averaged US$113.73 per barrel in 2011, up from the US$80.92 in the preceding year, stock of external reserves rose only marginally to US$32.64 billion as at end-2011 from US$32.34 billion recorded as at end-2010. The low accretion to reserves was attributed to high foreign exchange demand owing to the high import-dependent nature of the economy and the near speculative attack on the exchange rate in the third quarter of 2011. In order to reverse the rapid leakage in the external reserves, the CBN reduced the foreign exchange net open-position of deposit money banks (DMBs) from 5.0 percent in 2010 to 3.0 percent in 2011 and adjusted the mid-point of the exchange rate band from

N150/US$1.00 to N155/US$1.00, while retaining the exchange rate band of +3 percent and -3.0 percent. Nevertheless, the Official exchange rate, which opened at N151.62/US$1.00 had depreciated to N158.23/US$1.00 by end-2011, showing a 1.28 percent coefficient of variation as against the 0.32 percent recorded in 2010.

The domestic money and capital markets recorded mixed developments. The significant increase in Monetary Policy Rate (MPR) from 6.25 percent to 12 percent, cash reserve ratio from 1.0 percent to 8.0 percent and liquidity ratio from 25.0 percent to 30.0 percent pushed up interest rates during the year. The average Inter-Bank Call Rate, NTBs and prime lending rates, which stood at 8.03 percent, 7.47 percent and 15.74 percent as at end-December 2010 closed at 15.85 percent, 14.27 percent and 16.75 percent in 2011, respectively. Average maximum lending rate, however, rose marginally to 23.21 percent in 2011 from 21.86 percent in 2010. Broad money supply (M2) grew by 15.4 percent in 2011, far more than the 6.9 percent recorded in 2010, following largely the increase in credit to the private sector that was assisted by liquidity injection of the AMCON purchases of DMBs' non-performing loans. The capital market, on the other hand, remained feeble with market capitalisation and the NSE All-Share Index of quoted equities dropping from N7,913.80 trillion and 24,770.52 as at end-December 2010 to close at N6,579.10 trillion and 20,875.83 respectively, at end-2011.

Fiscal operations of the Federal Government in 2011 contracted compared to the outcome in 2010. The average crude oil price for the Budget was raised from US$65 per barrel in 2010 to US$75 per barrel in 2011 and this seemed to have helped the overall federal budget deficit, to fall from N1,979.79 billion to N1,136.62 billion in 2011. In addition, in line with the on-going fiscal consolidation policy, the domestic borrowing required to partly finance budget deficit dropped from N1,346.58 billion in 2010 to N852.27 billion in 2011. The DMO issued total debt securities of N1,273.27 billion, in FGN Bonds (N863.26 billion) and NTBs (N410.00 billion) as against N1,603.56 billion issued in 2010. The issuance was over-subscribed by 106.38 percent in 2011 compared to 85.92 per cent in 2010.

Secondary market activities in FGN Bonds fell considerably as a result of increase in general interest rates during the year. Average FGN Bond yield rose significantly to close at 14-15 percent by end-2011 compared to 10-11 percent in 2010, thereby impacting negatively on the price of FGN Bonds. The number and volume of market transactions dropped from 135,874 and N13.67 trillion in 2010 to 65,319 and N8.95 trillion in 2011, respectively. As at the end of trading activities in December 2011, market capitalisation of FGN Bonds, which opened at N2.871 trillion closed at N3.089 trillion. The increase in market capitalisation was due to new re-openings in the year.

Total public debt outstanding as at end-2011 was US$41.55 billion (N6.51 trillion) compared to US$35.09 billion (N5.23 trillion) recorded in 2010. This comprised US$5.66 billion (N887.95 billion) external debt and US$35.88 billion (N5.62 trillion) domestic debt. The increase in total debt stock was due to scheduled draw downs on existing external loans, issuance of the US$500 million Eurobond and new borrowings from the domestic market to fund part of the fiscal deficit. The total debt stock-to-GDP ratio, which stood at 15.40 percent in 2010 rose to 17.45 percent in 2011; nevertheless, it remained within the country specific and global thresholds of 25 percent and 40 percent, respectively.

The DMO conducted the annual Debt Sustainability Analysis (DSA) in conjunction with other stakeholders in 2011 to update the framework for monitoring developments in the public debt profile. It is significant to note that, the scope of debt data analysis in the 2011 DSA was broadened to include the State Governments' domestic debt data following the successful interaction between the Office and the Sub-nationals during the year. In spite of the inclusion of the State Governments' debt data in the 2011 DSA, the country's debt profile remained at low risk of debt distress.

The year 2011 also recorded a remarkable achievement in the history of debt management in Nigeria as the country successfully issued its first sovereign debt in the International Capital Market (ICM). In January 2011, the debut US$500 million 10-year Sovereign Eurobond at 6.75 percent was 2.6 times over-subscribed and has, on the average traded above par as at the end of 2011. The initiative has created a sovereign benchmark to facilitate the country's public and private sector access to the ICM and also attracted foreign investments into the country for growth and development. In particular, Guaranty Trust Bank Nigeria, issued a USD500 million 5-year Bond at a Coupon of 7.50 percent and Yield of 7.75 percent in May 2011.

The DMO continued with its debt management capacity building program at the Sub-national level in 2011. Debt Data Reconstruction (DDR) has so far been conducted for twenty-five States of the Federation. Post-DDR exercise involving debt data evaluation and training of staff of States' Debt Management Departments (DMDs) exercise was also conducted for seventeen (17) States. In furtherance of the goal to adequately equip Sub-national debt managers with the requisite skills in debt management, the DMO, in collaboration with private sector organizations, notably, Quanteq Technology Services Limited (an ICT Company), organised special workshops on 'Application of Microsoft Excel for Effective Sub-national Debt Management' during the year. Fifty-five Sub-national debt managers from a total of twenty-three States drawn from all the six geo-political zones of the country were trained during the year.

I wish to conclude by extending, on behalf of the DMO, our gratitude to the Chairman of our Supervisory Board, His Excellency, Arc.

Mohammed Namadi Sambo, GCON, the Vice-President of the Federal Republic of Nigeria, the Vice-Chairman of the Supervisory Board and Coordinating Minister for the Economy/Honourable Minister of Finance, Dr. Ngozi Okonjo-Iweala and all the esteemed members of the Board for their inspiring leadership, support and guidance in 2011. I also want to extend my appreciation to all our other stakeholders, particularly the UK Department for International Development (DFID) for their sustained support. I wish to acknowledge and appreciate the steadfastness, loyalty, hard-work and dedication of the Management and Staff of the DMO, which has enabled the Office to continue to contribute to the growth and development of the economy.

Abraham Nwankwo
Director-General
May 31, 2012

CHAPTER ONE
THE ECONOMIC ENVIRONMENT



CHAPTER ONE
THE ECONOMIC ENVIRONMENT

The Emerging Economies and Sub-Saharan Africa witnessed relatively strong growth, but growth in the Advanced Countries was about half its rate of growth in the preceding year due largely to sluggish recovery from the global financial crisis. Growth in Nigeria remained robust and was driven by the non-oil sector following continued favourable rainfall regime. The Nigerian Authorities strengthened the policy environment with additional initiatives among, which were the successful launch of the first ever Nigerian Eurobond worth USD500 million, issued at 6.75% p.a. coupon; the signing into law of the Nigeria Sovereign Investment Authority (NSIA) Act; and the provision of FGN Guarantee for the AMCON Tradable Bonds.

1.1 The Global Economy

Global economic output, expanded by 3.8 per cent in 2011, down from the 5.2 per cent recorded in 2010[1]. Growth in 2011 (1.6 per cent) in the advanced countries, at about half of the growth (3.2 per cent) in 2010 was much slower, reflecting the hold back due to the one-time events, from the earthquake and tsunami in Japan, as well as, the oil supply shocks in the global market.

Economic activity in the emerging and developing economies though remained strong slipped from 7.2 per cent in 2010 to 6.2 per cent in 2011, but with considerable variations across regions. Activity rebounded fairly strong in the crisis-hit economies of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS), following buoyant commodity prices. Surging commodity prices also pushed Latin America to high growth rates. Activities in developing Asian countries, however, weakened moderately, in response to global supply-chain disruptions and destocking in the face of more uncertain demand from advanced economies. Sub-Saharan Africa (SSA) economies continued to expand at a robust pace. Nevertheless, economic activity in the Middle East and North Africa (MENA) region suffered from political and social conflicts, although strong revenues boosted the economies of oil exporters.

Commodity prices generally declined in 2011, in response to weaker global demand. Nevertheless, oil prices, which witnessed relatively high prices during the greater part of 2011, however, began to slow down in the last quarter of 2011, due largely to policy induced rising supply.

[1] *World Economic Outlook January 24, 2012*

Global price inflation in 2011 rose moderately in selected advanced and emerging economies, but increased sharply in the African countries. In the major advanced economies, the average inflation was 2.45 per cent in 2011 up from the 2.0 per cent in 2010, while it rose from 6.45 per cent in 2010 to 6.79 per in 2011, in the emerging economies. In the selected African Countries, average inflation increased from 8.18 per cent in 2010 to 13.29 per cent in 2011, reflecting the effects of monetary expansion, adverse weather conditions and high oil prices, as well as, high food prices in some regions of the world, in particular, the East African sub-region (Table 1.1).

Fiscal deficits fell in advanced economies by about 1.0 percent of GDP, in 2011. The headline deficit fell by 2.0 percent of GDP in the euro area, and by a sizable 1.25 percent of GDP in cyclically adjusted terms. However, a large share of the improvement within the euro area is accounted for by Germany, where the cyclically adjusted deficit fell by 2.25 percent of GDP, reflecting an unusually strong response of revenues and employment to output. The cyclically adjusted deficits also strengthened substantially in Spain, while France and Italy posted modest improvements.

Cyclically adjusted deficits also fell substantially in the United Kingdom and the United States, but rose marginally in Japan owing to reconstruction costs related to the natural disaster. Among European program countries, headline deficits were larger than expected in Greece owing in part to a weaker economic outturn. Slippages in the implementation of revenue spending measures and the lower tax compliance suggest that the cyclically adjusted deficit exceeded expectations as well, notwithstanding an improvement of 3.0 percentage points of GDP relative to 2010 performance. In Portugal, the fiscal target was met through a one-time partial transfer of banks' pension fund assets. In Ireland, headline fiscal outturns were on track, and the cyclically adjusted balance improved by 2.0 percent of GDP.

The European debt crisis also took a centre stage in the second and third quarters of 2011, as Greece, Ireland, and Portugal among others, had to be issued bail-out packages by the EU and IMF in order to avoid huge sovereign debt defaults. In August 2011, the credit-rating agency Standard & Poor's downgraded the credit rating of US Government Bond for the first time in the country's history. Markets around the world as well as the three major indexes in the US then experienced the most volatile week since the 2008 Financial Crisis, with the Dow Jones Industrial Average plunging by 635 points in one day.

Fiscal deficits in emerging economies also fell by about 1.0 percent of GDP in headline terms and about 0.75 percent in cyclically adjusted terms in 2011. Higher oil revenues led to a dramatic increase in the cyclically adjusted balance in Russia, and to a lesser extent in Mexico, but declines in cyclically adjusted deficits were recorded in all other major emerging economies in the year under review.

Table 1.1: Inflation in Selected Countries 2009 to 2011

	3-yr AV	2009	2010	2011
ADVANCED COUNTRIES				
Yearly Average		**1.09**	**2.00**	**2.45**
UNITED STATES	2.4	2.70	1.50	3.00
GERMANY	1.53	0.80	1.70	2.10
FRANCE	1.73	0.90	1.80	2.50
ITALY	2.07	1.00	1.90	3.30
SPAIN	2.07	0.80	3.00	2.40
JAPAN	-0.63	-1.70	0.00	-0.20
UK	3.60	2.90	3.70	4.20
CANADA	2.00	1.30	2.40	2.30
EMERGING ECONOMIES				
Yearly Average		**7.14**	**6.45**	**6.79**
RUSSIA	7.90	8.80	8.80	6.10
CHINA	3.53	1.90	4.60	4.10
BRAZIL	5.57	4.31	5.91	6.50
INDIA	10.65	14.97	9.47	7.50
SOUTH AFRICA	5.30	6.30	3.50	6.10
TURKEY	7.79	6.53	6.40	10.45
SELECTED AFRICAN COUNTRIES				
Yearly Average		**10.92**	**8.18**	**13.29**
NIGERIA	12.00	13.90	11.80	10.30
GHANA	11.05	16.00	8.58	8.58
TANZANIA	12.53	12.20	5.60	19.80
KENYA	9.59	5.32	4.51	18.93
UGANDA	16.87	14.20	9.40	27.00
ZAMBIA	8.33	9.90	7.90	7.20
ANGOLA	13.56	14.00	15.31	11.38
BOTSWANA	7.47	5.80	7.40	9.20
NAMIBIA	5.77	7.00	3.10	7.20

Source: http//www.tradingeconomics.com

1.2 The Nigerian Economy and Policy Environment

Real Gross Domestic Product (GDP) for Nigeria grew by about 7.36 percent in 2011 compared with 7.98 percent growth in the preceding year. The 7.36 percent real growth in 2011 is attributed to increase in the non-oil sector following favourable rainfall regime and increased inflows of foreign direct investments. Also contributing to the growth is the improved oil production output coupled with stable and high crude oil prices. Trends in consumer prices also strengthened as the year-on-year inflation rate dropped to 10.3 percent in 2011 from 11.8 percent in 2010, reflecting partly the inflation expectation lock-in effects from the aggressive monetary operations of the monetary authorities since the second half of 2011.

Monetary policy in 2011 was directed mainly towards maintaining price and financial sector stability. The benchmark Monetary Policy Rate (MPR) was raised six times during the year leading to a cumulative 575 basis points increase, from 6.25 percent in January to 12.0 percent in October, 2011. In reaction to movements in the MPR, the average Inter-bank call rate rose from 8.03 percent at end-2010 to 15.87 percent as at end-2011, while the average NTBs and Prime Lending Rates (LR), which were 7.47 percent and 15.74 percent in December 2010 increased to 14.27 percent and 16.75 percent in 2011 respectively. Broad money supply (M2) grew by 15.4 percent in 2011, much faster than the 6.9 percent recorded in 2010 as banks increased credit to the private sector following the effective resolution of the banking sector crisis and reforms.

As at end-2011, Nigeria's foreign reserves (US$32.6 billion) remained almost unchanged from the end-2010 level (US$ 32.3 billion), in spite of the rising oil prices for Nigeria's crude oil in the international market that averaged about $113.76 per barrel of crude oil, compared to the average price of $80.91 per barrel in the preceding year. Naira remained relatively under pressure leading to its devaluation by the CBN from N150/US$1 to N155/US$1, while the exchange rate band of + or -3.0 per cent was sustained. In order to take advantage of the rising volume of trade between Nigeria and China, the CBN commenced the process of diversifying Nigeria's foreign currency reserves to include 5% - 10% of reserves in Chinese Yuan.

The first quarter of 2011 saw crude oil price rising and remaining above US$100 per barrel by the end of the year. This was driven mainly by uncertainties and disruptions in global oil supply, following unrest in the Middle East and North Africa. On the other hand, the success of the Federal Government's Amnesty Programme, which has helped to promote relative peace in the Niger Delta region, enabled Nigeria to meet its crude oil production quota (2.38 mbpd) and thereby raised oil revenue from N5,396.09 billion in 2010 to N6,815.45 billion in 2011.

The primary fiscal balance as a percentage of GDP dropped from 3.62 percent recorded in 2010 to 2.22 percent in 2011, while the overall fiscal balance as a proportion of GDP, improved from -3.7 percent in 2010 to -3.4 percent in 2011 in line with the fiscal consolidation policy stance of the government . Consequently, the total amount of FGN Bonds issued in the domestic debt market to refinance maturing obligations and part-finance budget deficit in 2011, dropped to N1,273.27 billion from N1,603.56 billion in 2010.

The secondary market in FGN Bonds was less active in 2011 when compared with 2010. This was due to reforms in the banking sector and the aggressive liquidity management operations of the CBN, which culminated in the rise in the CBN Monetary Policy Rate, leading to higher than anticipated bond yields and lower bond prices. Average FGN Bond yield rose to close at 14-15 percent by end-2011 as against the yield of 10-11 percent in 2010. As at the end of trading activities in December 2011, market capitalisation of FGN Bonds, which opened at N2.871 trillion closed at N3.089 trillion. The increase in market capitalisation was largely due to FGN Bonds issued during the year since the price of outstanding stock dropped owing to the general increase in the level of interest rates.

The market capitalization and the NSE All-Share Index of quoted equities dropped from N7,913.80 trillion and 24,770.52 as at end-December 2010 to close at N6,579.10 trillion and 20,875.83 respectively, at end-2011.

The Monetary, Financial and Fiscal Authorities introduced additional initiatives during the year under review in order to strengthen the policy environment. The new initiatives included:

- The signing into law of the Nigeria Sovereign Investment Authority (NSIA) Act, to legalise and institutionalise the management of the Excess Crude Accounts (ECA). The NSIA comprises three separate ring-fenced funds for, macro-economic stability, the development of critical infrastructure and savings for future generation.
- The debut in the International Capital Market (ICM), with US$500 million 6.75 percent 10-year Sovereign Eurobond. The issue was 2.6 times over-subscribed by investors, and has, for post part, traded at a premium since it was issued.
- The establishment of a Banking Sector Resolution Cost Sinking Fund (BSRCSF) by the CBN in collaboration with the 24 banks in Nigeria to rescue distressed banks.
- The issuance of a 3-year Zero-Coupon 2013 AMCON Tradable Bonds worth over N1.74 trillion as a consideration for the purchase of Non-Performing Loans (NPLs) and other Eligible Banks

Assets from Eligible Financial Institutions, to fund the acquisition of interest in some recapitalised banks and the acquisition of nationalised banks, etc during the year under review.

- The provision of FGN's Guarantee by the DMO through the Honourable Minister of Finance (HMF) for the AMCON Tradable Bonds.
- The commencement of foreign exchange forward transactions and the removal of one year minimum holding period for Nigerian bonds imposed on foreign investors by the CBN, in an effort, to transform and deepen the Nigerian financial markets and allow more foreign participation
- The improved Sovereign Credit Rating by Fitch and Standard and Poor's (S&P). While Fitch upgraded Nigeria's “Outlook” from “Negative” to “Stable”, the S&P upgraded the “Outlook” from “Stable” to “Positive”, and
- The commencement of the implementation of a new market segmentation as from November 2011 by the Nigerian Stock Exchange (NSE), which comprised the Global Industry Classification Standard (GICS), Standard Industry Classification (SIC) and The North American Industry Classification System (NAICS).

CHAPTER TWO

APPRAISAL OF DEBT MANAGEMENT STRATEGY

CHAPTER TWO

APPRAISAL OF DEBT MANAGEMENT STRATEGY

In line with international best practice, the annual appraisal of the debt management strategy was carried out in 2011 to assess the level of compliance of the Office's debt management activities with the National Debt Management Framework (NDMF). As in the preceding years, the External Debt Management Strategy depended mainly on borrowings from the concessional window although debt from the non-concessional source rose sharply following the debut USD 500m Eurobond issue in 2011. On the domestic front, the stock of domestic debt outstanding continued to increase, while an additional 11 States of the Federation were assisted by the DMO in reconstructing their domestic debt data thereby bringing to 25 States assisted to reach this stage.

2.1 External Debt Management Strategy

As in preceding years, the broad objective of the country's External Debt Strategy in 2011, was to prudently access concessional funding required for growth and development within a sustainable debt profile; while facilitating private sector participation in the funding of critical infrastructure in particular, and other growth sectors of the real economy in general.

2.1.1 Concessional Borrowing

Since the exit from the Paris Club debt obligations in 2006, Nigeria has focused largely on the concessional window for its external borrowing requirement[2]. Consequently, about 87.59 percent of the total external debt stock was sourced from the concessional window in 2011, mainly from the multilaterals (IDA, IFAD, EIB, and ADF); while the non-concessional creditors accounted for the balance of 12.41 percent, compared with the 7.29 percent from this source in 2010. The increase in the non-concessional sources of funding was due to the debut USD500m Eurobond issuance in 2011[3].

[2] The International Development Agency (IDA) of the World Bank defines concessional borrowing as any loan that has a minimum Grant Element (GE) of 35 percent, among others.

[3] Even though Nigeria accessed the international capital market with the debut issuance of USD500m Eurobond for budget support, the main motivation was to set a reference price for Nigerian Corporate bonds that hitherto had no benchmark instrument to guide their pricing in the international market.

2.1.2 Loan Utilisation

About 72.79 percent of the loans sourced in 2011, were utilized to fund growth and development in the real sectors of the economy (Table 4.5), while the balance of 27.21 percent was used for other Federal and State Governments projects.

2.2 Domestic Debt Management Strategy and Bond Market Development

As in the preceding years, the domestic debt management strategy of the Office in 2011 helped broaden and deepen the domestic bond market through the introduction of a variety of government securities; the use of appropriate technology to aid effective and efficient issuance and trading of government securities; as well as, improve the regulatory framework for effective operations of the bond market. The activities and initiatives in 2011 involved the following:

2.2.1 Issuance Activity

The DMO's issuance activities were targeted at increasing the volume of Benchmark Bonds to promote liquidity, price discovery and smoothen the sovereign yield curve. Against this backdrop, Benchmark Bonds were re-opened at various times in the course of the year.

2.2.2 Bond Market Development

The DMO actively engaged the stakeholders and operators in the bond market during the period under review, with a view to further broadening and deepening the market. The key developments in the market were the continued issuance of benchmark bonds; commencement of the process for introducing Securities Lending Facility to support the PDMMs in their market making activity in order to reduce price volatility; the removal by the CBN of the restriction of a minimum of 12 month holding period imposed on foreign investors who invest in securities of the Federal Government of Nigeria; and conclusion of the arrangements necessary for securing the required Securities and Exchange Commission's registration for ICAP (an Inter-Dealer Broker). Banks and Discount houses using Financial Markets Dealers Association (FMDA) as an anchor, also commenced action towards the introduction of a market-wide platform (FMDQ) that will trade fixed income securities (money market and all categories of bonds) on an Over-The-Counter (OTC) basis.

2.2.2.a Primary Market Activities-The largest single issuer of bonds in the market in 2011 was the Asset Management Corporation of Nigeria (AMCON) with a total of N5,464.93 billion[4] new Bonds. This was followed by the Federal Government of Nigeria who issued a total of N863.268 billion spread across its monthly Auctions. The Sub-national and Corporate segments followed with new issues totaling N92 billion and N71.43 billion respectively.

2.2.2. b Secondary market Activities-The secondary market in FGN Bonds was less active in 2011 when compared with activities in 2010. This was due to reforms in the banking sector and price

[4] *The bulk of these Bonds were issued to Banks in exchange for Non-performing Loans while some were offered to eligible domestic investors*

volatility following the liquidity tightening actions of the CBN, which culminated in a significant rise in the CBN's Monetary Policy Rate, (from 6.25 per cent to 12 per cent) leading to higher than anticipated bond yield; and lower bond prices. The number of transactions declined to 65,319 representing a 52.0 percent decrease from the 2010 level. Similarly, the Face Value of Transactions declined by about 35.0 percent when compared to the corresponding figure in 2010.

2.3 Sub-National Debt Management Strategy and Development

The DMO continued to facilitate the development of capacity and competences for effective public debt management at the sub-national level, through the provision of support for the establishment and operation of Debt Management Departments (DMDs) in the States. The need for effective debt management at the sub-national level is to avoid a relapse into overall debt over-hang, as well as, use this platform to obtain comprehensive and reliable debt data for efficient debt management.

The DMO therefore continued with its programme of assisting the States in the reconstruction of the States' domestic debt database. In 2011, 11 additional States of the Federation were assisted by the DMO in reconstructing their domestic debt data, thereby bringing the total number of States that had been assisted so far to 25. In addition, 56 staff members from 22 State DMDs were exposed to Hands-On-Training in the use of Excel for effective debt recording and settlement functions. The remaining 14 States would be trained in the first half of 2012.

CHAPTER THREE

NIGERIA'S TOTAL PUBLIC DEBT

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NIGERIA'S TOTAL PUBLIC DEBT

Total public debt outstanding rose significantly in 2011, due largely to the borrowings from both external and domestic sources. The increase in external debt was largely from the additional disbursements on existing loans and the new USD500million Eurobond. The stock of external debt outstanding, continued to be in the long-term category. The domestic debt portfolio was also dominated by long-term instruments. Public debt service payments which had declined in 2007, 2008 and 2010 however rose in 2009 and 2011. The reasons for the upward trend in debt service in 2011 were the redemption of maturing obligations and higher interest payment on new issues particularly the domestic issuances.

3.1 Total Public Debt Outstanding

Total public debt outstanding as at the end of 2011 (external and securitized domestic debt of the Federal Government) was US$41,549.44 million. This represented an increase of US$6,456.34 million or 19% percent over the US$35,093.10 million at the end of 2010 (Table 3.1). The increase came from both the external and domestic components of the total debt stock. The increase in domestic debt stock was due to net issuances while the increase in external debt was traced to additional disbursements on existing loans, the USD500 million Eurobond issued in January 2011 and adverse exchange rate fluctuations during the year under review.

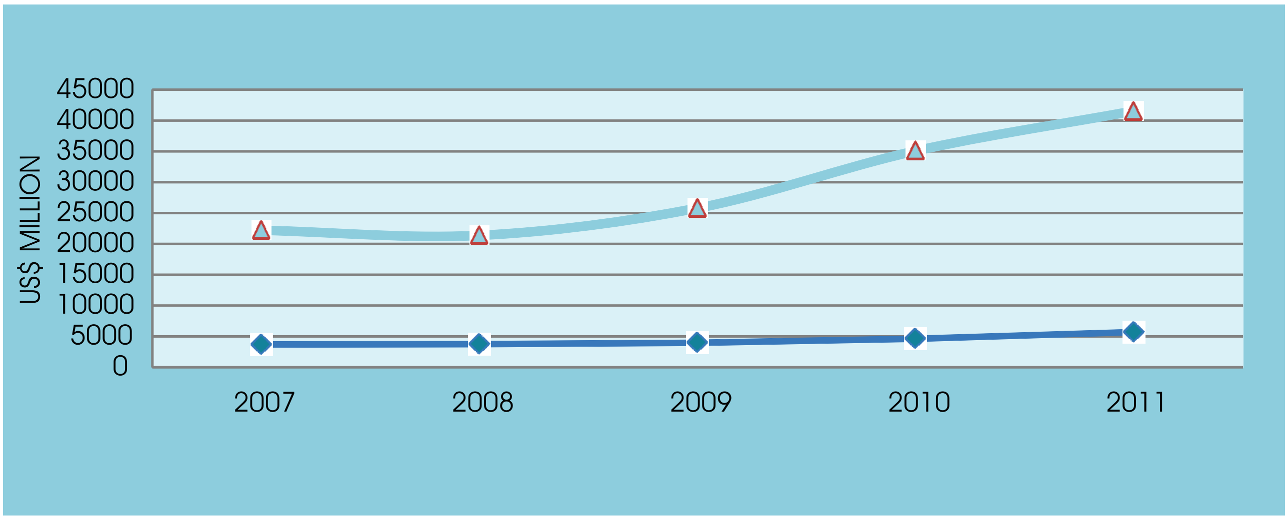
Table 3.1: TOTAL PUBLIC DEBT OUTSTANDING, 2007-2011 (US$' MILLION)

Type	2007	2008	2009	2010	2011[1]
External Debt Stock *(% share of total)*	3,654.21 *(16.44)*	3,720.36 *(17.39)*	3,947.30 (15.29)	4,578.77 *(13.05)*	5,666.58 *(13.64)*
Domestic Debt Stock *(%share of total)*	18,575.67 *(83.56)*	17,678.55 *(82.61)*	21,870.12 *(84.71)*	30,514.33 *(86.95)*	35,882.86 *(86.36)*
TOTAL *(% share of total)*	**22,229.88** ***(100)***	**21,398.91** ***(100)***	**25,817.42** ***(100)***	**35,093.10** ***(100)***	**41,549.44** ***(100)***

[1] Official CBN Exchange Rate of N156.7/US$1 as at 31/12/11

Figure 3.1 shows the trends in total public debt stock from 2007 to 2011. The share of the domestic debt has continued to dominate trends in the total public debt since 2007.

FIGURE 3.1: TOTAL PUBLIC DEBT OUTSTANDING, 2007-2011(US$' MILLION)



3.1.1 Total Public Debt by Original Maturity

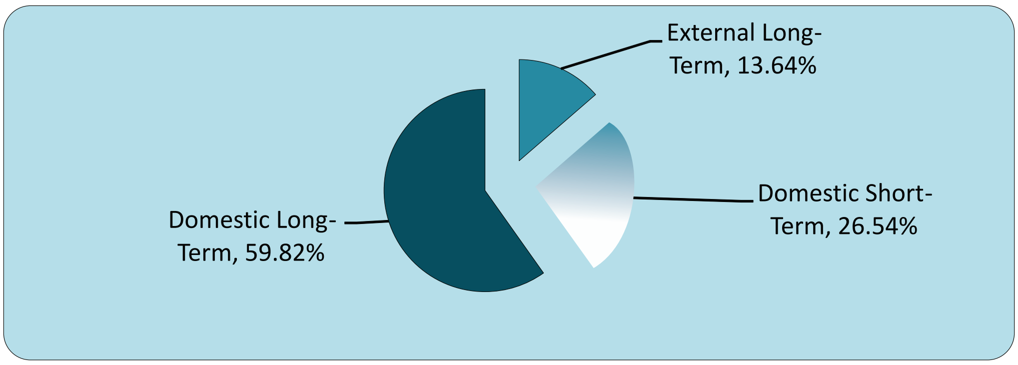
In 2011, Nigeria's total public debt by original maturity indicated that all external debts were long-term loans with maturities longer than one year, (Table 3.2 and Figure 3.2). Similarly, over 84% of domestic debt portfolio was dominated by the long-term debt instruments in the period under review.

TABLE 3.2: TOTAL PUBLIC DEBT OUTSTANDING BY ORIGINAL MATURITY, 2007-2011 (US$' Million)

Type		2007	2008	2009	2010	2011[1]
External Debt Stock	Short – term [2]	0.00	0.00	0.00	0.00	0.00
	Long –term	3,654.21	3,720.36	3,947.30	4,578.77	5,666.58
	(% of share total)	*(16.44)*	*(17.39)*	*(15.29)*	*(13.05)*	*(13.64)*
	Sub-Total	*3,654.21*	*3,720.36*	*3,947.30*	*4,578.77*	*5,666.58*
Domestic Debt Stock	Short-term[3]	4,922.26	3,595.65	5,403.00	8,561.38	11,026.89
	(% of share total)	*(22.14)*	*(16.80)*	*(20.93)*	*(24.39)*	*(26.54)*
	Long-term	13,653.42	14,082.90	16,467.12	21,952.95	24,855.97
	(% of share total)	*(61.42)*	*(65.81)*	*(63.78)*	*(62.56)*	*(59.82)*
	Sub-Total	18,575.68	17,678.55	21,870.12	30,514.33	35,882.86
	(% of share total)	*(83.56)*	*(82.61)*	*(84.71)*	(86.95)	(86.36)
TOTAL		**22,229.89**	**21,398.91**	**25,817.42**	**35,093.10**	***41,549.43***
	(% of share total)	***(100)***	***(100)***	***(100)***	***(100)***	***(100)***

[1] Official CBN Exchange Rate of N156.7/US$1 for 2011 figures as at 31/12/2011
[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 3.2: TOTAL PUBLIC DEBT BY ORIGINAL MATURITY AS AT 31ST DECEMBER, 2011



3.2 Total Public Debt Service Payments

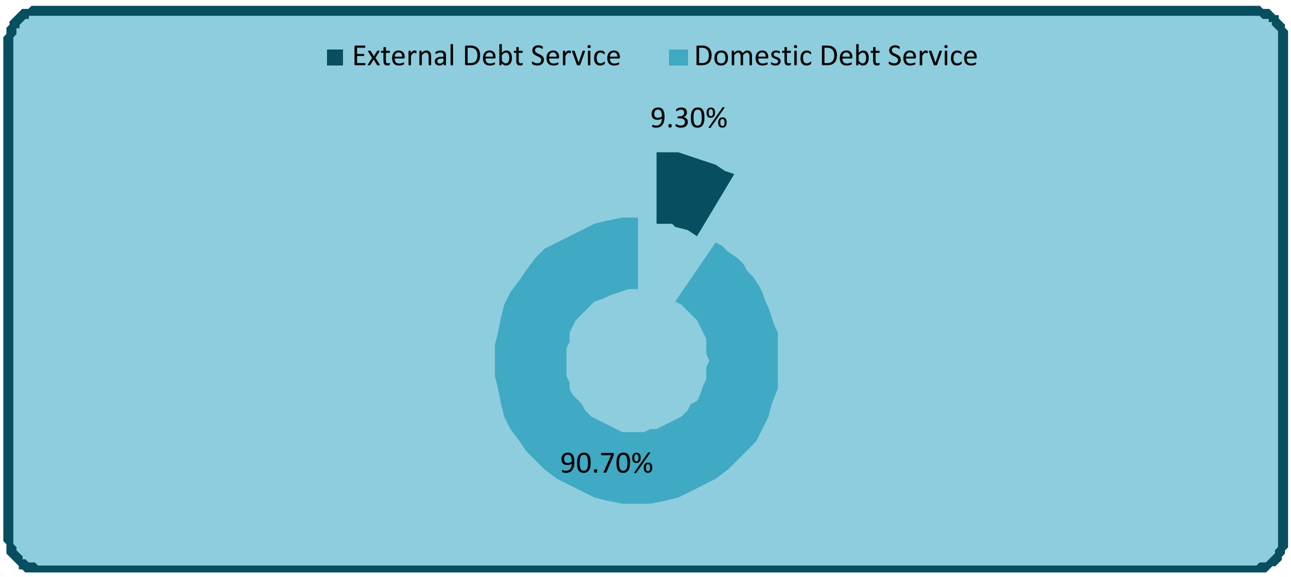
Total public debt service payments for the year 2011 amounted to US$3,781.04 million representing 1.78 percent of GDP and 9.10 percent of the total debt stock (Table 3.3). This also represented an increase of US$1,052.64 million or about 38.60 percent over the US$2,728.40 million in 2010. The rise in debt service payments was due to the redemption of maturing obligations and the increase in cost of borrowing following CBN's aggressive monetary policy operations, which led to higher interest payment on new issues. As a percentage of total debt service payments, the shares of the external and domestic debt service were 9.3 percent and 90.7 percent in 2011 (Figure 3.3), compared with 13 percent and 87 percent in 2010, respectively.

TABLE 3.3: TOTAL PUBLIC DEBT SERVICE PAYMENTS, 2007-2011(US$[1] MILLION)

Type	2007	2008	2009	2010	2011[1]
External Debt Service *(% of share total)*	1,022.04 *(32.09)*	464.63 *(11.46)*	428.04 *(18.33)*	354.42 *(13.00)*	351.62 *(9.30)*
Domestic Debt Service *(% of share total)*	2,162.91 *(67.91)*	3,590.67 *(88.54)*	1,907.45 *(81.67)*	2,373.98 *(87.00)*	3,429.42 *(90.70)*
TOTAL	**3,184.95** **(100)**	**4,055.30** **(100)**	**2,335.30** **(100)**	**2,728.40** **(100)**	**3,781.04** **(100)**

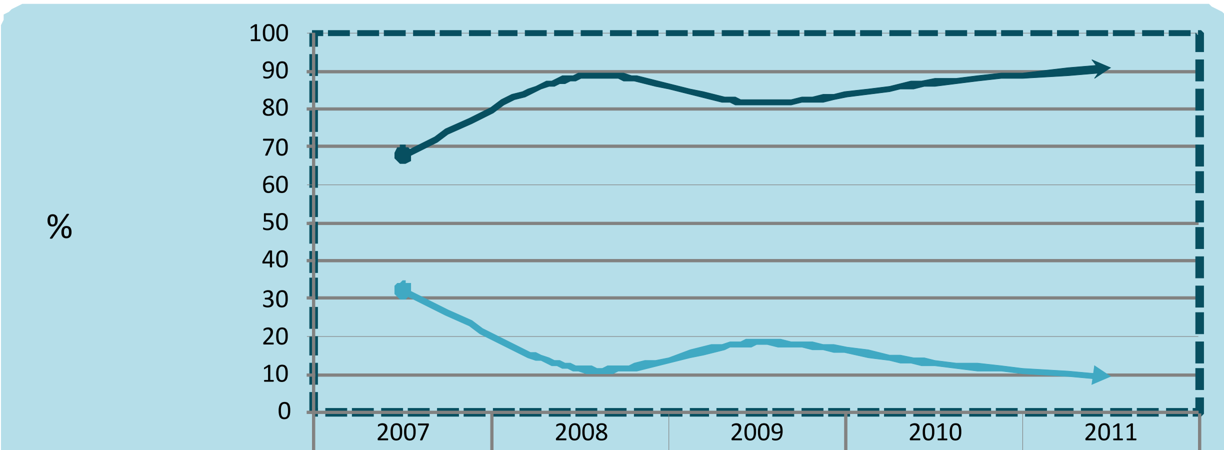
[1] Official CBN Exchange Rate of N156.7/US$1 for 2011 as at 31/12/11

FIGURE 3.3: TOTAL DEBT SERVICE PAYMENTS AS AT 31st DECEMBER, 2011



Over the period 2007 to 2011, the external debt service payments showed a steady downward movement, while the domestic debt service profile increased persistently (Figure 3.4). The observed downward trend in the external debt service payments is explained by the effects of the reliance on concessional borrowings and the active usage of the domestic market to meet the bulk of the FGN's borrowing requirements, since 2007.

FIGURE 3.4: PERCENTAGE SHARES IN TOTAL DEBT SERVICE PAYMENTS, 2007-2011



	2007	2008	2009	2010	2011
Ext-Debt-Serv	32.09	11.46	18.33	13	9.3
Dom-Debt-Service	67.91	88.54	81.67	87	90.7

3.3 New External and Domestic Borrowings in 2011

Disbursements on external loans, Eurobond issuance and new issuance of domestic debt amounted to US$9,624.88 million in 2011, which when compared with the level in 2010 showed a decrease of 25.5 percent. The decrease was traced to the sharp decline in new issues of domestic debt in line with fiscal consolidation policy of the FGN and the drop in disbursements of external loans as only few loans met the conditions for disbursement (Table 3.4).

TABLE 3.4: EXTERNAL DEBT DISBURSEMENTS, EUROBOND AND DOMESTIC DEBT NEW ISSUES, 2007 -2011 (US$ MILLION)

Type	2007	2008	2009	2010	2011[1]
External Debt Disbursements	***424.56***	***360.84***	***532.83***	***975.12***	***738.91***
Eurobond	-	-	-	-	***500.00***
FGN Bonds	5,168.63	3,748.26	4,922.09	8,342.43	5,509.05
Treasury Bills	789.03	0.00	5,403.00	3,608.76	2,876.92
Promissory Note	-	-	427.03	-	-
Domestic Debt Issues:	***5,957.66***	***3,748.26***	***10,752.12***	***11,951.19***	***8,385.97***
TOTAL	**6,382.22**	**4,109.10**	**11,284.95**	**12,926.31**	**9,624.88**

[1] *Official CBN Exchange Rate of N156.7/US$1 as at 31/12/11 used for 2011 figures*

CHAPTER FOUR

NIGERIA'S EXTERNAL DEBT



CHAPTER FOUR

NIGERIA'S EXTERNAL DEBT

As at end-December 2011, Nigeria's total external debt outstanding was US$5,666.58, out of which 88.64 percent was owed to official creditors at very concessional rates. The outstanding non-concessional loans remained a small proportion of the country's external debt portfolio. Over 50.0 percent of the external debt stock is denominated in US Dollar and 31.0 percent in Euro. Long term debt by remaining maturity constituted more than 96.3 percent of the country's external debt during the period under review. An overall net inflow of over US$875.31 million from concessional and commercial windows was received in 2011. Nigeria made its debut entry into the International Capital Market (ICM) with the successful issuance of a USD500m 10-year Sovereign Bond in January 2011, which has been traded actively in the Secondary Market at a premium.

4.1 External Debt Stock

Total external debt stock outstanding as at 31st December 2011 was US$5,666.58 million, reflecting an increase of US$1,087.81 million or about 24 percent over the US$4,578.77 million in 2010 (Table 4.1). The increase was due to additional disbursements on existing loans and the US$500 million proceeds in respect of the Eurobond, as well as net adverse cross exchange rate movements between the different currencies in the external loan portfolio.

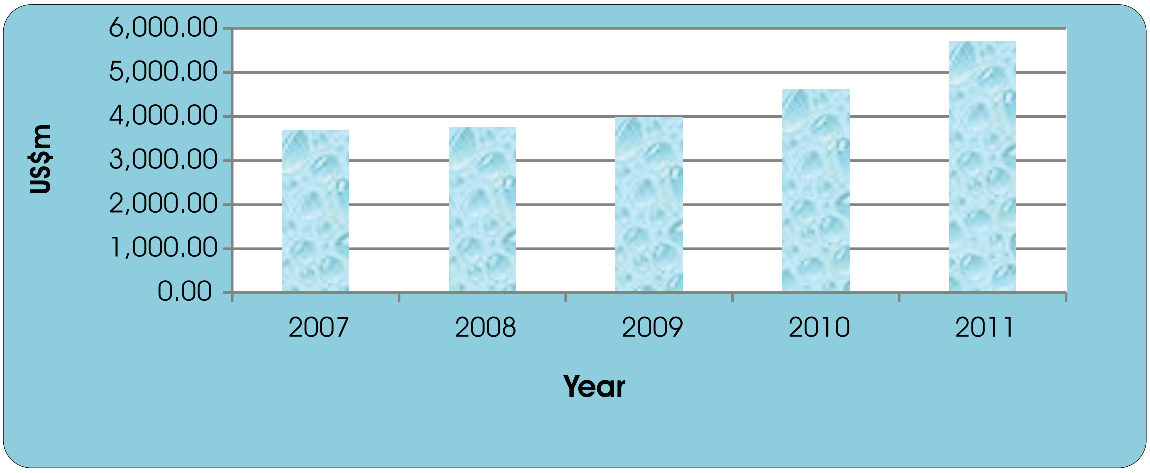
TABLE 4.1: EXTERNAL DEBT STOCK BY SOURCE AS AT 31st DECEMBER, 2011 (US$' Million)[1]

Source	Principal Balance 1	Principal Arrears 2	Interest Arrears 3	Total 4	Percentage 5
MULTILATERAL					
World Bank Group					
- IBRD	6.31	0.00	0.00	6.31	
- IDA	3,936.92	0.00	0.00	3,936.92	
IFAD	69.32	0.00	0.00	69.32	
African Development Bank Group					
- ADB	53.06	0.00	0.00	53.06	
- ADF	381.19	0.00	0.00	381.19	
EDF	107.67	0.00	0.00	107.67	
IDB	14.45	0.00	0.00	14.45	
SUB-TOTAL	**4,568.92**	-	-	**4,568.92**	**80.63%**
NON-PARIS					
- BILATERAL	453.83	0.000	0.000	453.83	
- COMMERCIAL	143.82	0.00	0.00	143.82	
SUB TOTAL	**597.66**			**597.66**	**10.55%**
International Capital Market					
- EUROBOND	500.00	0.00	0.00	500.00	**8.82%**
GRAND TOTAL	**5,666.58**	**0.00**	**0.00**	**5,666.58**	**100.00%**

[1] *Official CBN exchange rate of US$ vis-à-vis other currencies as at 31/12/2011*

Trends in Nigeria's external debt stock over the five-year period ending 2011 revealed a gradual increase, with the highest annual increment (24%) occurring in 2011 (Figure 4.1).

FIGURE 4.1: EXTERNAL DEBT STOCK, 2007–2011 (US$' Million)



4.1.1 Official Creditors

Table 4.2 shows that the bulk of Nigeria's external debt stock, US$5,022.75 million or 88.64 percent, was owed to the Official Creditors while US$643.82 million or 11.36 percent was owed to Private Creditors as at the end of December 2011. The Official Creditors comprised Bilateral and Multilateral creditors, which constituted 90.96 percent and 9.04 percent respectively, of total Official Creditors.

4.1.2 Bilateral Creditors

The bilateral creditors are the Non-Paris Club group, which gives loans on semi-concessional terms. The stock of bilateral debts from the Non-Paris Club increased from US$163.20 million in 2010 to US$453.83 million in 2011 (Table 4.2) following disbursements to the Nigerian National Public Security Systems and the Nigerian Railway Modernisation Projects.

4.1.3 Multilateral Creditors

A breakdown of the total external debt shows that multilateral loans, which are mainly concessional, amounted to US$4,568.92 million or 80.63 percent of the total external debt stock as at end-December, 2011. The sum of US$4,509.55 million or 98.70 percent of the multilateral debt was on concessional terms, while the balance of US$59.37 million or 1.3 percent was non-concessional (See Table 4.2).

The trend analysis of the external debt stock shows that the share of multilateral debt increased consistently from 89.37 percent to 92.12 percent in 2007 through 2010, but dropped to 80.63% in 2011 due to the inclusion of US$500.00 million Eurobond and the new loans from the EXIM Bank of China in the external debt portfolio.

TABLE 4.2: EXTERNAL DEBT OUTSTANDING BY SOURCE 2007-2011 (US$' Million)

SOURCE	2007	2008	2009	2010	2011[1]
A. Official:					
1. Bilateral					
Non-Paris Club	184.90	182.42	181.60	163.20	453.83
2. Multilateral	3,080.91	3,172.87	3,504.51	4,217.76	4,568.92
Sub-Total	**3,265.81**	**3,355.29**	**3,686.11**	**4,380.96**	**5,022.75**
B. Private Sources:					
1. Eurobond	0.00	0.00	0.00	0.00	500.00
2. Other Commercial	388.40	365.07	261.19	197.81	143.82
Sub-Total	**388.40**	**365.07**	**261.19**	**197.81**	**643.82**
Grand Total	**3,654.21**	**3,720.36**	**3,947.30**	**4,578.77**	**5,666.57**
Source as % of Total					
A. Official:					
1. Bilateral					
Non-Paris Club	5.06	4.90	4.60	3.56	8.01
2. Multilateral	84.31	85.28	88.78	92.12	80.63
Sub-Total	**89.37**	**90.19**	**93.38**	**95.68**	**88.64**
B. Private Sources:					
1. Eurobond	0.00	0.00	0.00	0.00	8.82
2. Other Commercials	10.63	9.81	6.62	4.32	2.54
Sub-Total	**10.63**	**9.81**	**6.62**	**4.32**	**11.36**
Grand Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

[1]. *Official CBN exchange rate of 1US$/N156.7 as at 31/12/2011*

4.1.4 Private Creditors

4.1.4.1 Commercial Debt

Commercial debt consists of loans from non-concessional sources and debt securities issued in the international capital market. As at end-December 2011, Commercial debt comprised US$143.82 million private sector loans guaranteed by China Exim Bank and the US$500 million Eurobond issued by Nigeria in January, 2011. The stock of Commercial Debts had declined steadily in 2007 through 2010, due to principal repayments. However, the trend was reversed in 2011 following the issuance of the US$500 million Eurobond in the year (Table 4.2).

4.2 Currency Composition of External Debt

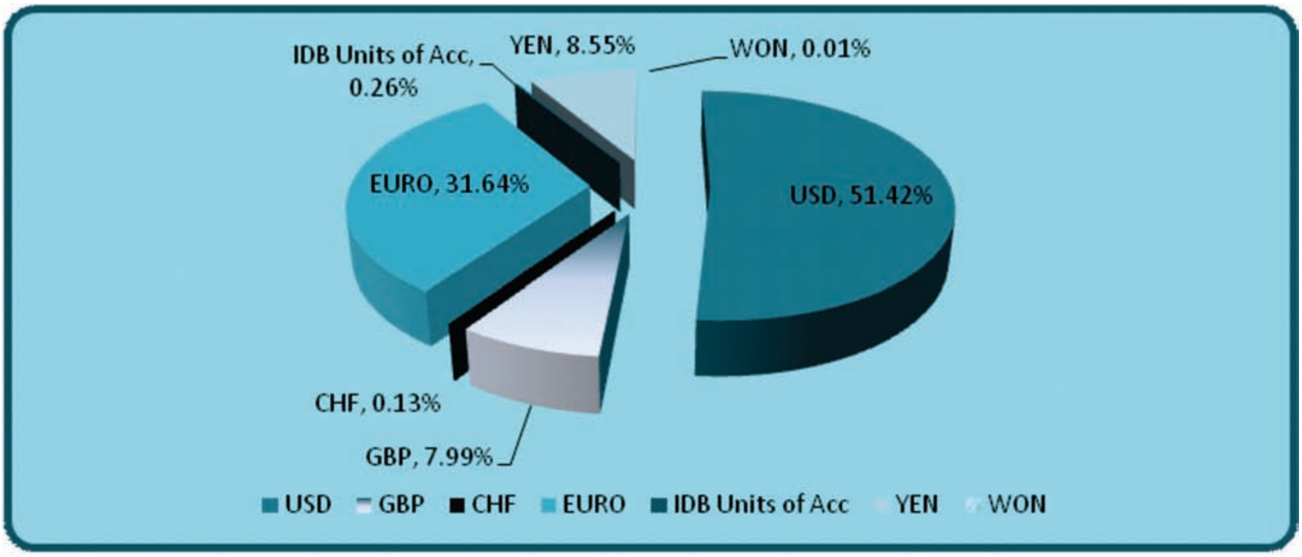
Table 4.3 (Figure 4.2) shows the currency composition of the external debt stock as at 31st December, 2011[5] with the US Dollar constituting 51.42 percent of the external debt stock. This was followed by the Euro with 31.64 percent of the total, the Japanese Yen with 8.55 percent, and other currencies (GBP, Swiss Franc, IDB Units and Korean Won) accounted for the balance of 8.39 percent.

TABLE 4.3: EXTERNAL DEBT STOCK BY CURRENCY COMPOSITION AS AT DECEMBER 31, 2011 (THOUSANDS)[1]

S/No	Currency	Debt Stock in Original Currency	Naira Exchange Rate	Debt Stock in Naira	Debt Stock in USD	% of Total
1	Euro	1,385,893.63	202.72	280,948,356.41	1,792,905.91	31.64
2	IDB UNITS	9,480.00	238.85	2,308,678.02	14,733.11	0.26
3	GBP	292,764.08	242.34	70,947,451.26	452,759.74	7.99
4	CHF	6,998.00	166.66	1,154,339.01	7,366.55	0.13
5	KRK	728,657.00	135.10	88,795.31	566.66	0.01
6	USD	2,913,755.44	156.70	456,585,476.82	2,913,755.44	51.42
7	JPY	37,475,437.02	2,025.86	75,919,988.85	484,492.59	8.55
TOTAL				**887,953,085.68**	**5,666,580.00**	**100.00**

[1]*Official CBN Exchange Rate of N156. 7/1US$ as at 31/12/11 was applied*

FIGURE 4.2: EXTERNAL DEBT STOCK BY CURRENCY COMPOSITION AS AT 31ST DECEMBER, 2011 (US$' MILLION) IN PERCENTAGES



[5] *It should be noted that the Special Drawing Rights was decomposed into its constituent currencies (USD: 41.9%, Euro: 37.4%, GBP: 11.3% and Japanese Yen: 9.4%) in order to allow for effective analysis of the respective shares of the various currencies.*

4.3 External Debt by Original Maturity

For over ten years, all the external loans in Nigeria's debt portfolio have had maturities longer than one year and, therefore, are classified as long-term.

4.4 External Debt by Remaining Maturity

Table 4.4 shows all outstanding debts by remaining maturities. The bulk of the outstanding loans (about 96.28 percent) had remaining maturity of more than three years, implying that almost all the loans outstanding were of the longer tenor. However, all the IBRD loans would mature within one year, while the ADB loans would mature in the next three years.

TABLE 4.4: EXTERNAL DEBT OUTSTANDING BY REMAINING MATURITY AS AT 31ST DECEMBER, 2011(US$' Million)

	Short Term (0-1 yr)	Medium Term (>1-3 yrs)	Long Term (Over 3 years)
CREDITOR CATEGORY			
1. Multilateral			
IBRD	6.31	0.00	0.00
IDA	0.00	3.59	3,933.33
IFAD	0.00	0.00	69.32
ADB	0.00	53.06	0.00
ADF	0.00	0.00	381.19
IDB	0.00	0.00	14.45
EDF	0.00	0.00	107.67
2. (Non-Paris Club)	**0.00**	**148.04**	**449.62**
3. ICM (EUROBOND)	**0.0**	**0.0**	**500.00**
Grand-Total	**6.31**	**204.69**	**5,455.58**

4.5 External Debt by Economic Sector

Table 4.5 which shows the external debt profile by economic sectors, indicates that the bulk of Nigeria's external debt was utilised to support infrastructure (telecoms, water, energy (electricity and gas), transportation (rail, road and air), housing, human capital development (education), health, social welfare and agriculture, in line with government's policy on infrastructure development.

TABLE 4.5: EXTERNAL DEBT STOCK BY ECONOMIC SECTORS AS AT 31st DECEMBER, 2011 (US$' THOUSANDS)

Economic Sector	Amount Outstanding	Percentage of DOD
Agriculture	713,371.04	12.59%
Air Transport	28,741.53	0.51%
Computer Technology	293,372.05	5.18%
Education & Training	486,486.79	8.59%
Energy - Electricity	396,433.55	7.00%
Environment	256,849.42	4.53%
Ground Transport	360,672.92	6.36%
Health & Social Welfare	782,087.36	13.80%
Housing & Urban Develop.	135,259.92	2.39%
Monetary policy	127,969.08	2.26%
Multi-sector	1,077,174.50	19.01%
Others	285,261.05	5.03%
Rural Development	506,624.07	8.94%
Scientific & Tech Equipment	164,401.72	2.90%
Telecommunications	51,874.91	0.92%
	5,666,579.92	**100.00%**

4.6 External Debt by Concessionality

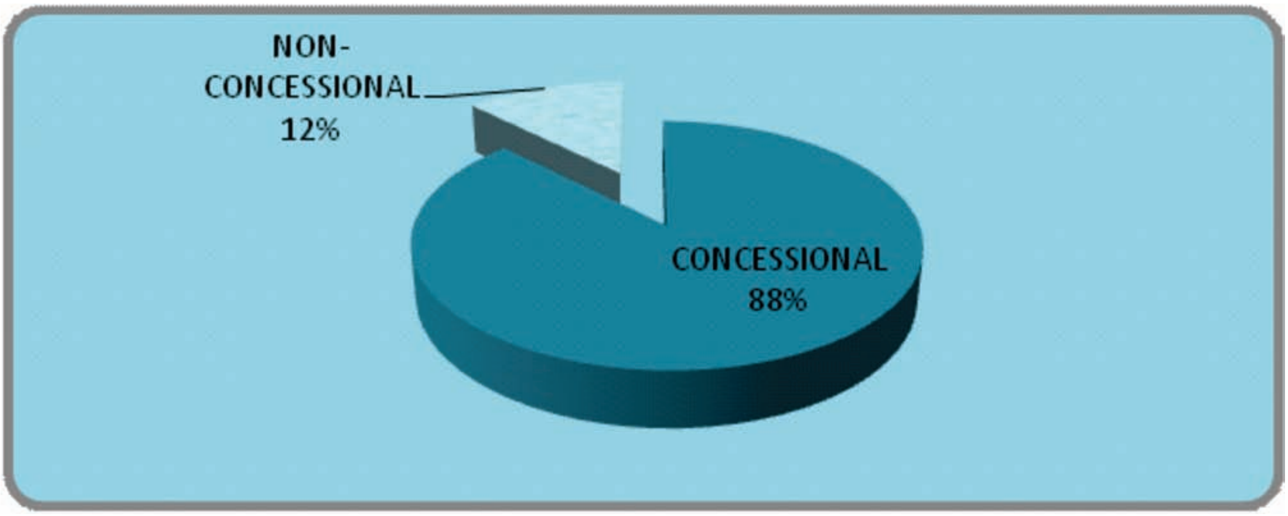
Table 4.6 shows that 87.59 and 12.41 percent of Nigeria's external debts were sourced from the concessional and non-concessional sources respectively, which is broadly in line with the Nigeria's external debt management strategy. The International Development Association (IDA) remained the largest creditor in 2011 contributing 69.48 percent of the country's concessional debt, compared to 78.40 percent in 2010.

TABLE 4.6: CONCESSIONAL/NON-CONCESSIONAL EXTERNAL DEBT AS AT 31ST DECEMBER, 2011(US$ million)

S/N	Funding Sources	Amount Outstanding	Amount Outstanding as a % of Total Debt
	Concessional Creditor Categories		
1	International Development Association (IDA)	3,936.92	69.48
2	International Fund for Agricultural Development (IFAD)	69.32	1.22
3	European Development Fund (EDF)	107.67	1.90
4	African Development Fund (ADF)	381.19	6.73
5	Islamic Development Bank (IDB)	14.45	0.26
6	Arab Bank for Economic Development (ABED)[1]	-	-
7	Non-Paris Club Bilateral	453.83	8.01
	Sub-Total	**4,963.39**	**87.59**
	Non-Concessional Creditor Categories		
1	International Bank for Reconstruction and Development (IBRD)	6.31	0.11
2	African Development Bank (ADB)	53.06	0.94
3	Non-Paris Commercial	143.82	2.54
4	**Eurobond** Nigeria's USD500M 10 Year Sovereign Bond	500	8.82
	Sub-Total	**703.19**	**12.41**
	Grand Total	**5,666.58**	**100**

[1] *Loan not yet disbursed*

FIGURE 4.3: EXTERNAL DEBT STOCK BY CONCESSIONALITY AS AT 31ST DECEMBER, 2011



4.7 External Debt Flows

4.7.1 External Debt Service Payments

At US$351.61 million the external debt service payment in 2011 was lower than the US$354.41 million in 2010, by US$2.80 million or 0.79 percent. This was due to the full redemption of some maturing IBRD loans in the preceding year.

Table 4.7 (Figure 4.3) shows that the highest debt service payment of US$172.27 million (or 48.99 percent of the total debt service payment) went to the Multilateral creditors in 2011. The second highest payment amounting to US$69.23 million, or 19.67 percent of total debt service, went to the Non-Paris Club Commercial creditors. Specifically, US$41.72 million, or 11.86 percent, was paid in respect of Oil Warrants, while US$51.52 million payment was made to the Non-Paris Club Bilateral creditors. A total interest payment of US$16.87 million was made on the US$500.00 million Eurobond in July 2011, being the first coupon payment on the Bond. Payments to Non-Paris Club Bilateral creditors almost doubled, while that to Multilateral creditors and Others (professional/service fees) declined in the year under review. A breakdown of the creditor category of external debt service recipients in 2011 shows that the ADB and IBRD put together were the largest recipients, followed by IDA and EDF (Table 4.8).

Table 4.7: EXTERNAL DEBT SERVICE PAYMENTS, 2007 - 2011(US$' MILLION)

CREDITOR CATEGORY/SOURCE	2007	2008	2009	2010	2011
A. Bilateral:					
Paris Club	0.00	0.00	0.00	0.00	0.00
Non-Paris Club	27.48	6.63	12.66	24.18	51.52
2. Multilateral	392.77	380.63	260.52	212.61	172.27
Sub-Total	**420.25**	**387.26**	**273.18**	**236.79**	**223.79**
B. Private Sources:					
1. London Club (Oil Warrants)[1]	102.59	41.72	41.72	41.72	41.72
2. Promissory Notes	476.6	0.00	0.00	0.00	0.00
3. Others (including Non-Paris commercial)	22.60	35.65	113.13	75.90	69.23
4. ICM (Euro Bond)	0.00	0.00	0.00	0.00	16.87
Sub-Total	**601.79**	**77.37**	**154.85**	**117.62**	**127.82**
Grand Total	**1,022.04**	**464.63**	**428.04**	**354.41**	**351.61**

[1]From 2008, payments were only in respect of oil warrants.

Table 4.8: BREAKDOWN OF EXTERNAL DEBT SERVICE PAYMENTS BY SOURCE IN 2011 (US$ '000)

CATEGORY	Principal	Interest/ Service Fee	Deferred Principal	Deferred Interest	Penalty Interest	Waiver/ Credit	Commit ment Charges	Other Charges	Total	% Of Total
MULTILATERAL	**129,014.39**	**39,628.23**	**808.29**	**1,001.18**	**540.55**	**(835.78)**	**2,111.69**	**4.36**	**172,272.92**	**49%**
I.B.R.D.	35,601.86	506.36	800.97	17.97	536.43	(671.67)	0.00	0.00	36,791.92	
A.D.B	47,833.67	7,137.52	0.00	0.00	0.00	0.00	0.00	0.00	54,971.19	
IFAD	1,447.64	333.31	7.32	3.07	0.00	0.00	207.52	4.36	2,003.22	
IDB	0.00	154.56	0.00	0.00	0.00	0.00	0.00	0.00	154.56	
A.D.F	3,228.65	2,632.85	0.00	0.00	0.00	0.00	1,904.17	0.00	7,765.68	
IDA	35,175.13	27,650.50	0.00	980.14	0.00	(164.11)	0.00	0.00	63,641.66	
EDF/EIB	5,727.43	1,213.13	0.00	0.00	4.13	0.00	0.00	0.00	6,944.68	
Oil Warrant	**0.00**	**41,719.26**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**41,719.26**	**12%**
ICM- (EUROBOND)	**0.00**	**16,875.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**16,875.00**	**5%**
NON PARIS BILATERAL	**42,665.90**	**8,023.52**	**0.00**	**0.00**	**0.00**	**0.00**	**833.50**	**0.00**	**51,522.92**	**15%**
EXIM BANK OF CHINA (NIGCOMSAT)	42,010.91	5,034.44	0.00	0.00	0.00	0.00	0.00	0.00	47,045.35	
EXIM BANK OF KOREA	654.99	40.25	0.00	0.00	0.00	0.00	0.00	0.00	695.24	
NIGERIAN RAILWAY MODERN PROJ. IDU-KADUNA	0.00	114.31	0.00	0.00	0.00	0.00	568.55	0.00	682.86	
NIGERIAN NAT. PUBLIC SEC. SYSTEM PROJ.	0.00	2,834.51	0.00	0.00	0.00	0.00	264.95	0.00	3,099.46	
NON PARIS COMMERCIAL	**59,612.04**	**9,604.94**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**69,216.97**	**20%**
Papalanto & Omotosho	36,779.04	7,171.91	0.00	0.00	0.00	0.00	0.00	0.00	43,950.95	
ZTE	11,750.28	1,560.26	0.00	0.00	0.00	0.00	0.00	0.00	13,310.54	
ARCATEL	11,082.72	872.76	0.00	0.00	0.00	0.00	0.00	0.00	11,955.48	
OTHERS	**0.00**	**12.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**12.00**	**0%**
Bank of England/CITIBANK(Lazards Agency Fees)	0.00	12.00	0.00	0.00	0.00	0.00	0.00	0.00	12.00	
Professional Fees (Cleary Gottlieb S&H)										
TOTAL	**231,292.33**	**115,862.95**	**808.29**	**1,001.18**	**540.55**	**(835.78)**	**2,945.19**	**4.36**	**351,619.07**	**100%**

4.7.2 Waivers

The Federal Government of Nigeria obtained a sum of US$0.836 million waivers following timely debt service payments in 2011. The waivers were in respect of payments to IBRD (US$0.672) and IDA (US$0.164million) in 2011.

4.7.3 External Debt Service Projections (2012 - 2021)

Table 4.9 provides the external debt service projections for the 10 year period ending 2021. It shows that a total of $3,290.87 million is to be paid as external debt service during the ten year-period. It also shows that yearly debt service payments would stay close to US$300 million for greater part of the period and would peak at $839.15 million in 2021, the year, the USD 500 million Eurobond would be redeemed. The lower projected external debt service payment for the earlier years is due to the low interest payments on concessional loans, while the relatively high debt service in later years reflects largely the effects of the end of moratorium period in respect of majority of the multilateral loans and the full redemption of the USD 500 million Eurobond in 2021 (Table 4.9).

Table 4.9: EXTERNAL DEBT SERVICE PROJECTIONS (US$ MILLION)

S/N	Category of Debt	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	MULTILATERAL										
a	ADF										
	Prin	3.85	6.84	9.15	9.39	9.39	11.99	14.54	16.61	18.98	22.55
	Int	3.17	3.35	3.73	4.08	4.45	4.78	4.98	5.01	5.04	5.03
b	ADB										
	Prin	21.22	21.22	10.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Int	3.26	1.80	0.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00
c	IFAD										
	Prin	2.65	3.18	3.18	3.18	3.18	4.13	4.13	4.13	4.13	4.13
	Int	0.57	0.64	0.74	0.78	0.79	0.80	0.79	0.76	0.73	0.70
d	IDA										
	Prin	47.40	61.21	69.13	79.76	91.29	100.37	113.30	142.52	153.33	161.21
	Int	29.38	30.01	31.65	33.16	34.29	35.02	34.99	34.69	34.21	33.64
e	IBRD										
	Prin	5.83	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Int	0.14	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
f	EDF										
	Prin	5.34	5.37	5.44	5.49	5.53	5.60	5.67	5.70	5.77	5.83
	Int	1.06	1.01	0.96	0.90	0.85	0.79	0.74	0.68	0.62	0.56
g	ABFEDA (BADE)										
	Prin	0.00	0.00	0.00	0.00	0.36	0.37	0.37	0.38	0.38	0.38
	Int	0.00	0.05	0.08	0.08	0.08	0.08	0.07	0.07	0.06	0.06
h	IDB										
	Prin	0.00	0.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
	Int	0.25	0.25	0.25	0.25	0.12	0.00	0.00	0.00	0.00	0.00
	Grand Total (a - f)	**124.12**	**134.93**	**137.02**	**138.82**	**152.09**	**165.68**	**181.32**	**212.29**	**225.00**	**235.85**
2	ICM (Eurobond)										
	Prin	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	500.00
	Int	33.84	33.75	33.75	33.75	33.84	33.75	33.75	33.75	33.84	17.01
3	Official Bilaterals (Non-PC)										
	Prin	40.63	40.00	40.00	20.00	0.00	0.00	69.19	69.19	69.19	69.19
	Int	11.84	13.50	18.23	22.28	22.86	22.80	22.36	20.60	18.90	17.10
4	Commercial (Non-PC)										
	Prin	59.61	54.07	30.14	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Int	6.58	3.57	0.86	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		152.50	144.89	122.98	76.03	56.70	56.55	125.30	123.55	121.94	603.30
	TOTAL	**276.62**	**279.82**	**260.00**	**214.85**	**208.80**	**222.23**	**306.62**	**335.84**	**346.94**	**839.15**

4.7.4 External Debt Disbursements

Table 4.10 shows the disbursements of external debt by creditors for the period 2007 to 2011 and the proceeds of the US$500 million Eurobond issued in January, 2011. A total of US$738.91 million external disbursements (excluding grants) was received plus the USD 500 million Eurobond sourced from the ICM amounted to a gross total of USD 1,238.91 million in 2011, which represented an increase of US$263.78 million or 27 percent, over the level at end-2010. The increase was traced to new disbursements from the Exim Bank of China and the proceeds of the Eurobond, as disbursements from the IDA window dropped by a significant 62.8 per cent compared to that of 2010.

Table 4.10: DISBURSEMENTS[1] BY SOURCE, 2007-2011 (US$' MILLION)

CATEGORY/SOURCE	2007	2008	2009	2010	2011
Official					
Multilateral:					
IDA	330.68	331.13	512.58	946.98	355.56
IFAD	6.52	6.28	3.1	3.5	20.40
ADB	2.34	0	0	0	0
ADF	47.08	23.43	17.15	22.68	48.12
IDB	0	0	0	1.97	1.63
Sub-Total	**386.62**	**360.84**	**532.83**	**975.13**	**425.71**
Bilateral	37.94	0	0	0	313.20
Private Source-ICM (EUROBOND)	0	0	0	0	500.00
TOTAL	**424.56**	**360.84**	**532.83**	**975.13**	**1,238.91**

[1]*Disbursements exclude Grants.*

4.7.5 Net Resource Inflows on External Debt

Table 4.11 shows both the net resource inflow on external debt and net outflows by creditor types in 2011. A net transfer of US$875.31 million was obtained in 2011 compared with US$620.70 received in 2010. The increase in 2011 was traced to flows from the Eurobond and bilateral sources.

Table 4.11: NET FLOWS AND NET TRANSFERS ON EXTERNAL DEBT BY SOURCE IN 2011 (US$' MILLION)

CREDITOR CATEGORY/ SOURCE	Disbursements in 2011	Principal Repayments in 2011	Net resource flow in 2011	Interest paid in 2011	Net Transfers in 2011
	(A)	(B)	C (A-B)	(D)	E(C-D)
Multilateral	425.71	129.82	295.89	42.45	253.44
Bilateral	313.20	42.67	270.53	8.86	261.68
Commercial	0.00	59.61	-59.61	9.60	-69.22
Oil Warrants	0.00	0.00	0.00	41.72	-41.72
ICM -Eurobond	500.00	0.00	500.00	16.88	483.13
Citibank Agency Fees	0.00	0.00	0.00	12.00	-12.00
Total	**1,238.91**	**232.10**	**1,006.81**	**131.51**	**875.31**

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

4.8 Matured External Loans in 2011

Table 4.12 indicates that five loans, mainly from multilateral creditors matured in 2011. These comprised loans from IBRD (US$432.00 million) contracted in year 1990 to 1992 and two ADB loans, which were contracted in 1991.

Table 4.12: MATURED EXTERNAL LOANS IN 2011 (US$)

S/N	CREDITOR	PROJECT TITLE	DATE SIGNED	CURRENCY	MATURITY DATE	ORIGINAL LOAN AMOUNT
1	**IBRD**					
	a	Tree Crops projects	12/10/1990	USD	1/12/2011	106,000,000.00
	b	Health System Fund	6/8/1991	USD	15/04/2011	70,000,000.00
	c	National water Rehabilitation	23/07/1992	USD	15/04/2011	256,000,000.00
2	**ADB**					
	a	Ibadan water Supply project II	19/12/1991	BUA	1/9/2011	74,140,000.00
	b	Small/Medium scale Ent. (Nerfund)	11/7/1991	BUA	1/3/2011	100,000,000.00

4.9 International Capital Market

Nigeria made its debut entry into the International Capital Market (ICM) with the successful issuance of a USD500m 10-year Sovereign Bond in January, 2011. The Bond Issuance represents a major landmark in Nigeria's history as she aspires to be one (1) of the top 20 countries by the year 2020 (Vision 20: 2020).

4.9.1 Summary of Nigeria's Eurobond Offer

Issuer:	Federal Republic of Nigeria
Amount Offered:	USD500million
Tenor:	10 years
Type:	144A/Reg S
Security:	Senior Unsecured Debt
Rating:	B+ (Standard & Poors) and BB- (Fitch)
Total Subscription:	USD1,294.215m
Issue Date:	January 28, 2011
Maturity Date:	January 28, 2021
Coupon (Fixed):	6.75% p.a.
Interest Payment:	Semi-Annually
Interest Payment Dates:	July 28 and January 28
Listing:	Listed on London Stock Exchange on January 31, 2011

4.9.2 Offer Statistics

i **Level of Subscription:** Total bids received were USD1294.215 million, which translates to a subscription level of 2.6 times.

ii. **Number of Subscribers:** 70 from 18 countries.

iii. **Distribution by Investor Category:**

Fund Managers	70%
Banks and Private Banks	12%
Hedge Funds	10%
Insurance	5%
Others	3%
Total	**100%**

iv. **Distribution by Geographic location of Investors**

United Kingdom	42%
United States of America	38%
Europe (excluding the United Kingdom)	15%
Others	5%
Total	100%

4.9.3 Secondary Market Performance

The Bond has been traded actively in the Secondary Market at yields well below the coupon of 6.75 per cent, at which it was issued. The strong performance of the Bond was helped by positive developments in Nigeria such as the:

- Successful conduct of the 2011 General Elections
- Passage of the Nigerian Sovereign Investment Authority Act establishing the Sovereign Wealth Fund and
- Improved Sovereign Credit Rating from Fitch and Standard and Poor's (S&P). Fitch upgraded Nigerians "Outlook" from "Negative" to "Stable" while S&P upgraded the "Outlook" from "Stable" to "Positive".

4.9.4 Trends in Nigeria's Eurobond Yield

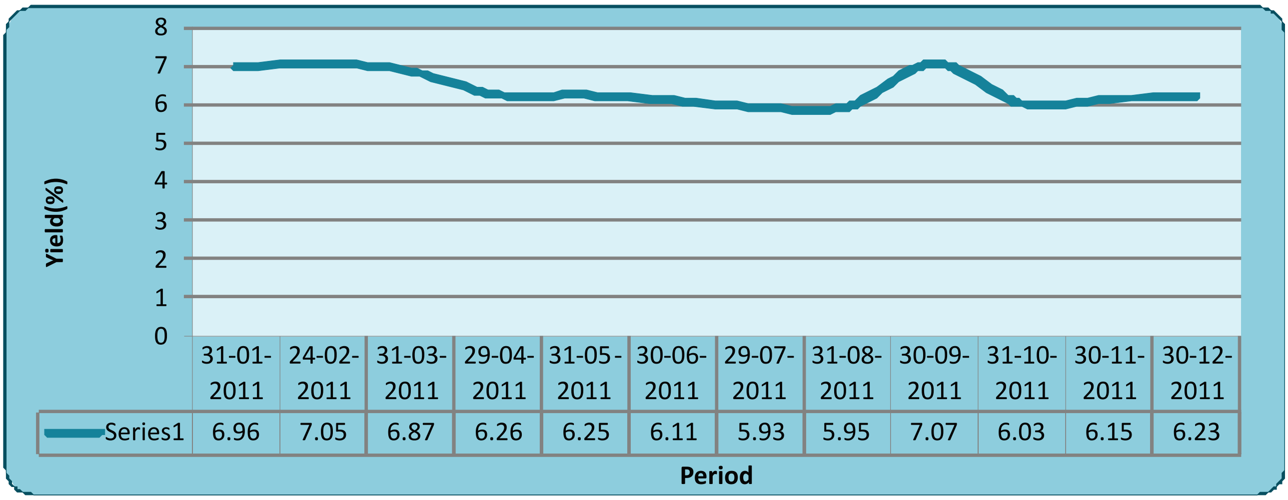
Table 4.13 and the Figure 4.4 show that for the most part of 2011, Nigeria's Eurobond traded at below the Coupon of 6.75% and yield of 7% at which it was issued. The lowest Yield of 5.00% was recorded on May 20, 2011 while the highest was 7.435% on October 10, 2011. The trend in the yields was in tandem with the yields in the ICM during the period. The sovereign debt crisis in the Euro zone generally, saw funds flow to stronger economies like the United States of America, the United Kingdom and Germany (in a flight to quality) and to an extent, emerging markets who have shown resilience in the face of the global financial crisis and economic recession. However, in September and October 2011 yields surged generally (except for the AAA rated sovereigns) as there were increased fears about the ability of Greece to service its debt and meet the EU conditionality for financial assistance. About the same period, concerns about the ability of Italy, Spain and Portugal to service their debts worsened.

Table 4.13: Trends in Nigeria's Eurobond Price and Yield (January – December 2011)

Date	Closing Price (USD)	Closing Yield (%)	Date	Closing Price (USD)	Closing Yield (%)
31-Jan-2011	98.48	6.96	29-Jul-2011	107.45	5.72
24-Feb-2011	97.88	7.05	31-Aug-2011	105.68	5.95
31-Mar-2011	99.12	6.87	30-Sep-201	97.90	7.05
29-Apr-2011	103.50	6.26	31-Oct-2011	105.15	6.01
31-May-2011	103.56	6.25	30-Nov-201	104.14	6.15
30-Jun-2011	104.52	6.11	30-Dec-2011	103.50	6.23

Source: Thomson Reuters

Figure 4.4: Trends in Nigeria's Eurobond Yield (January – December 2011)

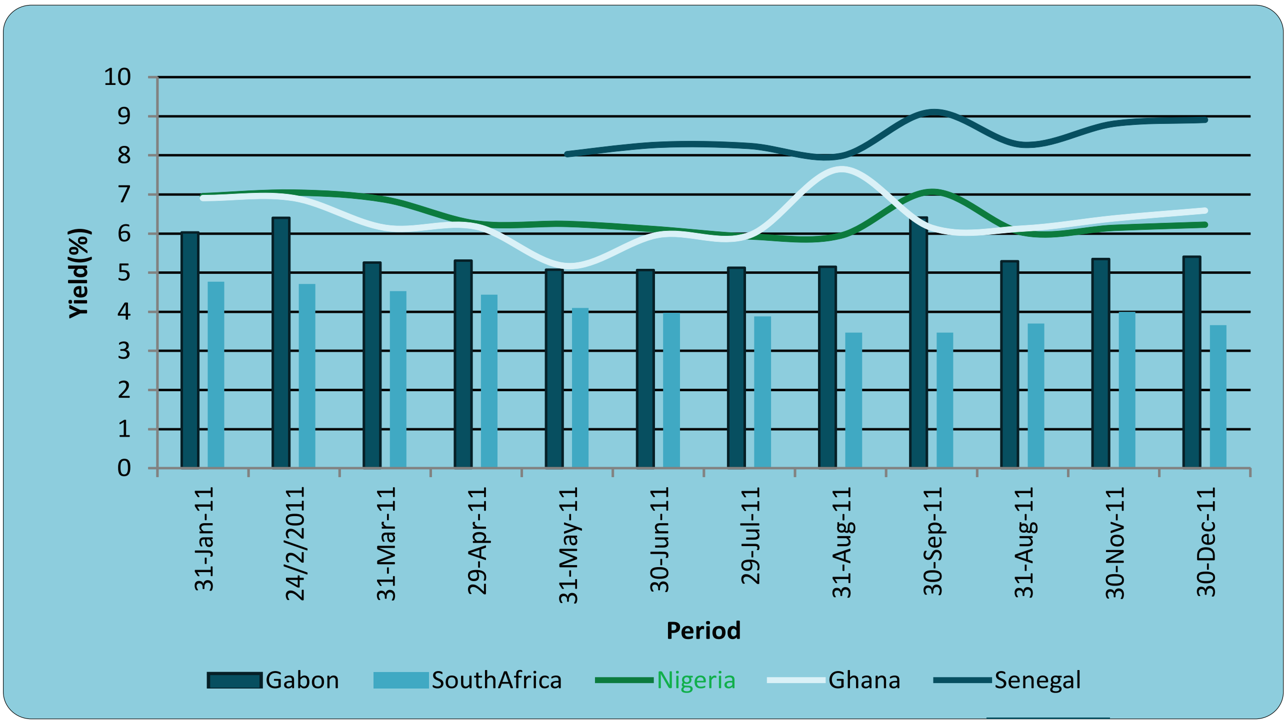


Source: Thomson Reuters

4.9.5 Comparative Performance with Eurobonds of other African countries

Only a number of African countries have issued Bonds in the ICM – Egypt, Morocco, Tunisia, South Africa, Ghana, Gabon, Nigeria, Senegal, Cote D'ivoire and Namibia. Of these, South Africa remains consistent in the ICM while Nigeria and Namibia made their debut entry in 2011. The comparative yield performances for 2011 of the Bonds issued by selected countries are presented in Figure 4.5. It showed that the pattern of yields of the bonds from the different countries were generally similar. South Africa's Bond had the lowest yield and was relatively stable, reflecting its superior rating of BBB+ by both Fitch and Standard and Poor's.

Figure 4.5: Comparative Performance with Eurobonds of other African countries



Source: Thomson Reuters

4.9.6 New Issues from Africa in 2011

Apart from Nigeria, three (3) other African countries issued Bonds in 2011. As shown in Table 4.14, South Africa which has become a regular issuer, issued a 30-year Bond, while Namibia made its debut with a USD500m 10-year Bond. Senegal which made its debut in December 2009 with a USD200m Bond (maturing 2014) issued a USD500m Bond in part, to refinance the first issue. From Nigeria, Guaranty Trust Bank issued a USD500m 5-year Bond at a Coupon of 7.50% and Yield of 7.75% in May 2011.

Table 4.14: New Issues from Africa in 2011

Country	Rating			Date Issued	Amount (USD)	Tenor (Years)	Coupon (%)
	Fitch	S & P	Moodys				
Nigeria	BB-	B+	Not Rated	January 2011	500	10	6.75
South Africa	BBB+	BBB+	A3	March 2011	750	30	6.250
Senegal	Not Rated	B+	B1	May 2011	500	10	8.75
Namibia	BBB-	Not Rated	Baa3	October 2011	500	10	5.50

Source: Dealogic

4.9.7 Outlook for the International Capital Market

Liquidity and interest rates developments in the ICM would depend on global economic recovery and the resolution of the sovereign debt crisis in the Euro zone. While economic recovery in some major countries (the United States of America and the United Kingdom) is expected to be slow, the resolution of the debt crisis depends on how effective the concerted efforts by the stronger European Countries (Germany and France) to support bail-out packages for the affected countries, as well as, the ability of the respective countries to adopt and implement austerity measures needed to reduce deficits. The interest and support of the International Monetary Fund and the United States of America in the debt crisis is expected to also help the early resolution of the crisis.

CHAPTER FIVE

NIGERIA'S DOMESTIC DEBT

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NIGERIA'S DOMESTIC DEBT

The securitised FGN domestic debt outstanding amounted to N5,622.84 billion as at the end of 2011, representing an increase of 23.52 percent over the end-2010 level. In terms of trend, the stock of FGN's domestic debt has maintained a steady upward movement, due to trends in budget deficit of the FGN and the sustained rollover of maturing debt obligations. As in the preceding year, all the issues in the primary market were oversubscribed reflecting largely investors' yearning for FGN Bonds, which was driven by the DMO's education and enlightenment programmes among other factors. The FGN Bond Secondary Market also remained active in 2011.

5.1 Domestic Debt Stock

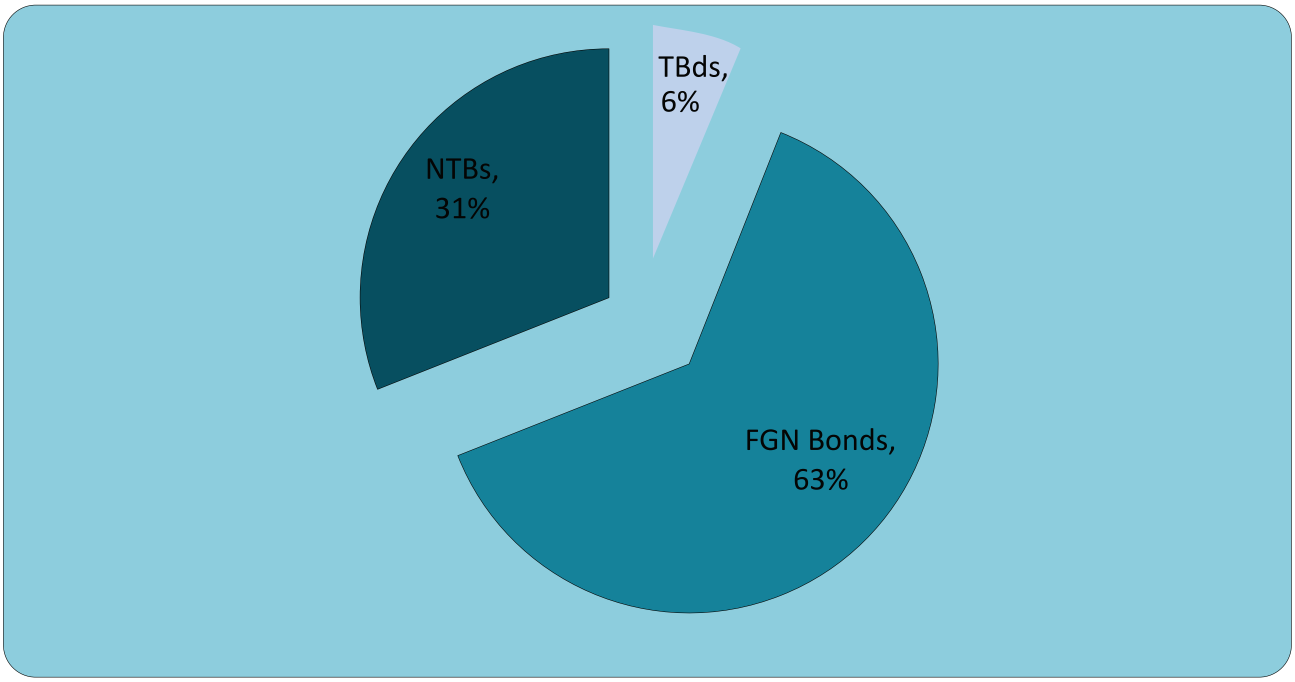
The securitised total domestic debt outstanding amounted to N5,622.84 billion at the end of 2011, compared to N4,551.82 billion at end-2010, reflecting an increase of 23.52 percent (Table 5.1). The increase was mainly due to the rise in the stock of the FGN bonds and the NTBs, which were used to finance budget deficits aimed at inducing growth and poverty reduction.

Table 5.1 shows that 62.98 percent of the total domestic debt stock was sourced through FGN bonds. This amounted to N3,541.20 billion or 22.04 percent higher than the level in 2010. The Nigerian Treasury Bills (NTBs) accounted for 30.73 percent up from the 28.06 per cent in 2010, while the proportion of the Treasury Bonds dropped in value and share owing to the repayment of N19.17 billion in 2011.

TABLE 5.1: DOMESTIC DEBT OUTSTANDING BY INSTRUMENTS FOR 2010 AND 2011, (N'BILLION)

INSTRUMENT	2010	2011
FGN Bonds	2,901.60	3,541.20
(% share of total)	(63.75)	(62.98)
Nigerian Treasury Bills	1,277.1	1,727.91
(% share of total)	(28.06)	(30.73)
Treasury Bonds	372.90	353.73
(% share of total)	(8.19)	(6.29)
Development Stock	0.22	-
(% share of total)	(0.00)	(-)
TOTAL	4,551.82	5,622.84
(% share of total)	(100)	(100)

FIGURE 5.1: COMPOSITION OF DOMESTIC DEBT STOCK BY INSTRUMENTS AS AT 31ST DECEMBER, 2011



5.2 Trends and Composition of Domestic Debt Outstanding by Instruments

The stock of FGN's domestic debt has risen steadily since 2007, (Table 5.2). The increase over the years is attributed to the issuances of domestic debt securities to fund the budget deficit. The stock of Nigerian Treasury Bills (NTB), which stood at N574.92 billion or 26.49 percent of the total domestic debt stock in 2007, declined in 2008 but rose sharply in 2009 through 2011. The Treasury Bonds and Development Stock, the legacy debt instruments from past issuances of the Federal Government, have maintained a downward trend in the last five years, due to gradual retirement of the Treasury Bonds that fell due during the period and the final redemption of Development Stock in 2011 (Table 5.2). Figure 5.1 also shows the composition of the domestic debt outstanding by instruments as at 31st December, 2011.

TABLE 5.2: TREND OF DOMESTIC DEBT OUTSTANDING BY INSTRUMENTS, 2007 – 2011 (N'BILLION)

INSTRUMENTS	2007	2008	2009	2010	2011
FGN BONDS	1,186.16	1,445.60	1,974.93	2,901.60	3,541.20
NIGERIAN TREASURY BILLS	574.92	471.93	797.48	1,277.10	1,727.91
TREASURY BONDS	407.93	402.26	392.07	372.90	353.73
DEVELOPMENT STOCK	0.62	0.52	0.52	0.22	-
PROMISSORY NOTE	-	-	63.03	-	-
TOTAL	**2,169.63**	**2,320.31**	**3,228.03**	**4,551.82**	**5,622.84**

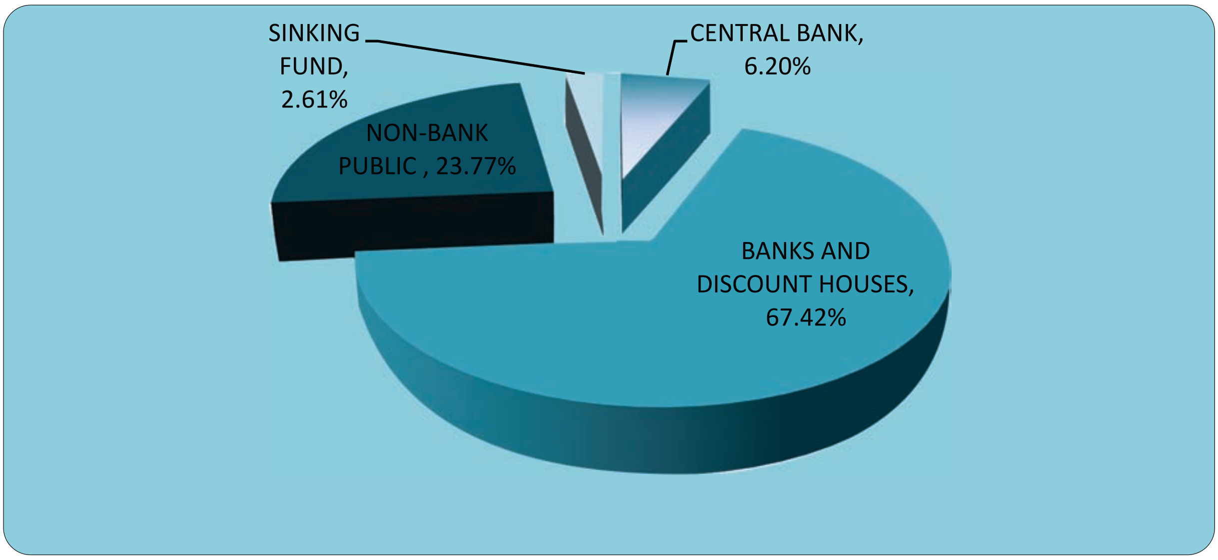
5.3 Holdings of Domestic Debt

The analysis of the holdings of the securitised total domestic debt as at 31st December, 2011 revealed that the Deposit Money Banks and Discount Houses held 67.42 percent of the total debt stock compared to 57.0 per cent in 2010. This was followed by the Non-Bank Public, which absorbed 23.77 percent of the total, while the Central Bank holdings represented 6.20 percent of the total debt portfolio.

TABLE 5.3: DOMESTIC DEBT OUTSTANDING BY INVESTOR TYPE AS AT 31ST DECEMBER, 2011 (N' BILLION)

INSTRUMENT	CENTRAL BANK	BANKS AND DISCOUNT HOUSES	NON-BANK PUBLIC	SINKING FUND	AMOUNT OUTSTANDING
FGN BOND	72.30	2,132.29	1,336.61	0.00	3,541.20
TREASURY BILLS (NTBs)	69.30	1,658.61	0.00	0.00	1,727.91
TREASURY BONDS	207.24	0.00	0.00	146.49	353.73
TOTAL	**348.84**	**3,790.90**	**1,336.61**	**146.49**	**5,622.84**
% of Total	**6.20%**	**67.42%**	**23.77%**	**2.61%**	**100%**

FIGURE 5.2: COMPOSITION OF DOMESTIC DEBT OUTSTANDING BY INVESTOR TYPE AS AT 31ST DECEMBER, 2011



A trend analysis shows that the holdings of the Central Bank declined in 2008 but rose marginally from N323.18 billion in 2009 to N348.18 billion in 2011. However, in line with the policy of government to encourage more private sector investments in the domestic FGN securities, the share of the CBN in the total FGN's domestic debt stock, dropped from 7.54 per cent in 2010 to 6.20 per cent. Holdings of Banks and Discount Houses increased from N1,394.75 billion in 2007 to N1,482.16 billion in 2008, but declined to N1,274.58 billion at the peak of the liquidity crisis in the banking sector in 2009, and more than doubled to N2,605.01 billion in 2010, owing to the steady recovery that followed the CBN's banking sector reforms and the demand by banks and discount houses for high grade liquid assets. It further rose to N3,790.90 billion in 2011. The holdings of the Non-Bank Public, which rose in 2010, however, declined marginally, in 2011 (Table 5.4).

TABLE 5.4: DOMESTIC DEBT OUTSTANDING BY INVESTOR TYPE, 2007-2011 (N' BILLION)

Holders Category	2007	2008	2009	2010	2011
Central Bank	290.59	289.37	323.18	343.14	348.84
Banks and Discount Houses	1,394.75	1,482.16	1,274.58	2,605.01	3,790.90
Non-Bank Public	484.29	428.03	1,345.55	1,459.30	1,336.61
Sinking Fund	-	120.75	284.72	144.37	146.49
TOTAL	**2,169.63**	**2,320.31**	**3,228.03**	**4,551.82**	**5,622.84**

5.4 Domestic Debt by Residual Maturity

Table 5.5, shows that the short term instruments, (those with up to one year to maturity) constituted 39.18 per cent of the total domestic debt stock outstanding, while the long term instruments with over one year remaining to maturity constituted 60.82 percent of the country's domestic debt in 2011, compared with the preferred structure of 25 and 75 per cent, for short and long term, respectively. A trend analysis of the total domestic debt outstanding by maturity also shows that the proportion of long term debt had maintained an upward trend from US$12,498.85 million in 2007 to US$21,823.61 million in 2011 (Table 5.5). The long term debts were mainly in the FGN bonds.

TABLE 5.5: DOMESTIC DEBT OUTSTANDING BY RESIDUAL MATURITY, 2007– 2011 (US$'MILLION)

Year	Short Term[1]	Long Term[2]	Total
2007	6,076.82	12,498.85	18,575.67
2008	5,141.12	12,537.41	17,678.53
2009	8,114.83	13,755.29	21,870.12
2010	10,190.80	20,323.53	30,514.33
2011	14,059.25	21,823.61	35,882.86
% in 2011	**39.18**	**60.82**	**100**

Notes:
1. Instruments with up to 1 year remaining maturity
2. Instruments with more than 1 year remaining maturity

5.5 Domestic Debt Service

The total domestic debt service payment was ₦537,390.57 million in 2011, which was 51.75 percent higher than the level in 2010 (Table 5.7). In terms of proportionate shares, the FGN bonds debt service payments represented 54.67 percent of the total payments, while payments in respect of the NTBs, the Treasury Bonds and the Development Stock constituted 34.75 percent, 10.54 percent and 0.04 percent, respectively (figure 5.3). The total domestic debt service payments as a percentage of the total domestic debt stock outstanding was 9.56 percent in 2011, which was higher than the 7.78 percent in 2010. The increase in debt service-to-debt stock ratio reflected the rise in the cost of borrowing in the domestic market, which was caused by the monetary policy tightening actions of the CBN targeted at the goal of price stability. A trend analysis also shows a continued rise in the domestic debt service payments from 2007 to 2011 due to the increase in the domestic stock coupled with higher interest rates (Table 5.7).

TABLE 5.6: DOMESTIC DEBT SERVICE PAYMENTS, 2011 (N' MILLION)

INSTRUMENTS	PRINCIPAL	INTEREST	TOTAL
NTBs		186,723.14	186,723.14
Federal Govt. Bonds		293,794.55	293,794.55
Treasury Bonds	19,170.00	37,469.13	56,639.13
Development Stock	220.00	13.75	233.75
TOTAL DEBT SERVICE	**19,390.00**	**518,000.57**	**537,390.57**

Note: Debt service excludes refinanced NTBs and FGN Bonds worth N233.67billion

Figure 5.3: COMPOSITION OF 2011 DOMESTIC DEBT SERVICE PAYMENTS (%)

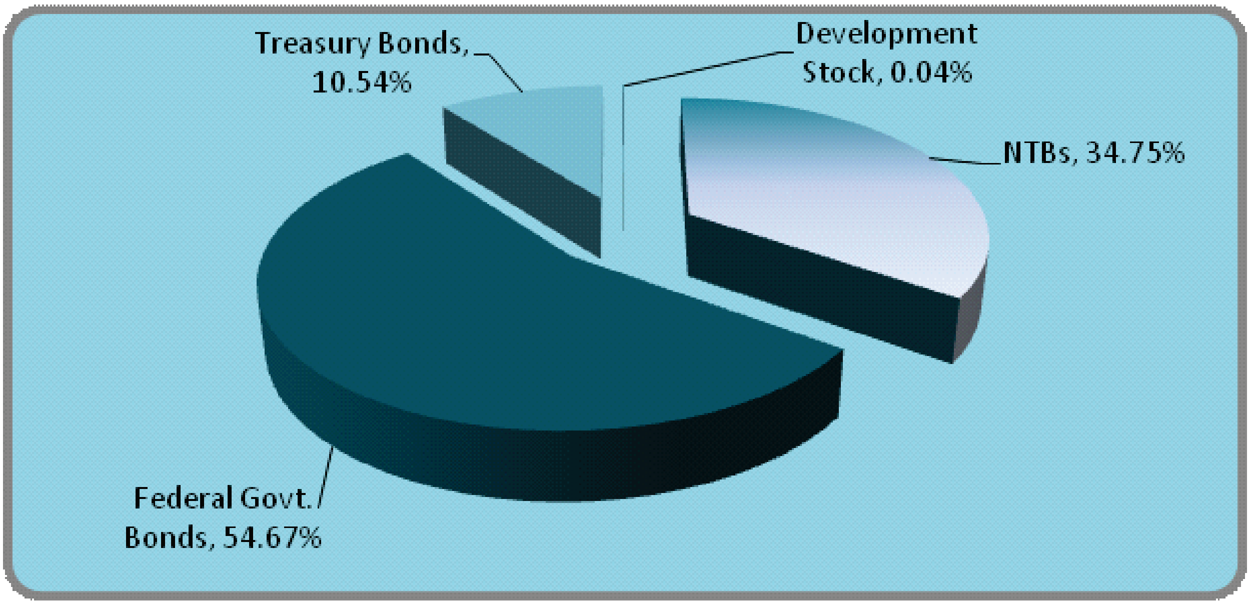


**TABLE 5.7: DOMESTIC DEBT SERVICE PAYMENTS, 2007 – 2011
(N 'BILLION)**

YEAR	DEBT SERVICE PAYMENTS
2007	185.37
2008	232.98
2009	281.54
2010	354.13
2011	537.39

5.6 The Domestic Bond Market

Activities in the Domestic Bond Market in 2011 were lower than recorded in 2010 due to a number of factors. The factors were the 2011 General Elections, which slowed down new issues by State Governments pre and post elections, and the Monetary Policy tightening of the Central Bank of Nigeria (CBN), which pushed up interest rates and lowered liquidity levels.

5.6.1 Primary Market

The largest single issuer in the primary market was the Asset Management Corporation of Nigeria (AMCON), which issued a total of N5.464 trillion Bonds (84.18 % of total issues) in 2011. This was followed by the Federal Government of Nigeria who issued a total of N863.268 billion spread across its monthly Auctions. The Sub-national and Corporate segments followed with new issues of N92 billion and N71.43 billion respectively.

Table 5.8: Summary of New Issues in 2011

Issuer	Amount (N' Billion)	% of Total
Asset Management Corporation of Nigeria *	5,464.928	84.18
Federal Government of Nigeria	863.268	13.30
State Governments	92.000	1.42
Corporates	71.430	1.10
Total	**6,491.626**	**100.00**

Source: Debt Management Office, AMCON.

* The bulk of these Bonds were issued to Banks in exchange for Non-performing Loans while some were offered to eligible domestic investors

5.6.1.1 Size and Composition of the Domestic Bond Market

The domestic bond market grew by N6,254.40 billion or 191.63% between 2010 and 2011, reflecting largely the effects of the AMCON Bonds, which in terms of Face Value is now larger than the FGN Bonds (Table 5.9). The market had recorded a 53.0 per cent growth between 2009 and 2010.

Table 5.9: Size and Composition of the Domestic Bond Market 2010-2011

	2010		2011	
Issuer	**Amount Outstanding (N'Bn)**	**% of Total**	**Amount Outstanding (N'Bn)**	**% of Total**
Asset Management Corporation of Nigeria	-	-	5,464.928	57.42
Federal Government of Nigeria	2,901.60	88.91	3,541.19	37.21
State Governments	251.00	7.69	341.00	3.58
Corporates	111.08	3.40	170.96	1.79
Total	**3,263.68**	**100.00**	**9,518.08**	**100.00**

Source: Debt Management Office, AMCON.

It should be noted that at the close of 2010, AMCON had issued N1.15 trillion "temporary" bonds known as Consideration Bonds for the purchase of Non-Performing Loans from 21 banks. These Bonds were replaced with 3-year zero coupon Bonds in April 2011, while additional issues were made in the course of the year to purchase Non-performing Loans and recapitalise some of the banks in which the CBN intervened in 2009. AMCON also issued some Bonds through a Book Building Process to qualified domestic institutional investors.

5.6.1.2 FGN Bond Market Activities

The 2011 primary market activities showed that all the issues in the year were oversubscribed. A detailed analysis of the monthly auctions indicated that N 863,268.00 million worth of bonds were offered and a subscription of N1, 779,668.11 million was recorded representing 106.15 percent over-subscription. The oversubscription was attributed to increasing confidence by investors in the FGN bond market and the appetite for diversification, as well as, the improved yield on the market. The subscription level of N1, 779,668.11 million in 2011, however, represented 21.52 percent lower than N2,267,760.41 million in 2010. The total amount of N863, 268.00 million allotted to successful bidders in 2011 was the same as the amount offered in the year under review (Table 5.10 and Figure 5.4).

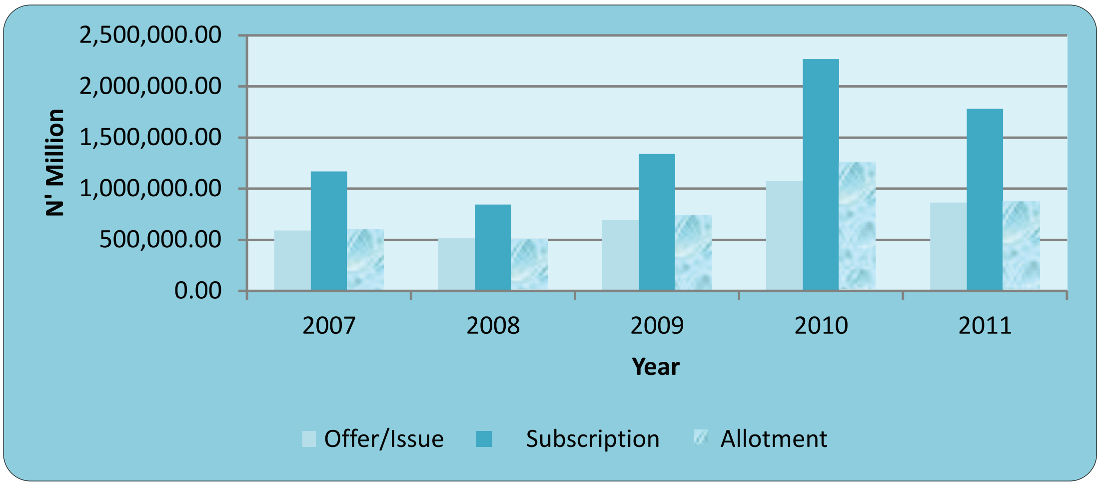
A trend analysis of the FGN Bonds primary market activities (Table 5.10 and Figure 5.4) shows that bonds issued in the last 5 years were consistently oversubscribed; reflecting investors' yearning for

FGN Bonds propelled by the DMO's education and enlightenment programmes. In addition, the amount offered and allotted had risen steadily over the years indicating the capability of the bond market to finance the budget deficits of the FGN.

TABLE 5.10: FGN BONDS PRIMARY MARKET ISSUANCE, 2007 - 2011 (N' MILLION)

Year	Offer/Issue	Subscription	Allotment
2007	592,000.14	1,167,597.00	592,000.14
2008	515,000.00	845,951.00	491,961.16
2009	694,000.00	1,340,891.49	726,500.00
2010	1,073,120.00	2,267,760.41	1,244,439.79
2011	863,268.00	1,779,668.00	863,268.42

FIGURE 5.4: SUMMARY OF YEARLY FGN BONDS OFFER, SUBSCRIPTION AND ALLOTMENT, 2007-2011 (N' MILLION)



5.6.1.3: Allotment of FGN Bonds by Residency Classification

An analysis of the allotments of the FGN Bonds by Residency Classification shows that resident investors accounted for N857,196.62 million or 99.30 percent of bonds allotted in 2011, compared with N1,156,237.82 million or 92.91 percent in 2010, while the non-resident investors accounted for

N6,071.80 million or 0.70 percent of bonds allotted in 2011, compared with N88,201.97 million or 7.09 percent in 2010 (Table 5.11). This showed that the proportion of non-resident investors reduced from 7.09 percent in 2010 to 0.70 percent. This was attributable to the negative impact of the sovereign debt crisis in some countries in Europe, on the Nigerian market.

TABLE 5.11: ALLOTMENTS OF FGN BONDS BY RESIDENCY CLASSIFICATION (N'MILLION)

Classification	2010		2011	
	(₦' MILLION	% of Total	(₦' MILLION)	% of Total
Residents	1,156,237.82	92.91	857,196.62	99.30
Non-Residents	88,201.97	7.09	6,071.80	0.70
Total	**1,244,439.78**	**100.00**	**863,268.42**	**100.00**

5.6.1.4: Auction Analysis by Tenor

The analysis of auction by tenor of the FGN bonds in 2011 shows that bonds with tenors of 3, 5 and 10 years were issued in the year under review (Table 5.12).

Table 5.12: MONTHLY ANALYSIS OF 2011 BONDS AUCTION BY TENOR (N' MILLION)

	3 YEAR*	5 YEAR**	10 YEAR***	TOTAL
January	30,000	30,000	-	60,000
February	36,500	30,000	-	66,500
March	30,000	30,000	-	60,000
April	35,000	35,000	-	70,000
May	84,000	35,000	-	119,000
June	35,000	35,000	-	70,000
July	30,000	15,000	25,000	70,000
August	53,000	15,000	25,000	93,000
September	25,000	20,000	25,000	70,000
October	8,000	17,668	30,000	55,668
November	-	-	65,000	65,000
December	-	-	64,100	64,100
TOTAL	**366, 500**	**262,668**	**234,100**	**863,268**

*Comprised 5.50% FGN Feb. 2013 and 10.50% FGN MAR. 2013
** 4.00% FGN APR 2015
*** Comprised 10.70% FGN MAY 2018 and 7.00% FGN OCT. 2019

TABLE 5.13: 2011 FGN BONDS ISSUANCE (N'MILLION)

MONTH	ISSUE AMOUNT (N)	SUBSCRIPTION (N)	ALLOTMENT (N)
January	60,000.00	137,446.72	60,000.00
February	66,500.00	140,012.03	66,500.00
March	60,000.00	75,667.00	60,000.00
April	70,000.00	128,217.77	70,000.00
May	119,000.00	248,017.16	119,000.00
June	70,000.00	153,146.53	70,000.00
July	70,000.00	157,973.19	70,000.00
August	93,000.00	153,433.44	93,000.00
September	70,000.00	183,159.28	70,000.00
October	55,668.42	124,777.70	55,668.42
November	65,000.00	157,713.59	65,000.00
December	64,100.00	120,103.70	64,100.00
	863,268.42	**1,779,668.11**	**863,268.42**

Source: Debt Management Office.

Figure 5.5: SUMMARY OF MONTHLY FGN BONDS SUBSCRIPTION AND ALLOTMENT, 2011 (N'MILLION)

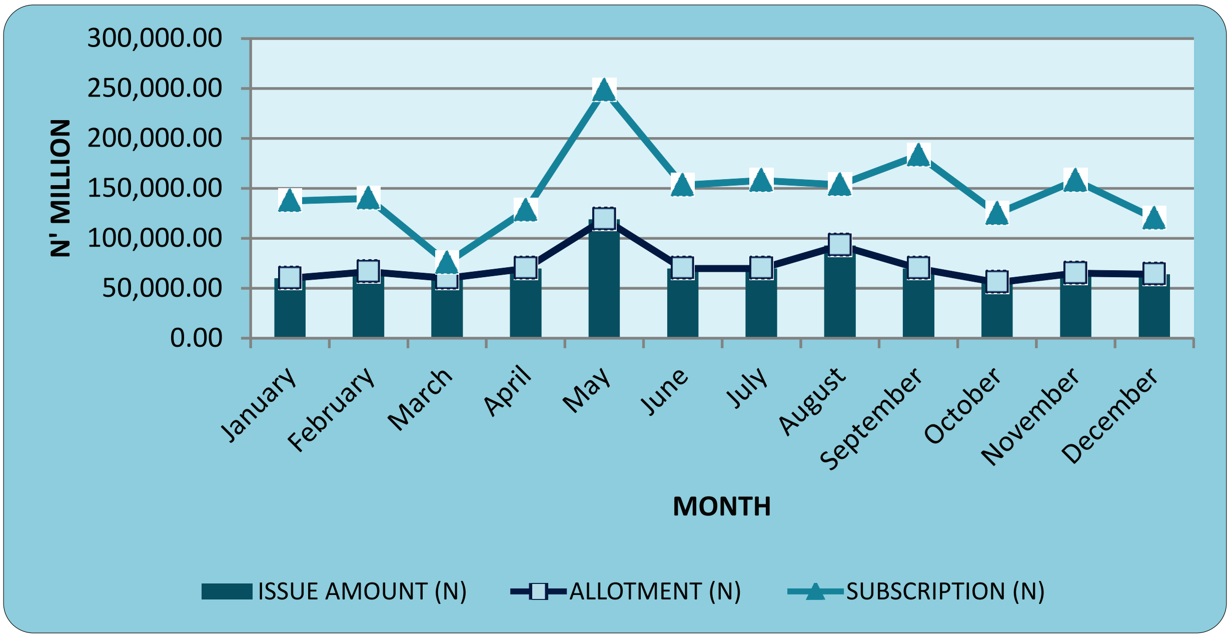


TABLE 5.14: ANALYSIS OF THE FGN BONDS, 2011 BY TENOR

TENOR	AMOUNT (N' MILLION)	PERCENTAGE
3-Year *	366,500.00	42.45%
5-Year **	262,668.42	30.43%
10-Year ***	234,100.00	27.12%
TOTAL	**863,268.42**	**100.00%**

**Comprised 5.50% FGN Feb. 2013 and 10.50% FGN MAR. 2013*
*** 4.00% FGN APR 2015*
**** Comprised 10.70% FGN MAY 2018 and 7.00% FGN OCT. 2019*

A breakdown of the tenors of the instruments shows that the 3-year, 5-year, and 10-year bonds accounted for 42.45 percent, 30.44 percent and 27.11 percent of the total issuance, respectively (Table 5.14).

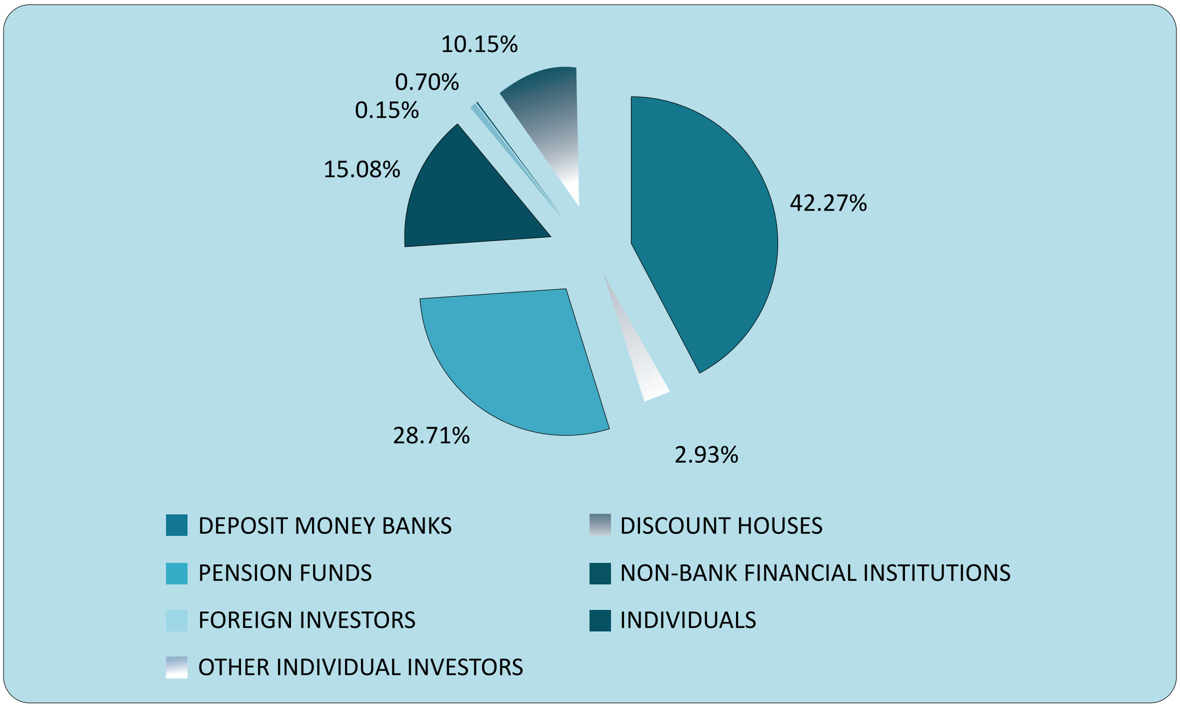
5.6.1.5: Allotments of FGN Bonds Issued in 2011

The analysis of the allotment by investor type shows that the Deposit Money Banks accounted for 42.27 percent of the total holdings in 2011. This was closely followed by the Pension Fund Administrators and Non-Bank Financial Institutions with 28.71 percent and 15.08 percent of total respectively. Foreign investors and Other Institutional Investors held 0.70% and 10.15% respectively, while the balance of the allotment was shared among Discount Houses and Individuals (Table 5.15 and Fig. 5.6).

Table 5.15: ALLOTMENTS OF FGN BONDS ISSUED IN 2011
{ N'MILLION Except otherwise stated}

TOTAL AMOUNT OFFERED		**791,268.42**
TOTAL SUBSCRIPTION		**1,781,621.68**
RANGE OF BIDS %		**1.50 -30.00**
RANGE OF MARGINAL RATE (COUPONS)%		**9.25 – 18.00**
	AMOUNT	**PERCENTAGE OF TOTAL ALLOTMENT**
TOTAL ALLOTMENT:	**863,268.42**	
DEPOSIT MONEY BAN KS	364,945.16	42.27
DISCOUNT HOUSES	25,303.15	2.93
PENSION FUNDS	247,816.26	28.71
NON-BANK FINANCIAL INSTITUTIONS	130,170.92	15.08
FOREIGN INVESTORS	6,071.80	0.70
INDIVIDUALS	1,306.62	0.15
OTHER INDIVIDUAL INVESTORS	87,654.51	10.15

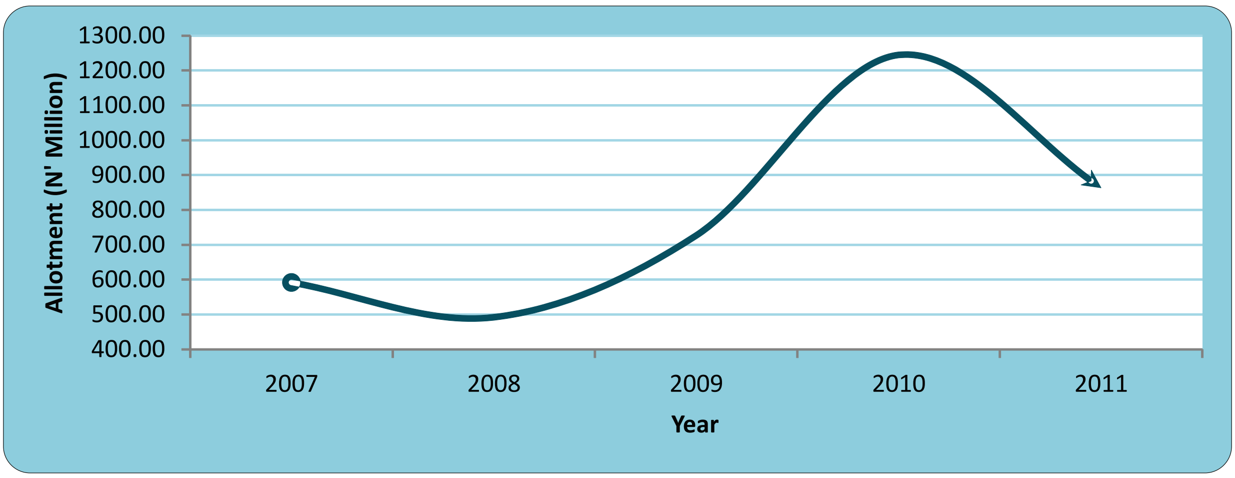
FIGURE 5.6: ALLOTMENT OF FGN BONDS ISSUED IN 2011 (N' MILLION)



5.6.1.6: Trend Analysis of FGN Bonds Allotments

A trend analysis of allotment of the FGN bonds from 2007 to 2011 shows an increase in allotment from 2008 to 2010 but a decrease of 30.63 percent in 2011 from a peak of N 1,244,439.79 million in 2010 (Fig 5.7). The decrease in allotment in 2011 was due to the reduction in deficit financing by the Government from N1.1 trillion in 2010 to N852 billion in 2011.

FIGURE 5.7: ANALYSIS OF FGN BONDS ALLOTMENTS, 2007-2011



5.6.2: Sub-national Bond Issuances in 2011

Table 5.16 shows that, five (4) State Governments issued Bonds – same number in 2010. However, the total amount issued, N92 billion was significantly lower than the N132.50 billion issued in 2010, which has been attributed to activities associated with the 2011 General Elections.

Table 5.16: Sub-national Bond Issuances in 2011

Issuer	Amount (N'Billion)
Benue State Bond	13.00
Niger State Bond	9.00
Delta State Bond	50.00
Ekiti State Bond	20.00
Total	**92.00**

Source: Securities and Exchange Commission

5.6.3 Corporate Bond Issuances in 2011

The new Corporate Bonds issued in 2011 was N71.43 billion, about the same (N72billion) issued in 2010. There were seven issuers in 2011 compared with four in 2010. The largest single issue in 2011 was by UBA Plc, which had also issued Bonds in 2010.

Table 5.17: Corporate Bond Issuances in 2011

Issuer	Amount (N'Bn)
Dana Group	8.01
Sterling Bank	7.50
Lafarge (WAPCO Nig Plc)	11.88
Nigerian Aviation Handling Co Plc	2.15
UBA Plc	35.00
Tower Funding	4.63
Crusader Insurance	2.26
Total	**71.43**

Source: Securities and Exchange Commission

5.7 FGN Bond Secondary Market Activities

The FGN Bond Secondary Market remained active, although when compared to the preceding two (2) years, there was a decrease in the level of trading in 2011. In Table 5.18, the number of transactions in 2011 at 65,319 represented a 52% decrease when compared to 2010. Similarly, the Face Value of Transactions declined by about 35% during the period. The reduction in trading activity is attributed to:

- Non-inclusion of Repurchase transactions (Repos) in the Secondary Market trades as they are now properly captured as Repos, and
- Liquidity management strategies of the CBN, which resulted in a volatile Bond Market characterised by periodic sharp decreases in bond prices.

Table 5.18: Trading Activities in FGN Bonds for 2010 and 2011

Month	2010			2011		
	Number Of Transactions	Face Value (N'Mn)	Consideration (N'Mn)	Number Of Transactions	Face Value (N'Mn)	Consideration (N'Mn)
January	13,818	1,148,805	1,306,761	5,356	865,783	791,265
February	18,206	1,368,098	1,636,757	6,679	919,601	830,048
March	23,078	2,188,213	2,755,996	5,952	835,433	748,193
April	13,472	1,305,527	1,621,532	5,737	686,753	584,582
May	6,523	730,432	871,427	7,153	783,862	683,418
June	12,091	1,222,987	1,344,222	4,497	625,167	559,352
July	12,560	1,322,168	1,454,987	7,609	1,002,013	913,070
August	11,054	1,002,740	1,023,189	5,410	777,518	712,498
September	9,146	997,989	946,499	4,177	681,996	648,608
October	8,005	1,091,499	1,035,611	4,998	683,582	579,388
November	5,524	830,816	750,909	4,822	598,321	505,707
December	2,397	467,876	432,168	2,929	487,604	429,078
Total	**135,874**	**13,677,152**	**5,180,059**	**65,319**	**8,947,633**	**7,985,207**

Source: Central Securities Clearing System

Other highlights of the FGN Bond Secondary Market activities in 2010 and 2011 are as shown in Table 5.19

Table 5.19: FGN Bond Trading Highlights

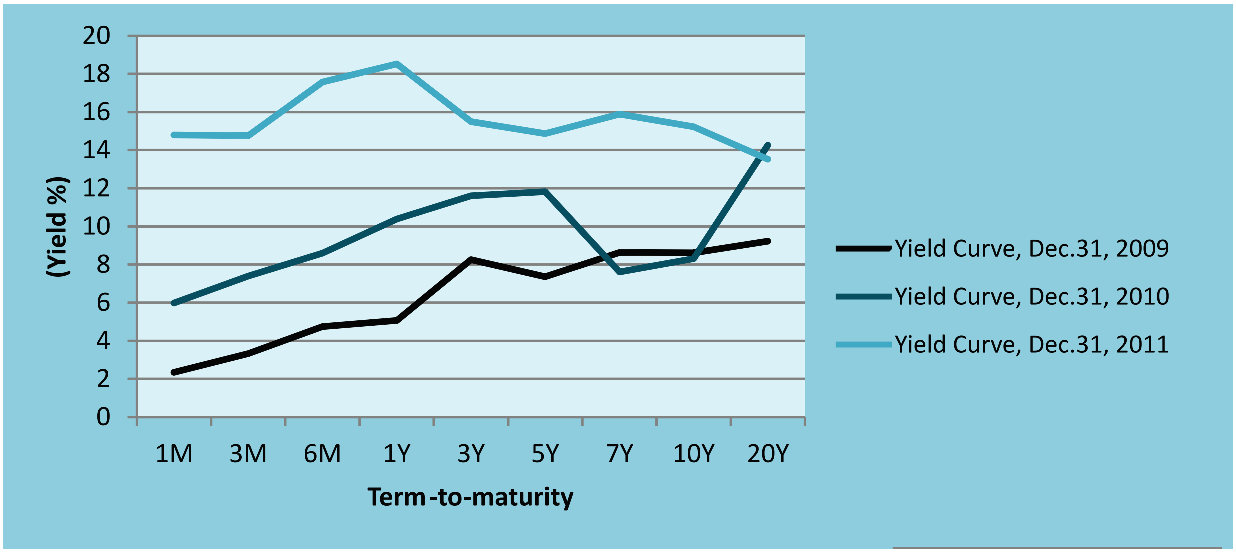
Description	2010	2011
Highest Priced Bond	15.00% FGN November 2028	15.00% FGN November 2028
Lowest Priced Bond	4.00% FGN April 2015	7.00% FGN October 2019
Average Price	N1,081.14	892.44
Highest Price	N1,807.02	1,227.53
Lowest Price	N745.44	N768.74

Source: Central Securities Clearing System

5.8: Sovereign Yield Curve

Figure 5.8 shows the Sovereign Yield Curves of the Federal Government of Nigeria Securities, comprising the Nigerian Treasury Bills (NTBs) and the FGN Bonds as at 31st December, 2009, 2010 and 2011. The 2009 Yield Curve was upward sloping showing higher yield on long tenored instruments, as investors expected inflation to trend upwards. However, 2010 showed higher yields except the distortions in 7-10 year bond range, caused by limited trading in the 7-year Bond. Similarly, in 2011, the Yield Curve became inverted when long term yields were lower than short-term yields. This development was due to investors' expectations that in the long term the Government Reform Agenda would have yielded positive results which would translate to low and stable inflation and interest rates.

Figure 5.8: FGN Sovereign Yield Curve as at December 31, 2011



Source: Financial Markets Dealers Association

5.9: Recent Developments in the Domestic Bond Market

In the course of 2011, there were developments, which had implications on the FGN Bond Market in particular and the domestic bond market in general. These developments are presented in Section 5.9.1 – 5.9.4.

5.9.1 FGN Bond Market

The DMO in collaboration with other stakeholders (PDMMs, CBN, Central Securities Clearing System (CSCS) and the Financial Markets Dealers Association – FMDA) continued to explore and implement measures aimed at reducing volatility and deepening the FGN Bond Market. In this regard, there were two (2) major achievements, which are highlighted in 5.9.2 and 5.9.3, while others are presented in Section 5.9.4.

5.9.2 Benchmark Bonds

In view of the relatively large number of FGN Bond issuances (some with similar tenors) and the illiquidity in a number of Bonds, which left unaddressed would distort the Sovereign Yield Curve, some Bonds were selected as Benchmark Bonds. The Bonds were:

9.45%	FGN January 2013
5.50%	FGN February 2013
10.50%	FGN November 2013
4.00%	FGN April 2015
10.70%	FGN May 2018\
7.00%	FGN October 2019
10.00%	FGN July 2030

5.9.3 Introduction of Securities Lending

The process of introducing a Government Securities Lending Facility (GLF) commenced in 2011. The GLF is to support the PDMMs in their market making activity and help reduce price volatility. This initiative is expected to be operational in 2012 with the support of key stakeholders including the CBN and the CSCS.

5.9.4 Market-Wide Developments

Other market activities and policy actions, which were expected to impact on the domestic bond market when fully operational include:

5.9.4.1 Establishment of an Inter-Dealer Broker

FMDA concluded all arrangements necessary for securing the required SEC registration for ICAP to commence operations as an Inter-Dealer Broker. The existence of an Inter-Dealer Broker is expected to provide an electronic trading and settlement system between banks and discount houses in order to strengthen the promotion of price discovery and transparency.

5.9.4.2 Over-The-Counter Securities Platform

To support more active trading of listed securities, banks and discount houses (using the FMDA as anchor), started the process of establishing an Over-the-Counter (OTC) market for securities that are listed on the NSE. It is expected that the platform will provide an alternative (to the Exchange) for trading in fixed income securities. This initiative is necessary in order to ensure increased trading (liquidity) for corporate and sub-national bonds as well as trading in money market instruments and foreign exchange.

5.9.4.3 New Foreign Exchange Circulars

In June 2011, the CBN removed the restriction of a minimum of 12-month holding period imposed on foreign investors who invest in Federal Government of Nigeria Securities. The move was intended to attract more foreign investors for the FGN Securities and increase the inflow of foreign exchange into Nigeria and this was welcomed by Investors and Analysts. However, in another Circular in October, 2011, the CBN limited the remittance of investment proceeds by foreign investors to the Autonomous Foreign Exchange Market.

5.10 Consensus Building in the Domestic Bond Market

During the year, the DMO continued to work with other stakeholders to develop the domestic bond market and the financial markets in general. For this purpose, the DMO participated in various programmes with the CBN, Securities & Exchange Commission (SEC), Financial System Strategy 2020 (FSS 2020) Committee and the Financial Services Regulation Coordinating Committee (FSRCC) towards developing a deeper and more robust financial market in Nigeria.

The DMO also held regular Interactive Sessions with the Primary Dealers Market Makers (PDMMs) in FGN Bonds, where initiatives aimed at further development of the FGN Bond Market were examined. There were direct engagements with institutions such as The Nigerian Stock Exchange (NSE) and the National Pension Commission (PenCom). Stakeholders in the domestic bond market notably CBN, SEC, NSE, DMO and the Federal Inland Revenue Service (FIRS) amongst others, individually and collectively, continued to promote initiatives and activities that supported the development of the market.

5.11 Outlook for the Domestic Bond Market

Whereas, activities in the primary market were lower than expected, especially for the sub-national and corporate segments, in the near to medium term, the market is expected to grow in size and be deepened through the introduction of new products, new processes, new trading platforms and new entrants into the market. More specifically, a number of on-going initiatives some of which are already at advanced stages will lead to further development of the domestic bond market. These initiatives include:

- The introduction of new products by the DMO;
  - Government Securities Lending Facility
  - Switches and Buybacks to manage Government's refinancing risk and withdraw illiquid FGN Bonds from the market.
  - Inflation-linked Bonds to ensure stable real returns and attract more institutional investors into the FGN Bond Market.
- ICAP to commence operations as an Inter-Dealer Broker.
- Completion of the processing required for the operationalisation of tax waivers for all categories of Bonds. The waiver of taxes on income on Bonds for person(s) taxable under the Personal Income Tax Act (PITA) was completed in December 2011, when the amended PITA was signed into law. The process for implementing the other incentives relating to Capital Gains and Stamp Duties, which require legislative approval, would progress further.
- Issuance of bonds in the domestic market by supra-nationals.
- Increased activity in the sub-national and corporate bonds markets due to the successful conclusion of the General Elections.

CHAPTER SIX

DEBT SUSTAINABILITY ANALYSIS

DEBT MANAGEMENT OFFICE NIGERIA

CHAPTER SIX

DEBT SUSTAINABILITY ANALYSIS

The 2011 DSA baseline results showed that Nigeria was at a low risk of debt distress, as total public debt (domestic and external) remained sustainable throughout the projection period for both solvency and liquidity indicators. External debt sustainability under the baseline showed that both solvency and liquidity indicators also remained sustainable throughout the projection period as all external debt ratios fell within the indicative thresholds.

6.0 Introduction

The 2011 Debt Sustainability Analysis (DSA) was carried out in May 3 -13, 2011. As in the previous years, the Debt Management Office collaborated with relevant stakeholders- Ministries, Agencies and Departments (MDAs) of Government in conducting the 2011 DSA. The MDAs' member-stakeholders comprised representatives of the: Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), National Planning Commission (NPC), Budget Office of the Federation (BOF), and National Bureau of Statistics (NBS), with the West African Institute for Financial and Economic Management (WAIFEM) providing the technical support.

The 2011 DSA was conducted using the updated World Bank/IMF Debt Sustainability Framework (DSF) for Low Income Countries (LICs) - DSF – LIC Template, which was released in February, 2011. Nigeria's classification as a medium performer with a rating of 3.44 under the World Bank's Country Policy and Institutional Assessments (CPIA) index remained unchanged.

6.1 External (FGN and States) - Baseline

The results indicate that Nigeria remained at a low risk of external debt distress (same as in 2010 DSA). Applying the three year average score for Nigeria, the World Bank Country Policy and Institutional Assessment (CPIA) classifies Nigeria as a medium performer and assigns the following indicative debt burden thresholds: (i) Present Value (PV) of debt-to-GDP of 40 percent, (ii) PV of debt to exports of goods and services of 150 percent, (iii) PV of debt-to-revenue of 250 percent (iv) debt service to export of 20 percent and (v) debt service to revenue of 30 percent.

Under the baseline scenario, external DSA shows that the thresholds on the present values of debt-to-GDP, debt-to-exports and debt-to-revenue ratios are not violated throughout the projection period, while the external debt-burden indicators remained well below the thresholds during 2011 – 2030. Specifically, the PV of external debt-to-GDP ratio was 3.1 per cent for 2011 and 4.6 per cent for both 2012 and 2016. Thereafter, the ratios trended downward during the rest of the projection period to 0.7 per cent in 2030, compared with the indicative threshold of 40 per cent.

Box1: External Debt Sustainability Indicators under the Baseline Scenario (FGN and States) [in per cent]

Threshold		DSA Result				
		2011	2012	2016	2021	2030
PV of Debt-to-GDP	40	3.1	4. 6	4.6	3.1	0.7
PV of Debt-to-Exports	150	8.4	13.3	18.5	19.1	9.4
PV of Debt-to-Revenue	250	30.9	48.1	69.1	69.1	27.9
Debt Service-to-Exports	20	0.5	0.6	0.9	1.4	0.7
Debt Service -to-Revenue	30	2.0	2.1	3.2	5.1	2.0

6.2 Standard Stress Test Result

The result of the standard stress tests (B1) using real GDP growth at historical growth projections, (B2) primary balance at historical projections minus one standard deviation, (B3) combination of (B1) and (B2) and (B4) one time 30 percent real Naira deprecation at 2012 all indicate non violation of the threshold. Even in the most extreme stress, the results showed that all the thresholds were not breached.

6.3 Public Debt Sustainability (Excluding State Governments' Domestic Debt)

(i) Solvency Indicators:

Solvency Indicators in the baseline scenario (which considered only the Federal government domestic debt) showed that total public debt would remain within the sustainability thresholds throughout the projection period (Box 2). In 2011, the projected Present Value (PV) of total debt to the GDP stood at 22.4 per cent, but would trend down to 5.9 per cent in 2021 and 1.2 per cent in 2030. All the ratios remained well below the indicative threshold of 40 per cent throughout the projection period. This result is explained by the assumption of continued strong GDP growth more than the rate of debt accumulation. The non-oil sector is programmed to grow faster and help to insulate the economy from negative oil revenue shocks during the projection period. Key growth initiatives for the non-oil sector include increasing the investments in infrastructure to boost manufacturing and services sectors of the economy. The rate of debt accumulation by the FGN is assumed to slow down as from 2016 as more Public Private Partnership (PPP) funding is expected in critical infrastructure projects to reduce contribution from government.

The PV of the total public debt as a percentage of total revenue is projected to average 161.6 per cent and 98.4 per cent in 2011-2020 and 2021-2030 respectively, with a peak of 222.5 per cent in 2011. These are well below the 250 per cent trigger point.

Box 2 : Total Debt Sustainability Indicators under the Baseline Scenario (Excludes the States' Domestic Debt) [in per cent]

	DSA Result				
	2011	2012	2016	2021	2030
PV of Debt -to-GDP	22.2	19.8	10.5	5.9	5.9
PV of Debt -to-Revenue	222.5	206.9	159.0	132.4	130.4
Debt Service -to-Revenue	22.8	28.4	23.7	30.5	31.0

6.4 Public Debt Sustainability (Consolidated Federal and States' external and domestic debt)

Unlike in earlier years, the 2011 DSA included the State governments' domestic debt. As expected the combined total debt of the Federal and State governments was higher and remained sustainable. Specifically, the solvency indicators which combined the total external and domestic debt of FGN and the 36 States showed that the PV of debt-to-GDP was 25.7 per cent in 2011; it thereafter trended downward during the projection period, averaging 13.3 percent in 2012-2020 and 4.26 percent in 2020-2030, well below the 40 percent threshold.

Similarly, the PV of debt-to-revenue averaged 96.6 percent in 2011-2020 and 59.52 per cent in 2021-2030. All the ratios are sustainable. Conversely, the PV of debt–to-revenue and debt service-to-revenue ratios were lower in the combined total public debt than the scenario that excluded State Governments' domestic debt. This is attributable to the assumption that the internally generated revenue (IGR) would grow faster than the rate of debt accumulation of the sub-nationals in order to meet developmental needs.

6.4.1 Consolidated Total Debt Sustainability Indicators under Baseline Scenario

Box 3 : Federal and States' external and domestic debts [in per cent]

	DSA Result				
	2011	2012	2016	2021	2030
PV of Debt-to-GDP	25.7	22.9	12.2	7.1	2.0
PV of Debt-to-Revenue	137.5	125.2	93.5	78.8	38.3
Debt Service-to-Revenue	16.7	19.2	15.2	18.6	10.0

Liquidity Indicators (Federal Only)

Liquidity Indicators in the baseline scenario displayed a sustainable trend as the total debt service-to-revenue stood 22.8 per cent in 2011.

Liquidity Indicators (Federal and States)

Liquidity indicators in the baseline scenario (with the consolidated domestic debt of the States) demonstrated similar trends, with the total debt service for Federal and State Government remaining at sustainable levels throughout the projection period. The debt service-to-revenue was 16.7% in 2011 and averaged 21.8 percent in 2012– 2020 and 13.61 percent in 2021-230.

6.5: Optimistic Scenario

6.5.1 Total Debt Sustainability

(i) Solvency Indicators

As is in the baseline scenario, the optimistic scenario and the standardised stress tests showed relatively robust results. Total debt-to-GDP ratio is projected to trend downward from 25.6 percent in 2012 to 6.8 percent in 2030, which is below the 40 per cent threshold. The PV of debt-to-revenue ratios are high but remained below the threshold (250%), except in 2012 when the ratio exceeded the 250.0% target by 400 basis points. It is important to observe that the PV of debt-to-revenue ratios fluctuated in 2012 through 2023, (three years later than the terminal date of Nigeria Vision 20:2020) after which it maintained a steady down-ward movement. The high ratios are attributed to the assumed massive resources required to drive the Nigeria Vision 20:2020, the bulk of which shall be by debt accumulation. A key policy message will therefore be that the capacity of the capital market and other borrowing windows would have to be strengthened to help meet the envisaged borrowing requirements.

(ii) Liquidity Indicators

Total debt service as percentage of revenue was generally high throughout the projection period. The ratios averaged 40.2 percent in 2011 - 2020 and 34.3 percent in 2021 – 2030, well above the 30.0 per cent bench-mark. This is attributable to the huge debt accumulation and the additional use of non-concessional borrowing to achieve Vision 20:2020 at higher interest cost.

6.5.2 External Debt Sustainability (Federal and States' External Debts)

(i) Solvency Indicators

In the optimistic scenario, the solvency indicators showed that external debt remained sustainable as all the ratios remained well below the threshold of 40 percent. The average projected ratios were 8.1 percent and 7.7 percent in 2011–2020 and 2021-2030 respectively (see box 4).

Similarly, the PV of external debt-to-revenue ratio remained sustainable, but showed a steady rise in the first twelve years of the programme to peak at 167.3% in 2022, although well below the 250 percent threshold. The ratio thereafter declined steadily to 124.9% in 2030.The fall in the ratio beginning from the two years after the terminal date of Nigeria's Vision 2020 is partly due to the declining trend in debt accumulation; the relatively higher oil production and the improved tax collections assumed for the later years of the projection period.

Box 4: External Debt Sustainability Indicators under the Optimistic Scenario (Federal and States external Debt) [in per cent]

DSA Result						
		2011	2012	2016	2021	2030
NPV of Debt -to-GDP	40	3.2	6.7	10.3	9.8	5.4
NPV of Debt -to-Revenue	250	30.8	66.3	135.0	165.8	124.9
NPV of Debt -to-Exports	150	8.6	19.5	39.8	52.2	53.9
Debt Service -to-Export	20	0.6	0.7	1.7	3.0	3.0
Debt Service -to-Revenue	30	2.0	2.4	5.7	9.4	6.9

6.6. Pessimistic Scenario (Federal Only)

6.6.1 Total Debt Sustainability

(i) Solvency Indicators

In the country specific pessimistic scenario that assumes a weak fiscal position and an absence of an appropriate fiscal policy response under a prolonged oil price shock, it is expected that government will deplete the foreign reserves. Nigeria's public debt to GDP ratio would be 21.7 % in 2011, 17% and 9.9% in 2012 and 2013 respectively and thereafter trend down-ward to 0.9% in 2030 following low and falling projected deficits in the later years. The total debt service-to-revenue ratio is projected to fluctuate substantially in the first half of the programme period to 32.9 per cent in 2021 and then drop steadily by more than half to 14.5 per cent in 2030. Similarly, the PV of total debt-to-revenue would remain sustainable with all ratios falling well below the 250 per cent threshold of the external debt, owing to lower level of projected deficit in the later years.

(ii) Liquidity Indicators

The PV of total debt service-to-revenue is unsustainable in the short–medium term but sustainable thereafter. The total debt service-to-revenue is projected to fluctuate substantially in the first half of the programme period to 32.9 per cent in 2021 and then drop steadily by more than half to 14.5 per cent in 2030. The breaching of the global bench-mark in the early years of the projection period would be due to large current account deficit following the effects of low oil price, drop in oil production and the lag in developing the non-oil sources of revenue.

6.6.2 External Debt Sustainability (Federal and States external Debt)

(i) Solvency Indicators

In the pessimistic scenario, the solvency indicators show mixed result. The PV of external debt–to-GDP is 3.0, 2.2 and 0.6 percent in 2011, 2021 and 2030 respectively. The PV of external debt-to-revenue also remains sustainable with the ratios ranging between 30.8 percent in 2011 to 78.0 percent in 2021, which are well below the 250 percent threshold (Box 5). This is based on the assumption that Nigeria would continue to depend less on external sources of funds during the programme year.

Box 5 : External Debt Sustainability Indicators under the Pessimistic Scenario (Federal and States external Debt) [in per cent]

	Threshold	DSA Result				
		2011	2012	2016	2021	2030
PV of Debt -to-GDP	40	3.0	3.9	2.7	2.1	0.6
PV of Debt -to-Revenue	250	30.8	43.7	56.5	78.0	38.0
PV of Debt -to-Exports	150	8.4	12.1	14.2	17.5	7.6
Debt Service -to-Export	20	0.5	0.5	0.6	1.2	0.5
Debt Service -to-Revenue	30	2.0	1.9	2.5	5.5	2.6

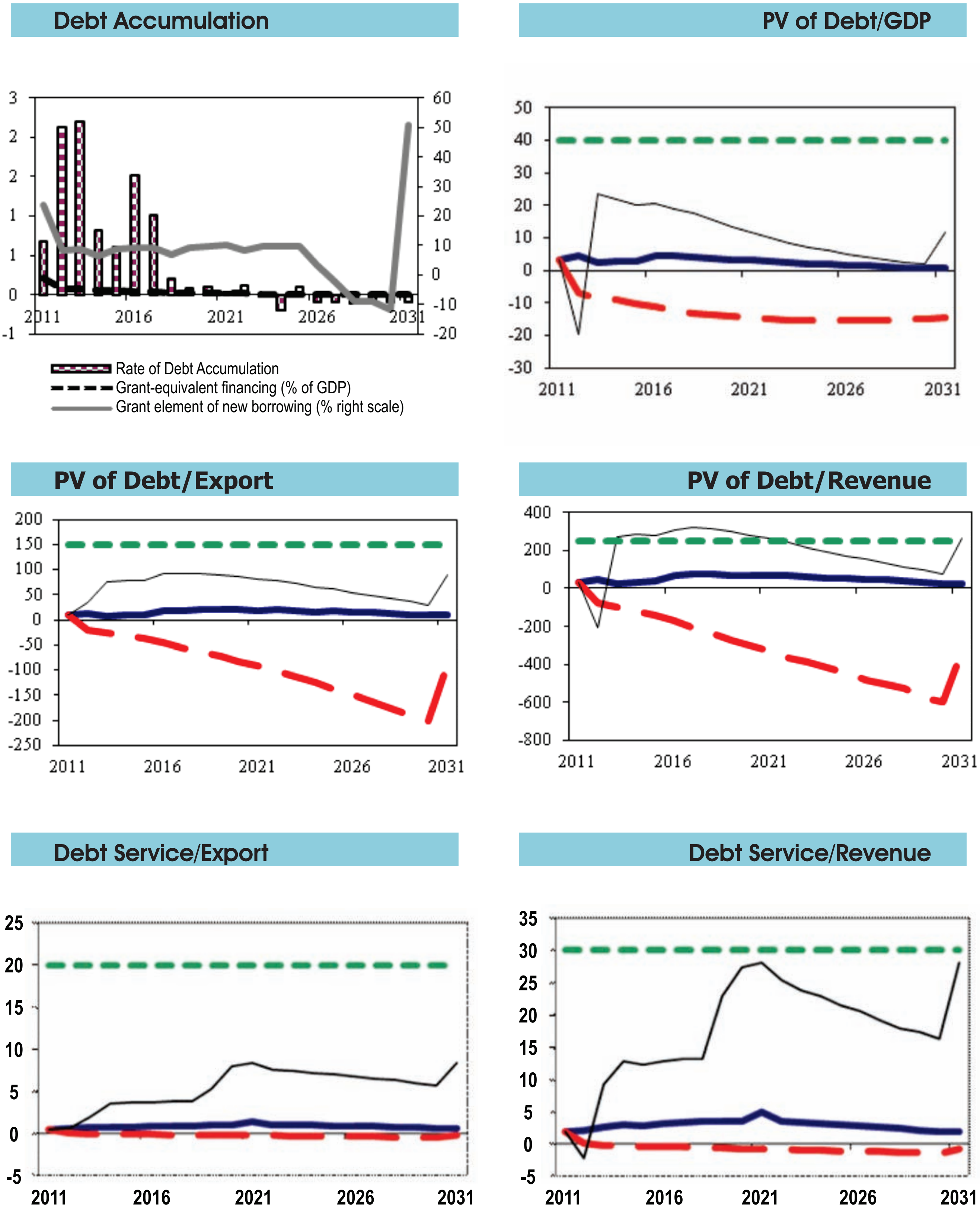
(ii) Liquidity Indicators

All the liquidity indicators are sustainable as indicated in Box 5. The results show that external debt service would peak at 1.2 percent of export revenue in 2020 and 2021. Also external debt service to revenue would peak at 5.5 percent in 2021, all of which would be below the indicative thresholds of 20 and 30 per cent respectively.

6.7 Conclusions

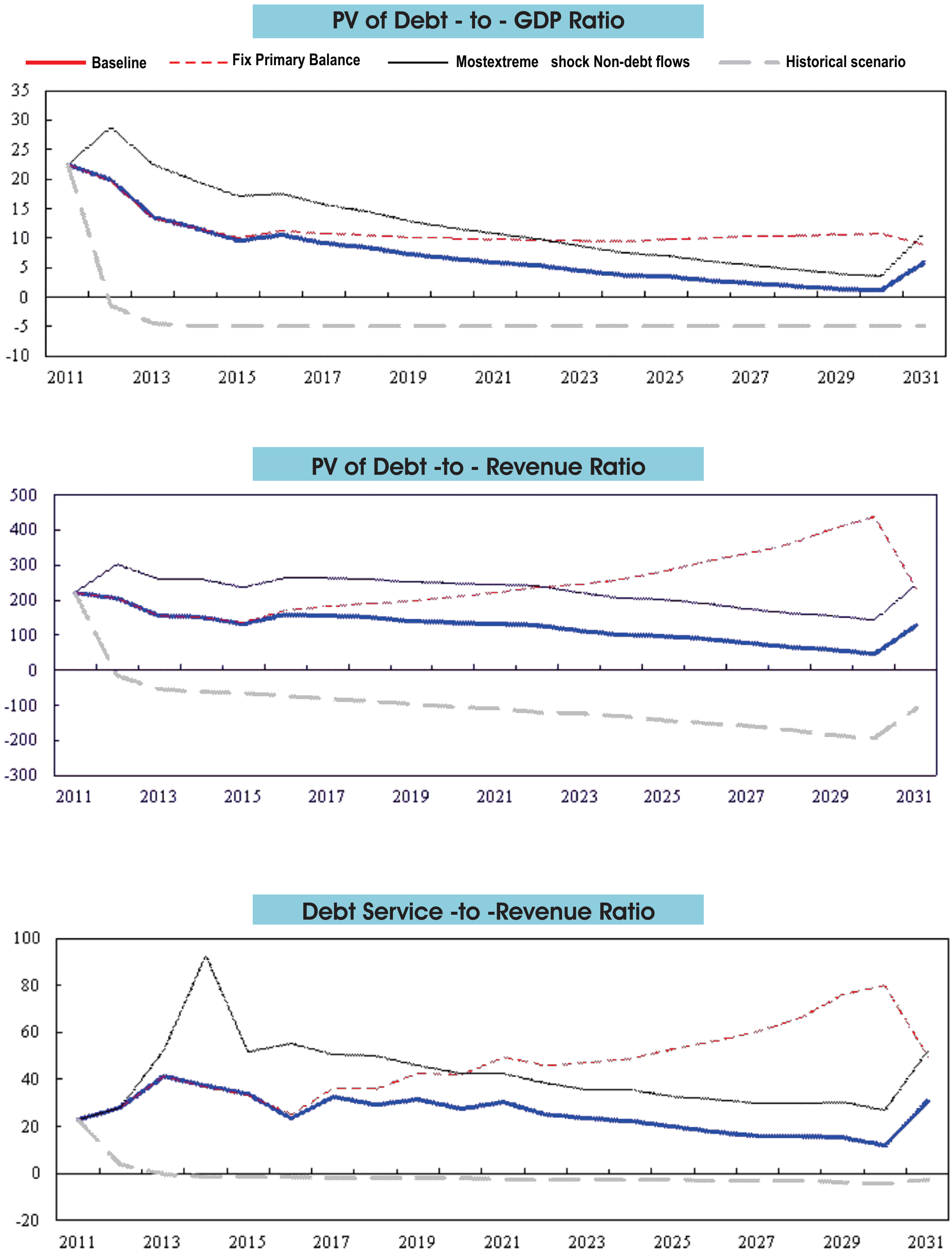
Nigeria is at a low risk of debt distress as shown in the baseline, optimistic and pessimistic scenarios. Similarly, the case of the standardized stress tests indicated that Nigeria's debt outlook remains relatively robust throughout the projection period.

Figure 6.1: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a Combination shock; in c. to an Exports shock; in d. to a Combination shock; in e. to an Exports shock and in figure f. to a Combination shock

Figure 6.2: Indicators of Public Debt for FGN under Baseline Scenarios, 2011- 2030



CHAPTER SEVEN

SUB-NATIONAL DEBT MANAGEMENT

CHAPTER SEVEN

SUB-NATIONAL DEBT MANAGEMENT

Total State Governments' external debt constituted 38.21 percent of total external public debt of Nigeria. These loans were on-lent loans from the Federal Government, utilized to finance mainly infrastructure and education projects in the various States of the Federation. The DMO completed the Debt Data Reconstruction (DDR) exercise for domestic debt data for twenty-five (25) States and Post DDR institutional and capacity assessment exercise for seventeen (17) States, as at end-2011. The remaining States would be completed in 2012.

7.0 State Governments' External Debt Stock

State Governments' external debt at US$2,165.30 million represented 38.21 percent of the total external debt stock and 1.0 percent of the country's GDP in 2011. The debts were mainly Federal Government on-lent loans from multilateral sources (IDA, IBRD, ADF, ADB and IFAD) to the State Governments, which the recipient State Governments used in financing projects in education, health, water supply, and housing & sanitation sectors.

Total external debt of the States showed an increase of US$164.60 million or 8.23 percent over the 2010 figure (Table 7.1). The increase was attributable to disbursements on existing loans.

TABLE 7.1: TREND IN STATE GOVERNMENTS' EXTERNAL DEBT STOCK, 2007-2011 (US$ MILLION)

Years	2007	2008	2009	2010	2011
State Governments External Debt Stock	1,539.93	1,660.49	1,835.64	2,000.70	2,165.30

Table 7.1 and Figure 7.1 show an increasing trend in the external debt stock of States from 2007 to 2011.

FIGURE 7.1: TREND IN STATE GOVERNMENTS' EXTERNAL DEBT STOCK, 2007-2011 (US$ MILLION)

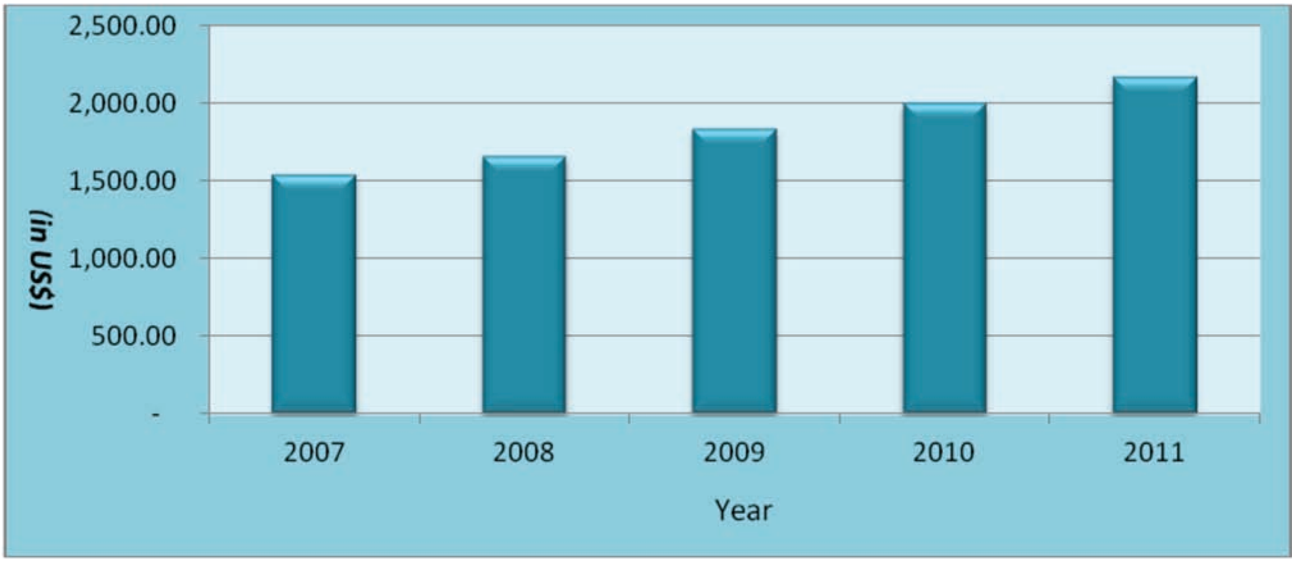
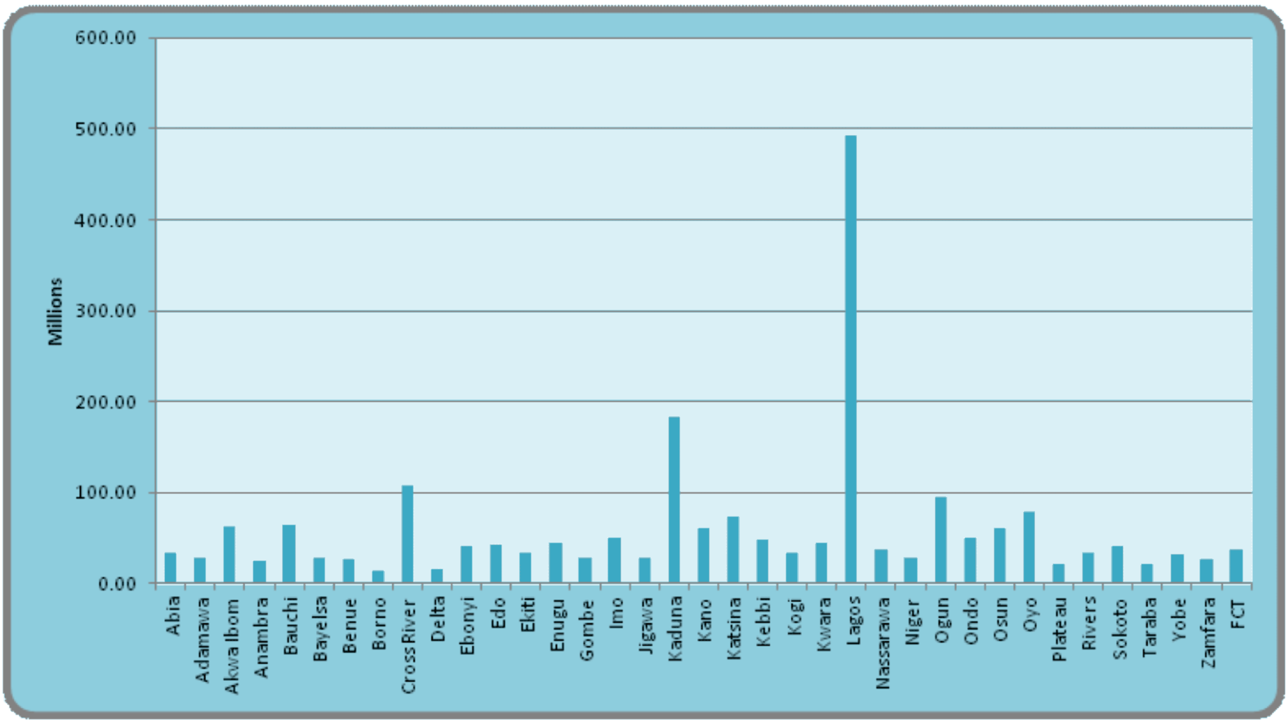


Table 7.2 and Figure 7.2 also show the external debt stock of each of the States as at 31st December, 2011. The detailed breakdown revealed that Lagos, Kaduna and Cross River States had the highest debt stock of US$491,847,295.53 (22.71 percent), US$182,261,250.47 (8.42 percent) and US$107,532,721.29 (4.97 percent), respectively. The States with the lowest external debt stock were Borno, Delta and Taraba having US$12,957,250.22, US$15,404,872.07 and US$20,396,408.40 and representing 0.60 percent, 0.71 percent and 0.94 percent of total, respectively.

TABLE 7.2: EXTERNAL DEBT STOCK OF STATES AS AT 31ST DECEMBER, 2011 (US$)

S/No	States	Multilateral	% of Total
1	Abia	33,264,962.44	1.54
2	Adamawa	29,107,434.51	1.34
3	Akwa Ibom	62,648,075.21	2.89
4	Anambra	24,446,469.98	1.13
5	Bauchi	63,428,015.53	2.93
6	Bayelsa	27,447,347.48	1.27
7	Benue	26,580,524.86	1.23
8	Borno	12,957,250.22	0.60
9	Cross River	107,532,721.29	4.97
10	Delta	15,404,872.07	0.71
11	Ebonyi	41,193,845.86	1.90
12	Edo	42,514,650.66	1.96
13	Ekiti	34,399,021.50	1.59
14	Enugu	44,895,364.74	2.07
15	Gombe	28,372,666.88	1.31
16	Imo	50,277,216.07	2.32
17	Jigawa	27,752,300.12	1.28
18	Kaduna	182,261,250.47	8.42
19	Kano	59,777,794.58	2.76
20	Katsina	74,138,585.89	3.42
21	Kebbi	48,308,816.94	2.23
22	Kogi	34,303,342.09	1.58
23	Kwara	43,989,319.83	2.03
24	Lagos	491,847,295.53	22.71
25	Nassarawa	37,062,758.79	1.71
26	Niger	28,142,518.99	1.30
27	Ogun	94,575,129.90	4.37
28	Ondo	50,022,172.54	2.31
29	Osun	61,489,569.10	2.84
30	Oyo	78,085,379.91	3.61
31	Plateau	20,433,976.30	0.94
32	Rivers	33,859,588.21	1.56
33	Sokoto	40,093,825.62	1.85
34	Taraba	20,396,408.40	0.94
35	Yobe	31,144,797.78	1.44
36	Zamfara	26,305,193.25	1.21
37	FCT	36,842,710.88	1.70
	Sub-Total	**2,165,303,174.42**	**100.00**

FIGURE 7.2: EXTERNAL DEBT STOCK OF STATES AS AT 31ST DECEMBER, 2011(in US$ millions)



7.1 States' External Debt Service Payments

The total debt service payments of States stood at US$97.28 million or 4.53 percent of the total external debt stock of the States in 2011. This represented a decline of 34.84 percent over the previous year (Table 7.3). The decline was due to the full maturities of some of the States' multilateral loans.

TABLE 7.3: EXTERNAL DEBT SERVICE DEDUCTIONS OF STATES, 2007-2011 (US$' MILLION)

S/N	States	2007	2008	2009	2010	2011
1	Abia	2.45	1.48	0.94	1.37	2.03
2	Adamawa	2.66	1.87	0.86	0.77	0.43
3	Akwa Ibom	9.97	8.72	6.84	11.26	4.53
4	Anambra	4.29	4	3.23	0.77	0.88
5	Bauchi	7.57	6.59	5.77	7.33	3.56
6	Bayelsa	2.45	0.88	0.85	1.3	0.73
7	Benue	2.45	0.88	0.85	1.3	0.78
8	Borno	2.22	1.11	0.99	1.6	0.69
9	Cross River	16.72	13.02	11.86	9.58	11.85
10	Delta	9.72	5.55	4.61	6.23	0.99
11	Ebonyi	2.26	2.13	1.75	0.9	1.28
12	Edo	9.9	5.97	5.86	7.19	0.82
13	Ekiti	0.64	1.18	1.86	2.12	1.65
14	Enugu	5.64	3.11	2.53	1.56	1.64
15	Gombe	0.89	1.71	0.78	1.54	1.40
16	Imo	7.33	1.83	1.66	2.31	1.44
17	Jigawa	1.59	1.81	1.98	3.25	1.56
18	Kaduna	3.29	3.88	3.93	5.59	3.87
19	Kano	3.74	5.57	6.44	7.14	5.32
20	Kastina	1.79	3.76	4.87	4.8	3.21
21	Kebbi	2.71	2.63	2.37	3.4	2.63
22	Kogi	3.39	3.48	3.27	2.48	1.28
23	Kwara	1.31	3.38	4.64	2.03	1.09
24	Lagos	19.03	17.9	17.25	11.43	7.59
25	Nassarawa	10.16	4.1	3.88	4.92	4.51
26	Niger	10.87	10.37	5.12	1.26	1.84
27	Ogun	5.18	1.94	1.82	1.73	1.12
28	Ondo	6.43	2.64	2.59	3.24	1.75
29	Osun	5.25	2.97	2.59	4.44	2.68
30	Oyo	17.33	15.22	14.43	17.98	10.66
31	Plateau	6.47	7.98	7.86	9.37	7.40
32	Rivers	6.35	2.36	2.39	3.34	1.78
33	Sokoto	1.99	1.7	1.57	2.21	1.66
34	Taraba	1.69	1.62	0.88	0.92	0.44
35	Yobe	3.29	0.97	0.86	1.35	1.20
36	Zamfara	0.89	0.94	0.89	1.29	0.99
	Total	**199.91**	**155.25**	**140.87**	**149.3**	**97.28**

7.2 REVIEW OF THE STATUS OF DEBT MANAGEMENT DEPARTMENTS (DMDs) IN THE STATES

7.2.1 Capacity Building for Sub-national Debt Managers

Given the high turn-over of staff in the Debt Management Departments (DMDs) in the States, and as part of efforts to reinforce the debt recording and reporting skills of the Sub-national debt managers, the DMO in collaboration with Quanteq Technology Services Ltd, (an ICT Company) conducted a special Workshop for sub-national debt managers from the State DMDs, between November and December 2011 in Abuja. A total of fifty-six (56) DMD staff from twenty-two (22) States (Anambra, Akwa Ibom, Bauchi, Bayelsa, Benue, Delta, Ebonyi, Gombe, Jigawa, Katsina, Kebbi, Kogi, Nassarawa, Niger, Ondo, Oyo, Plateau, Rivers, Sokoto, Taraba, Yobe and Zamfara) participated actively at the **"Application of MS Excel for Sub-national Debt Management"** workshop, which exposed them to varied aspects of the MS Excel software as a tool for effective debt recording, reporting and analysis as well as other aspects of debt management at the sub-national level. The Workshop was hosted in two batches in 2011, while a third batch of fourteen (14) outstanding States is expected to be conducted in the first quarter of 2012.

7.2.2 Domestic Debt Data Reconstruction (DDR) for the State DMDs

In continuation of this initiative that commenced in November 2009, the DMO conducted the DDR exercise in an additional eleven (11) States across the Federation in 2011, bringing to 25 the number of States helped to reach this standard. The eleven (11) States are: Adamawa, Akwa-Ibom, Delta, Edo, Gombe, Katsina, Ondo, Rivers, Sokoto, Taraba and Zamfara. It is envisaged that the DDR Exercises for the other States would be completed by the end of 2012.

7.2.3 Post Domestic Debt Data Reconstruction for the State DMDs

The DMO initiated a Post DDR (evaluation) exercise to be carried out in the States within six to nine months after the DDR exercise. The Post DDR exercise is to determine the capacity of the DMD staff to interpret loan agreements and the DMD's promptness in debt data collections from MDAs. It is also aimed at determining and evaluating the safeguards applied for the protection of the reconstructed database, as well as an assessment of the State's compliance with international best practices in debt recording and reporting as set out in the Template for the Establishment of DMDs. The Post DDR evaluation also serves as an avenue for addressing other challenges constraining effective performance of the DMD. Consequently, seventeen (17) States were visited for the post DDR exercise as at the end of December 2011. The States are: Abia, Akwa –Ibom, Bauchi, Cross River, Edo, Ekiti, Imo, Jigawa, Kaduna, Kano, Kebbi, Kogi, Niger, Ondo, Osun, Sokoto and Zamfara.

7.2.4 Deployment of ICT Infrastructure for State DMDs

To strengthen sub-national debt management in Nigeria, the DMO intensified efforts at securing the buy-in of computer firms to demonstrate their corporate social responsibility by providing ICT infrastructure among others, to the States. DMO as a result of this initiative, in October 2011, in collaboration with Chams Plc, equipped the Taraba State DMD with five (5) units of Chams customized Averatec Computer Systems. Also, Honeywell Group Nigeria Ltd, a large national conglomerate, donated thirty-two (32) desk top computer systems, APC Back-up Units and eight (8) HP Laser Jet Printers to eleven (11) States of the Federation, for delivery in the first week of 2012.

7.2.5 Review and update of the Status of Donor Intervention in the States

The DMO has continued to liaise with Donor Agencies to secure a coordinated donor intervention in the States to enhance their debt management operations. The Department for International Development (DFID) has committed to support the conduct of the DDR exercise in some States in 2012.

7.3 Sub-National Bond Market Development

The DMO, during the year under review, enlightened the sub-national governments on the benefits of accessing the capital market for long term developmental project funds. In addition, greater emphasis was placed on sub-national debt market issues at the various DDR and Post DDR exercises conducted in the States and at the MS Excel Workshop organised for sub-national debt managers in Abuja. Following positive responses from States, four States successfully issued bonds in 2011: Benue State (N13 billion at 14 percent for a 5-year tenor), Niger State (N9 billion at 14 percent for a 7-year tenor), Delta State (N50 billion at 14 percent for a 7-year tenor) and Ekiti State (N20 billion at 14.5 percent for a 7-year tenor). The proceeds of the bonds are being utilised to fund critical infrastructure and other economic and social programmes (Table 7.4).

Table 7.4: SUB-NATIONAL BOND ISSUANCES IN 2011

State Government	Amount Issued	Tenor	Rate
Benue	N 13 billion	5 years	14%
Niger	N 9 billion	7 years	14%
Delta	N 50 billion	7 years	14%
Ekiti	N20 billion	7 years	14.5%

Source: Securities and Exchange Commission and Debt Management Office, 2011.

CHAPTER EIGHT

RISK ANALYSIS OF NIGERIA'S TOTAL PUBLIC DEBT

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RISK ANALYSIS OF NIGERIA'S TOTAL PUBLIC DEBT

In 2011, Nigeria's debt/GDP ratio remained at a comfortable level of 17.45%. The weighted average implied cost of funding the total public debt was 3.3%, indicating a low interest cost. Both the interest rate risks and exchange rate risks of the public debt were relatively low. The redemption profile for external debt showed a relatively even profile, while the domestic debt component exhibited high level of volatility and refinancing risks especially for 2012 and 2013.

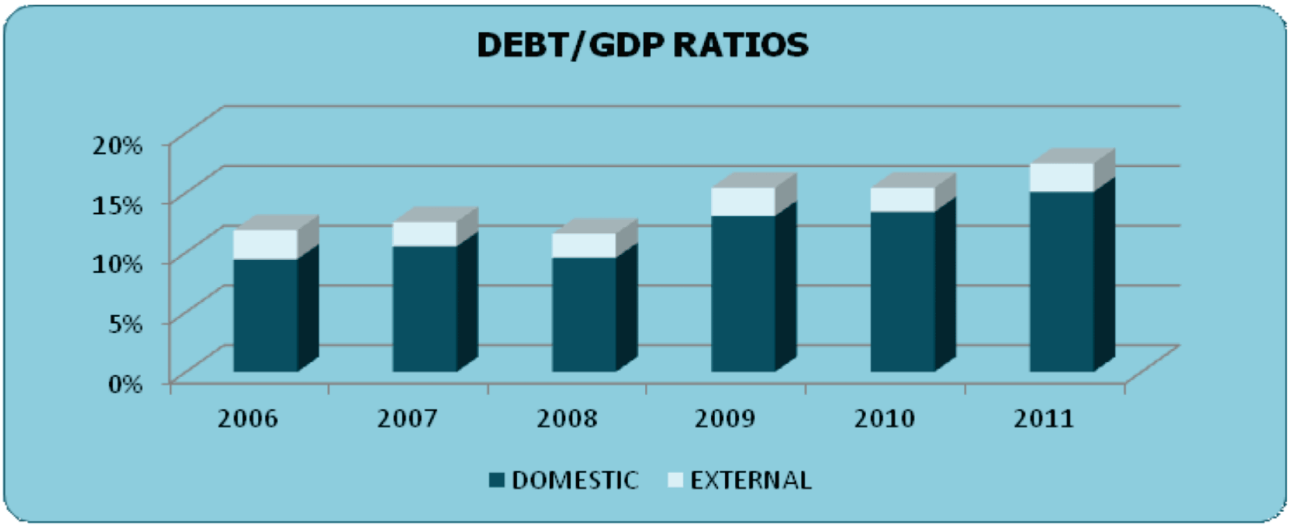
8.0 Costs and Risks Analysis of Nigeria's Total Public Debt as at End-2011

Nigeria's existing debt profile remained at low risk as the bulk of the total debt stock, held in domestic currency related debts helped in insulating the country from currency risk. In addition, the less than two per cent composition of the entire debt stock in variable interest rate debt stock also reduced exposure to interest rate risk.

8.1 Debt Ratios:

Nigeria's total public debt as a percentage of GDP has however risen steadily since the exit from the Paris and London Club of creditors, reflecting the effects of fiscal deficits, the rolling over of maturing debt obligations and rising debt service payments (Figure 8.1).

Figure 8.1 Nigeria: Total Public Debt and External Debt as a Percentage of GDP



8.2 Cost of Funds

At the end of 2011, the weighted average interest rates (implied interest) of the total debt portfolio excluding States domestic debt was 3.3 percent, while the implied interest rate for domestic and external debts, were 10.2 percent and 1.16 percent, respectively. The wide gap was due to the external debt, the bulk of which was sourced from the concessional multilateral window at favourable terms, while the domestic debt was sourced at double digit market determined rates (Table 8.1).

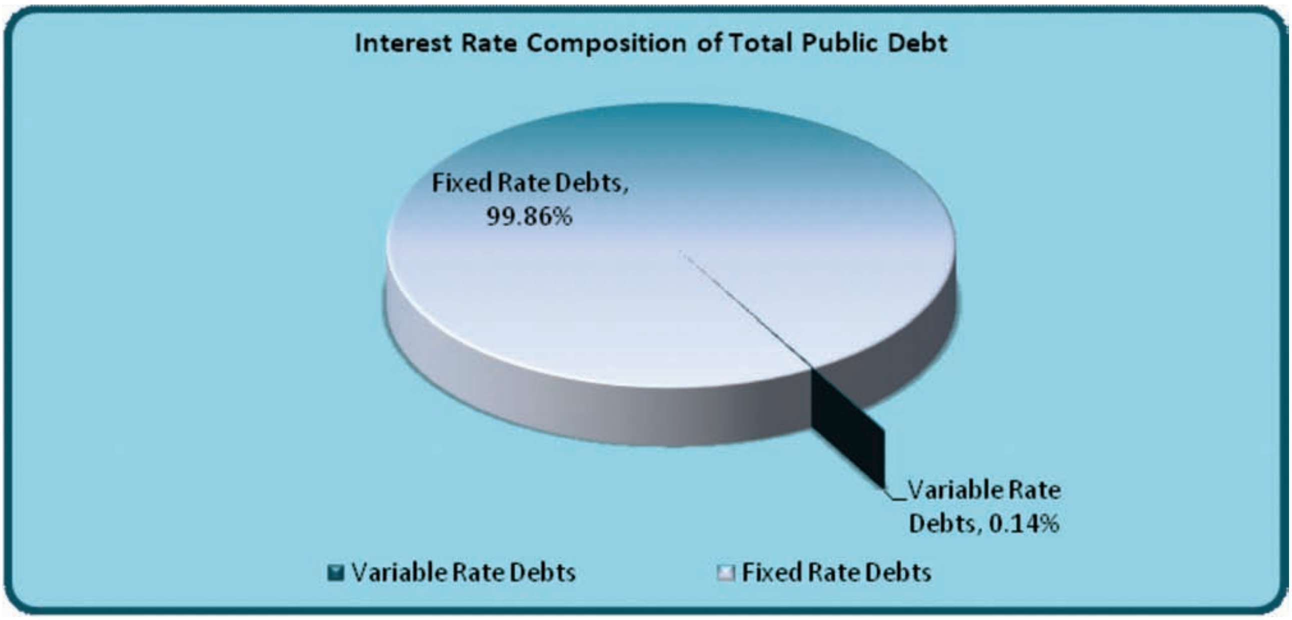
Table 8.1 Nigeria: Cost and Risk of Existing Debt, end-December 2011

Cost	Unit	Domestic Debt	External Debt	Total Debt
Implied interest rate	Percent	10.20	1.16	3.30
Exchange Rate Risk				
Share of total debt	Percent	86.40	13.60	100.00
In % of GDP	Percent	15.07	2.38	17.45
Interest Rate Risk				
Variable Rate debt	Percent	0.01	0.13	0.14
Interest Rate debt re-fixing in 1 year	Percent	26.55	0.71	27.31
Average time to re-fixing	Years	4.06	15.90	5.83
Refinancing Risk				
Debt maturing in 1 year	Percent	26.54	0.65	27.19
Average time to maturity	Years	4.06	15.90	5.84

8.3 Interest Rate Risk

Interest rate risk of the public debt was low when considered against the existing structure of interest rate loans. This was because the share of variable interest rate loans in Nigeria's public debt portfolio was only 0.14% (domestic 0.01% and external 0.13%), while over 99.86 percent was fixed rate loans. This structure has helped in insulating the country's debt against fluctuations in interest rates. The interest rate debt re-fixing in one year was 27.31 per cent in 2011, which comprised 26.55 percent for domestic and 0.71 percent external. The average time to re-fixing was 5.83 years. The relatively low average time to re-fix was due to the effects of the significantly large domestic debts maturing (26.54 percent) within one year, Table 8.1.

Figure 8.2: Interest Rate Composition of Total Public Debt



8.4 Refinancing Risk

Despite the low share of variable rate debt in the total debt portfolio, interest rate risk remained a concern owing to the relatively high share of debt (domestic) that mature within the year (Table 8.1). About 27.19 percent of total debt was to be refinanced at a relatively high cost of funds following the sustained increase in the CBN's MPR by about 575 basis points hike in 2011.The average time to maturity (ATM) of the entire portfolio was 5.84 years in 2011, as against 6.5 years in 2010. This is an indication that the ATM had worsened between 2010 and 2011. The ATMs for external and domestic debts were 15.9 and 4.06 years respectively, meaning that the sharp drop in the ATM of the entire debt portfolio was caused mainly by the domestic debt component. About 26.54 per cent of domestic debt stock was refinanced during the year, while only 0.65 per cent was external debt (Table 8.1). The dominance of short term debt therefore, signified high refinancing risk.

The redemption profile also captures the risk exposure of the debt portfolio. Unusually high debts to be refinanced due to bunched up maturities make the rolling over of maturing obligations more expensive.

Figure 8.3 shows the redemption profile of external debt for Nigeria. It showed a relatively even profile, which trends downwards except in 2021 when the Nigerian Eurobond would mature. On the other hand, Figure 8.4 shows a relatively high level of debt maturing in 2012 and 2013 for domestic debt, meaning that the risks are higher in domestic than in external debt, particularly in 2013.

Figure 8.3. Nigeria: External Debt Redemption Profile (In millions of US$)

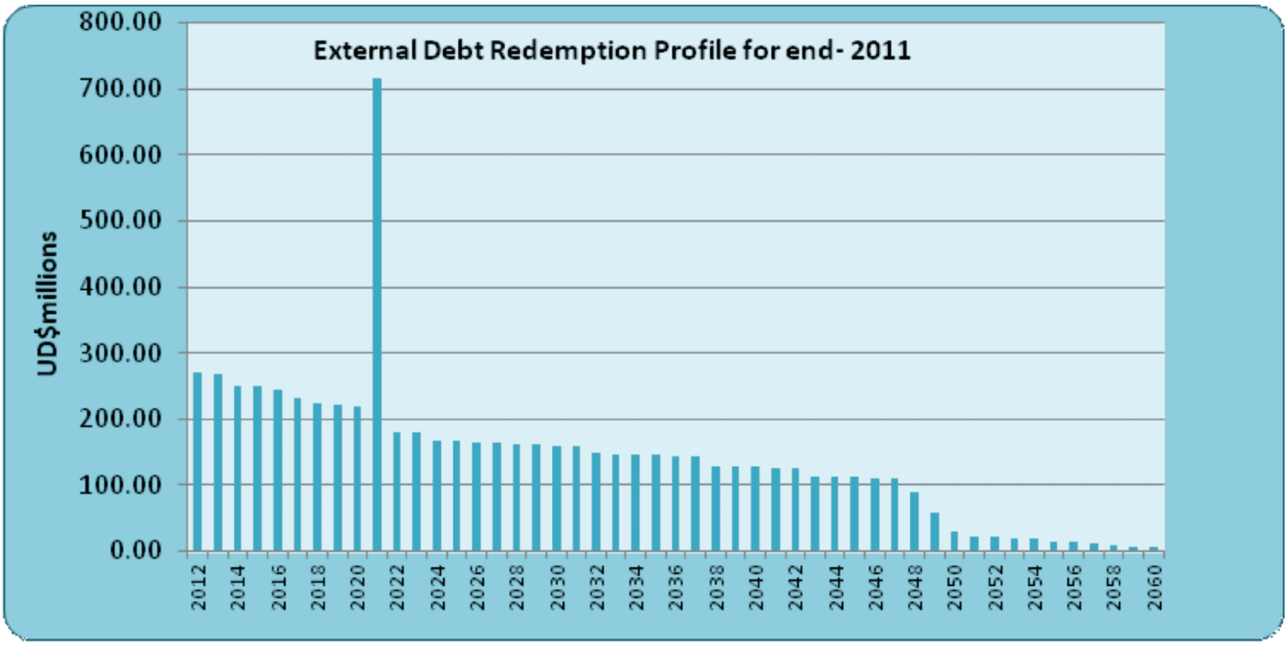
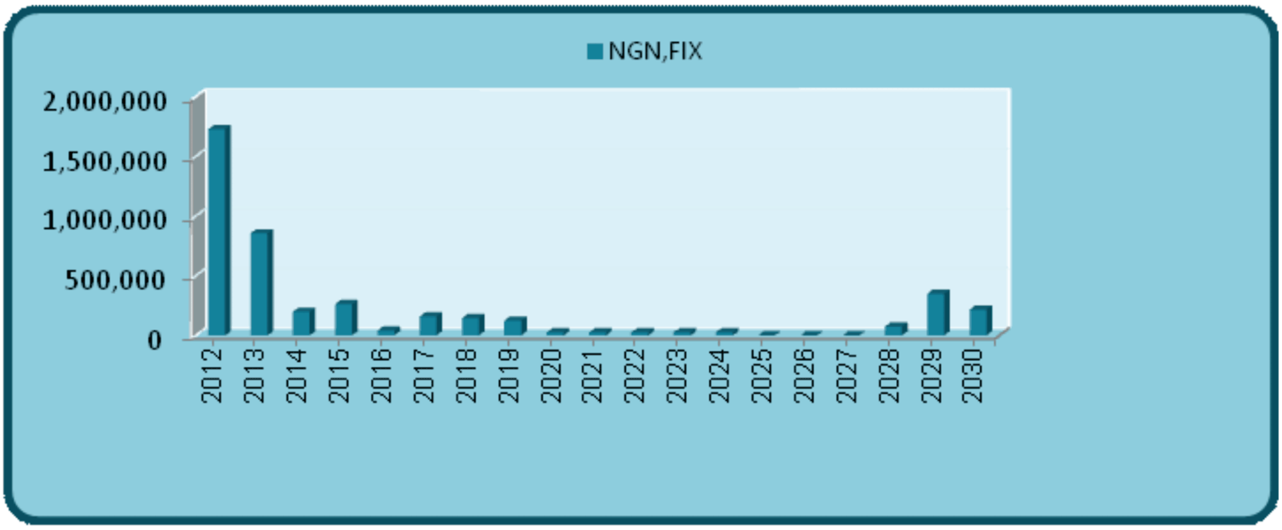


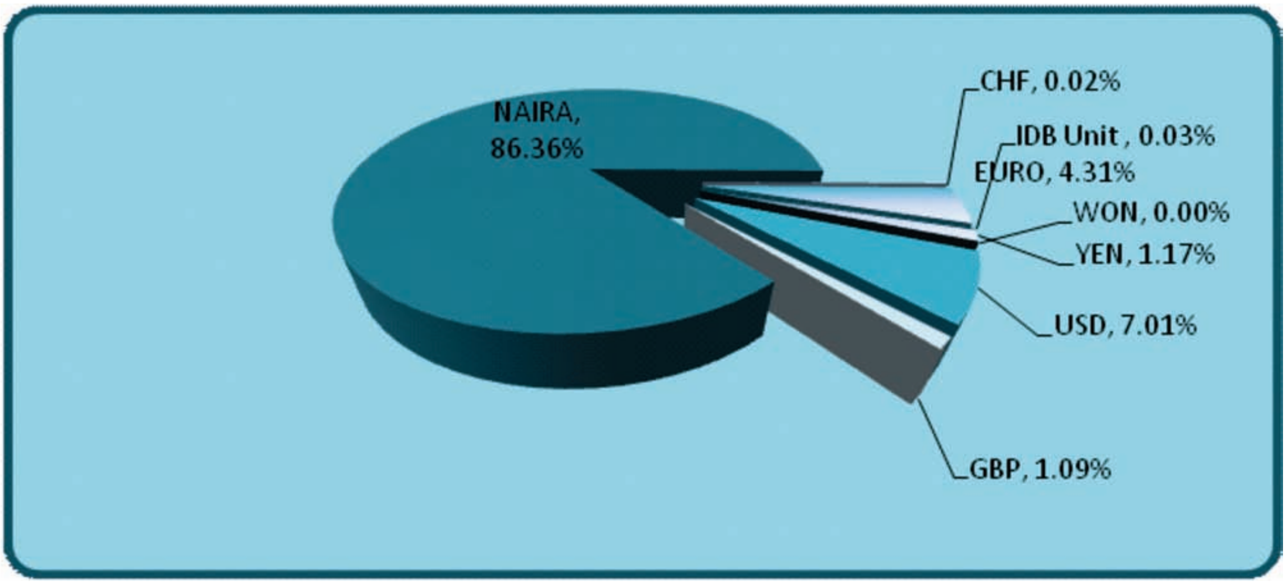
Figure 8.4. Nigeria: Domestic Debt Redemption Profile (In millions of Naira)



8.5 Exchange Rate Risk

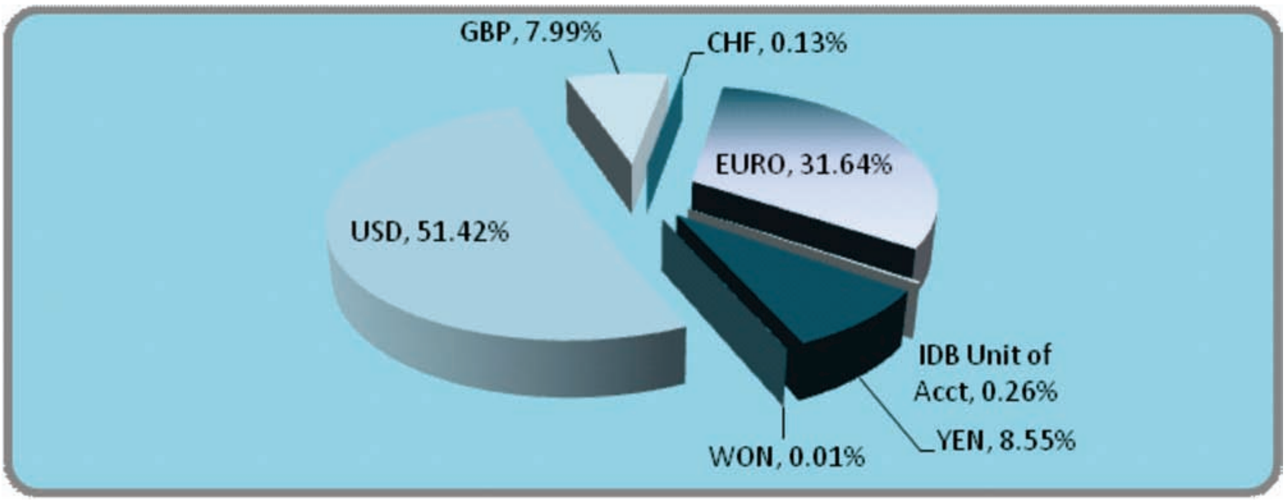
The total debt portfolio was made-up of 86.36 percent domestic and 13.64 percent foreign currencies in 2011. This implies that the exchange rate risk was relatively low in Nigeria debt portfolio, given the low share of external currency debt in the debt portfolio (Figure 8.5).

Figure 8.5. Nigeria: Currency Composition of Public Debt as at Dec. 31, 2011



Within the foreign currency debt portfolio, the composition was in favour of the U.S. dollar and the Euro with the shares of 51.42 percent and 31.64 percent, respectively (Figure 8.6). The external debt service payment obligations of a country would be adversely affected depending on the size of its currency exposure. In this regard, the currency composition of the reserves and external debt portfolio indicated a very low level of currency risk for Nigeria in 2011.

Figure 8.6 Nigeria: Currency Composition of External Debt as at Dec. 31, 2011



In addition, when compared with the currency composition of the foreign reserves (Figure 8.7) for the same period, Nigeria was adequately covered against capital losses resulting from currency fluctuations. As at December 31, 2011 the total foreign reserve assets stood at USD 32.604 billion, while the total external debt was USD 5.666 billion. In addition to the above, it is important to note that Nigeria's external debt service payment is funded through the External Creditors Funding Account (ECFA), which as at end December 2011, was held only in US Dollars. This is an indication of strong cushion against exchange rate risk.

Figure 8.7. Nigeria: Currency Composition of External Reserves as at Dec. 31, 2011

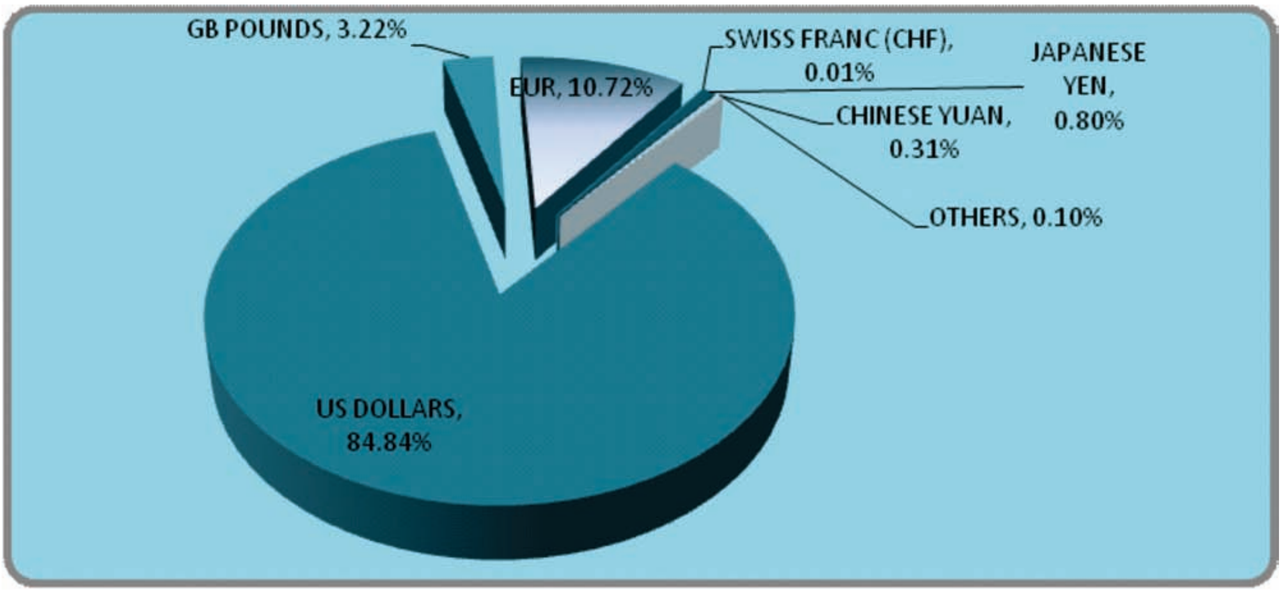


Figure 8.8 below further illustrates that in 2011, Nigeria was well covered under currency risk, as the US Dollar, being the main currency of the country's foreign debt exposure suffered the least fluctuations against the local currency, 1.2% in 2011, compared to other currencies with average fluctuations of 3.59 per cent.

Figure 8.8 Nigeria: Exchange Rate Volatility 2002 – 2011

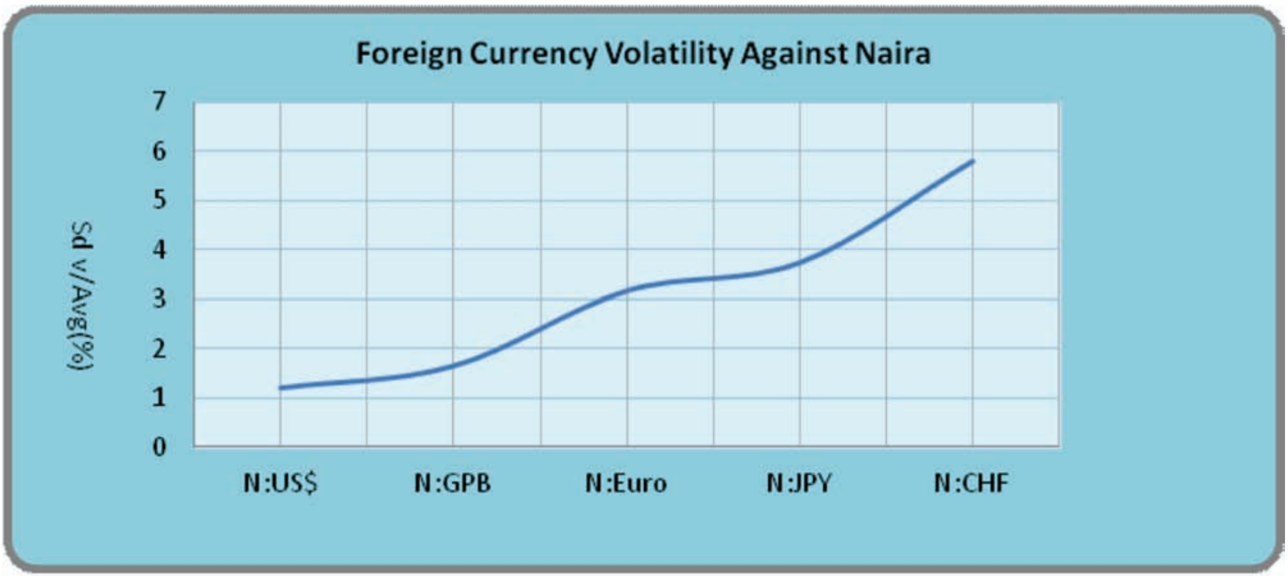


TABLE 8.2: CURRENCY COMPOSITION OF NIGERIA'S EXTERNAL RESERVE ASSET AS AT 31ST DECEMBER, 2011 (US$ EQUIVALENT)

	Currency	USD Equivalent	%
1	US Dollars	27,661,115,286.51	84.840
2	GB Pounds	1,051,214,870.54	3.220
3	Euro	3,494,069,104.88	10.720
4	Swiss Franc (CHF)	1,530,688.25	0.005
5	Japanese Yen	262,007,023.70	0.804
6	Chinese Yuan	101,295,415.76	0.310
7	Other Currencies	33,025,066.96	0.100
	TOTAL	**32,604,257,456.60**	**100.00**

The country's ability to meet its external debt service payment obligations is affected by its currency exposure. In this regard, the currency composition of the reserve and external debt portfolio indicated a very low level of currency risk in 2011. In Table 8.2, external reserves showed that the US Dollar constituted the bulk of the reserve (84.84 percent), the Euro (10.72 percent), the GBP (3.22 percent) and other currencies (1.22 percent). The Chinese Yuan was introduced in 2011 into the country's external reserve to ensure that currency risk resulting from transactions in that currency was equally well managed.

8.6 Contingent Liability Risk Management:

8.6.1 Contingent liabilities rose from N2, 588.67 billion in 2010 to N3,478.38 billion in 2011 (Table 8.3). In terms of per cent of GDP, the outstanding contingent liabilities of the FGN was 9.17 per cent in 2011 compared with 7.62 per cent in 2010.

Table 8.3: Federal Government Contingent Liabilities

S/N	Liability Type	2010 (N'b)	2011 (N'b)
1	Pension Liabilities	1,499.66	1,401.98
2	Contractor's Liabilities*	5.64	226.52
3	Pending Litigations	83.37	92.00
4	Guarantee on Agriculture	NA	15.88
5	AMCON Guarantee	1,000.00	1,742.00
	Total	**2,588.67**	**3,478.38**

Figures are only in respect of available data based on response from MDAs.

*The figure represents only a portion of FGN Contractors' Liabilities verified for selected Ministries as at Mar 31, 2012 as submitted to DMO by the BOF

8.6.2 The FGN has instituted measures to reduce the rising level of contractor's liabilities. To this end, N226.52bn contractor's liabilities for four MDA's were verified as at March 31, 2011. The FGN also put in place a Resolution Model anchored on a private sector promoted Special Purpose Vehicle (SPV) to raise funds by issuing bonds to finance the payment of the liability by issuing bonds. The bonds are five-year split coupon (zero coupon for the first 3 years and coupon bearing in the last 2 years), which will mature in 2016/2017. The bonds issued by the SPV were guaranteed by the FGN and to avoid default, there is an arrangement by the FGN to annually make provisions in the national budget to set out funds into a Sinking Fund, for redemption of the bonds on maturity.

8.6.3 Similarly, the DMO through the Honourable Minister of Finance (HMF) provided the Federal Government of Nigeria Guarantee in favour of the Bondholders of the **N1.742 trillion** 3-year Zero-Coupon 2013 AMCON Tradable Bonds issued by AMCON for the acquisition of Eligible Bank Assets of Eligible Financial institutions. To hedge against crystallization of the guarantee, a banking sector resolution cost fund, in the form of sinking fund wherein CBN and the banks contribute N50 billion and 0.3% of their balance sheets per annum, respectively was set-up in the year under review. There is also a pledge by both the CBN and the banks to make up for any deficiency should the need arise. This is in addition to the recoveries from the eligible bank assets acquired (EBAs) by the AMCON.

8.6.4 Over the years, Pension Liabilities have remained a major concern as a likely source of contingent liability. However, these liabilities are gradually being paid off by the FGN, bringing the amount outstanding as at December 31, 2011 to N1,401.98 billion.

8.6.5 The Federal Government, under the Agricultural Transformation Action Plan of the Federal Ministry of Agriculture, in collaboration with some deposit money banks guaranteed the proposal for financing a private sector-led procurement and distribution of seeds and fertilizers for the 2012 farming season. Under the structure, Banks would finance Seed Companies and Agro Dealers in the sum of N22.69 billion, at a fixed market rate (15 per cent p.a.) under an interest drawback arrangement that will ensure that beneficiaries pay a single digit interest rate (7 per cent p.a.) and subject to an unconditional guarantee of 70 per cent (or N15.88 billion) of the loan principal by the Federal Ministry of Finance. The programme is further aimed at empowering 5 million farmers through the provision of necessary Growth Enhancement Support (subsidy) of 50 per cent for the procurement of agricultural inputs such as fertilizer and seeds from Seed Companies and certified Agro-dealers.

CHAPTER NINE

NATIONAL BORROWING PLAN AND BUDGET PERFORMANCE

DEBT MANAGEMENT OFFICE NIGERIA

CHAPTER NINE

NATIONAL BORROWING PLAN AND BUDGET PERFORMANCE

In 2011, a total of N1,273.27 billion, comprising N863.27 billion in Federal Government of Nigeria (FGN) Bonds and N410.00 billion in Nigerian Treasury Bills (NTBs) was raised from the domestic bond market. Additionally, USD115 million new external loans were signed in the year and were awaiting disbursements. As at end-December 2011, there were fourteen (14) on-lent loans worth N514.57 billion extended to eleven (11) MDAs.

9.1 Introduction

The key objectives of the domestic and external borrowing of the Federal Government as contained in the National Debt Management Framework (NDMF) are the financing of budget deficit and other special projects at the least cost and within a prudent degree of risk, to ensure maximum budget performance. In 2011, the Federal Government of Nigeria's total budget stood at N4.485trillion, out of which the total Budget Deficit was N1.1trillion. During the year, the Budget deficit was financed through external and domestic borrowings (Issuance of FGN bonds and T-Bills).

9.2 External Borrowing Programme

Table 9.1 shows the external loans negotiated in 2011. From the table, a total of USD863 million and EUR80 million external loans were negotiated by the Federal Government of Nigeria (FGN), as against USD919.60 million negotiated in 2010. Of these amounts, only USD115 million was actually signed in 2011, as against USD899.5 million loans signed in 2010. The loan signed in 2011 was the USD115 million loan for Public Private Partnership (PPP) programme obtained from the International Development Association window (IDA).

Table 9.1:EXTERNAL LOANS NEGOTIATED IN 2011

S/N	Project	Amount (USD Million)	Creditor
1	Public Private Partnership	115	IDA
2	Polychlorinated Biphensyls Management Project	18	IDA
3	Growth and Empowerment Project	160	IDA
4	Lagos Urban Transport Project (AFD)	100	IDA
5	State Empowerment and Expenditure for Results Project (SEEFOR)	200 and EU 80	IDA
6	West African Agricultural Productivity Programme (WAAPP)	45	IDA
7	Urban Water Supply and Sanitation project (Oyo & Taraba States)	75	IDA
8	Economic Power Sector Reform Programme	150	IDA

9.3 Domestic Borrowing Programme

The 2011 FGN Securities Issuance Programme was effectively implemented. The total amount of FGN securities issued was N1,273.27 billion, comprising N863.27 billion in Federal Government of Nigeria (FGN) Bonds and N410.00 billion in Nigerian Treasury Bills (NTBs) (New Financing). The total subscription for the FGN securities amounted to N2,749.52 billion, made up of N1,781.62 billion worth of FGN Bonds and N967.90 billion for NTBs, indicating a subscription level of 115.94 per cent over the total amount issued in the period. The total amount of FGN securities allotted was N1,339.96 billion, while the proceeds realized amounted to N1,149.72 billion. Out of the amount realized the sum of N1,143.53 billion was utilized. The following Table details the utilization of the 2011 FGN Securities proceeds.

Table 9.2 APPLICATION OF 2011 FGN SECURITIES PROCEEDS (N' B)

Maturing FGN Bonds	223.67
Funding Budget Deficit	852.27
Rehabilitation and Expansion of Airport/Kubwa Road (FCT)	31.00
NITEL/MTEL Staff Salary Arrears and other Terminal Benefits	33.34
Cost of Floatation	3.25
Total	**1,143.53**

From the above Table, the bulk of the proceeds of the FGN Securities Issuance Programme was used to fund Federal Government's Budget Deficit in 2011.

9.4 On-Lent Loans to The MDAs

As part of the Federal Government of Nigeria's developmental initiatives, funds were raised by the DMO from the domestic capital market and on-lent to various Ministries, Departments and Agencies (MDAs) of government for performing developmental activities and implementing priority projects in the economy. These loans were used to finance infrastructural projects in areas of Agriculture, Transport, Roads, etc. By end-December 2011, there were fourteen (14) on-lent loans worth N514.57 billion extended to eleven (11) different MDAs, with the aim of promoting development in the various sectors of the economy.

Table 9.3:Principal Outstanding on On-lent Loan Facilities As At 31st December 2011

S/N	MDA	FACILITY	LOAN AMOUNT (N'000)	PRINCIPAL LOAN OUTSTANDING (N'000)
1	Federal Capital Territory Administration (FCTA)	N15 billion FGN Funding of Health and Education Projects in the FCT	15,000,000.00	3,715,404.80
2	Federal Ministry of Finance (FMF)	N6.3 billion Pioneer Consumer Car Finance Scheme for Public Servants	6,300,000.00	5,473,543.39
3	Ministry of Transport (MOT)	N12.50 billion Nig. Railway Revitilization (25 Locomotives)	12,500,000.00	2,500,000..00
4	Ministry of Defence	N35 billion Funding of Peace Keeping Operations	35,000,000.00	84,803.31
5	Ministry of Mines and Steel Devt.	N2.24 billion Ajaokuta/NIOMCO Staff Salary Arrears	2,240,000.00	2,240,000.00
6	Nigeria Television Authority (NTA)	N4.5 billion Loan for Upgrading of NTA's Broadcast Equipment	4,500,000.00	3,890,548.38
7	Federal Capital Territory Administration (FCTA)	N20 billion Seed Money for Infrastructural Development of Four Districts of the FCT	20,000,000.00	20,000,000.00
8	Central Bank of Nigeria (CBN)	N200 billion CBN Commercial Agriculture Credit Scheme	200,000,000.00	Nil
9	Bank of Industry (BOI)	N100 billion Cotton, Textile & Garment Devt. Scheme	100,000,000.00	Nil
10	Nig. Agric. Coop. & Rural Devt. Bank (NACRDB)*	N5 billion Roll-over Loan Facility to NACRDB	5,000,000.00	Nil
11	Bank of Industry (BOI)*	N5 billion Roll-over Loan Facility to BOI	5,000,000.00	Nil
12	Federal Mortgage Bank of Nigeria (FMBN)	N5 billion Roll-over Loan Facility to FMBN	5,000,000.00	5,000,000.00
13	Bureau of Public Enterprises (BPE)	Settlement of N63.03 billion Loan Facility granted to Transcorp Plc. and NITEL/MTEL Terminal Benefits	101,541,000.00	1,541,000.00
14	Bank of Industry (BOI)	Indebtedness of the defunct Nig. Bank for Commerce and Industry to the DMO and FGN	2,485,109.00	2,485,109.00
	TOTAL		**514,566,109.00**	**486,930,408.87**

**Principal Loan Outstanding is nil, as loans were converted to FGN's equity holdings.*

Source: Debt Management Office

Table 9.3 shows the summary of activities on all on-lent loan facilities in 2011 with the principal loan outstanding at N486.93 billion, out of the total loan amount of N514.57 billion extended to the eleven (11) MDAs. Table 9.3 also shows that the principal loans outstanding in respect of NACRDB and BOI respectively were nil due to the conversion of the loan amounts to FGN's equity holdings in the MDAs.

These conversions were aimed at increasing the capital bases of the MDAs to enable them effectively deliver on their mandates in line with the developmental programmes of the government.

9.5 Monitoring visits to projects funded with on-lent loans

In order to ensure that on-lent loans to the MDAs were appropriately utilised for the purposes for which they were intended for, the DMO together with the relevant representatives of the MDAs carried out monitoring visits to some project sites during the year under review. The projects visited included the following:

(a) Companies funded under the N100 billion Nigerian Cotton, Textile and Garment Development Scheme in Lagos and Ogun States (March 29-31, 2011);

(b) Companies funded under the N100 billion Nigerian Cotton, Textile and Garment Development Scheme in Kano and Kaduna States (August 22-23, 2011);

(c) Seed Money for Infrastructure Development Programme to four Districts (Wuye, Jahi, Abuja North West and Maitama Extension) of the FCT (December 21 – 22, 2011); and,

(d) Abuja Airport and Outer Northern (Kubwa Road) Expressways (December 21 – 22, 2011).

CHAPTER TEN

INSTITUTIONAL ISSUES

CHAPTER TEN

INSTITUTIONAL ISSUES

In line with the DMO's medium term Strategic Plan (2008-2012) of making Nigeria an exporter for public debt management skills and a major destination for out-sourced debt management services, the PDMI was set up in the second quarter of 2011. Capacity Building Programme in the area of training and staff development was sustained by organizing several local and foreign courses for members of staff. Nineteen (19) new members of staff were recruited, while eligible and deserving members of staff were promoted. Stakeholder events were organized towards achieving several objectives which included the sensitization of the private sector organizations on the opportunities in the Capital Market and sensitising the media on DMO's activities. The DMO also collaborated with AMCON in issuing the required FGN guarantee for the Initial Consideration Bonds.

10.1 Setting Up of the Public Debt Management Institute (PDMI)

10.1.1 Background

In line with the DMO's medium term Strategic Plan (2008-2012) of making Nigeria an exporter for public debt management skills and a major destination for out-sourced debt management services, the PDMI was set up during the second quarter of 2011. The PDMI is envisioned to serve as a veritable platform for the actualization of this strategic initiative.

10.1.2 Structure of the Institute

The Institute currently has three operational Units - namely:

(i) Programmes Unit

This Unit coordinates all training programmes of the Institute, including attachments to the DMO. It is also saddled with the development and updating of training curricula, in line with current developments in debt management operations.

(ii) Research & Consultancy Unit

The Unit is set up to offer specialized consulting and technical advisory services to clients, especially States on identified areas of debt management operations, and to conduct researches in other, related areas of Public Financial Management.

(iii) Corporate Services Unit

This Unit coordinates the marketing and public relations activities of the Institute, by identifying and marketing PDMI's services to identified and potential targets – in both the public, and private sectors, including some off-shore target markets.

10.1.3 Key Activities & Initiatives

In line with the Institute's mandate, the following activities were handled during the year.

(i) The identification of the target markets:

The various target markets for the Institute's programmes - both local and international were identified. On the domestic front, these include: States of the Federation, Ministries, Agencies and Departments that have direct or indirect responsibility for Public Finance Management. Internationally, the Institute's target constitutes mainly the emerging economies in Sub-Saharan Africa.

(ii) The design of the Institute's Training Programmes:

The various training programmes were articulated, taking cognizance of the diverse skills requirements and knowledge gap of the target markets in public debt management covering both operational and technical areas.

(iii) The development of Curricula for the Courses and the constitution of the Training Faculty:

The curricula for the training programmes and the course durations were designed and tailored to meet the training needs and capacity of the various target audience. In the same vein, the Institute has put together the training faculty for the various courses, comprising experienced resource persons in Public Finance & Public Debt Management within and outside of the DMO.

(iv) The development of Marketing Proposals for the Institute:

The marketing proposals were also designed for the various target markets, articulating the available course programmes suitable for each target.

(v) Affiliations, Collaborations & Exchange Programmes:

The Institute has identified a number of credible institutions – both locally and offshore that it could partner or collaborate with, for the purpose of knowledge-sharing, capacity building and programme delivery etc.

(vi) Hosting Study Tours by African Countries:

In recognition of DMO's modest achievements in public debt management within its short span of existence, a number of African countries have visited the Office in the recent past on a Study Tour of its facilities and processes. The latest being the officials of the Zimbabwean Aid and Debt Management Office (ZADMO), who visited the Office between July 18-25, 2011.

The Institute anchored this visit and arranged a series of activities and lecture sessions aimed at apprising the delegation on Nigeria's institutional arrangement for public debt management, and in particular, DMO's operational framework. As part of their study schedule, meeting sessions with some relevant stakeholders such as the Central Bank of Nigeria, Office of the Accountant General of the Federation and the Securities and Exchange Commission were also arranged.

10.2 Stakeholders Events

10.2.1 The Honourable Minister of Finance held an Interactive Session with the Organized Private Sector in Lagos on Tuesday, March 29, 2011. The Forum was organized to sensitize private sector organizations on the opportunities in the Capital Market, following Nigeria's debut at the International Capital Market.

10.2.2 A one-day Sensitization Seminar on the role of the Debt Management Office in the Development of Small & Medium Scale Enterprises (SMEs) was organized by the DMO in Lagos on December 7, 2011. The aim of the seminar was to enlighten SMEs on Bonds and intimate them about the activities of the Federal Government in the domestic and international capital markets and how SMEs can progressively position themselves to raise stable capital from these sources.

10.2.3 An interactive meeting with Chief Executives of the Print and Electronic Media and Financial Correspondents was held on December 16, 2011, in Lagos. The event accorded DMO the opportunity to educate and dialogue with members of the media on the various activities embarked upon by the DMO in the area of public debt management.

10.3 Capacity Building

Training in DMO in 2011 focused on building the capacity of its officers in areas relating to the DMO's core mandates. As a result, the staff training programme for the year focused on the following:

Courses	No. of Staff
CS-DRMS 2000+ External Debt and Domestic Debt Recording	17
Accounting for Non-accountants	16
Effective Macroeconomic and Debt Management	63
MTDS Software Training Exercise	13

In addition, all Directors/HODs were exposed to special leadership development programmes.

10.4 Other Issues

10.4.1 Employment:

3.1 A total of 19 new staff joined the DMO in 2011. These officers were employed based on identified skill gaps and needs in the different Departments.

10.4.2 Promotion:

4.1 The promotion of 30 officers was approved by the DMO Supervisory Board based on available vacancies, having fulfilled the necessary promotion criteria.

10.4.3 ICT Infrastructure:

During the period under review, the DMO provided central power autonomy with provision for power redundancy for its entire ICT infrastructure. A biometric access control system and close circuit monitoring system to monitor and control access into DMO premises were also introduced. Equally, the system applications upgrade was enhanced to enable DMO maximise the benefits derivable from its business processes using Information technology.

The ICT Unit staff strength was increased to cater for specific skill gaps and this has impacted positively, with better network administration and monitoring.

10.4.4 DFID Capacity Building Support for DMO in 2011

Media Events

The DFID Project to DMO supported three (3) media events during the period under review as follows:

10.4.5 Interactive Session with Financial Correspondents, Abuja, January 25, 2011

A one-day Interactive Session with the Financial Correspondents in Abuja was held on 25 January 2011. The objective was to educate the media and the public on the contributions made by the DMO in the establishment of the domestic bond market in particular, and public debt management in general. More than 100 participants, drawn mainly from members of the Finance Correspondents Association of Nigeria (FICAN), Abuja and non-members from the print and electronic media were in attendance. The Forum gave the media representatives the opportunity to have a clear understanding of the DMO's operations and the important role played by the DMO towards assisting the government to achieve its developmental goals.

10.4.6 Two-Day Retreat for Members of the Media in Kaduna, January 27-28, 2011

A two-day Retreat targeted at correspondents from the business, financial, commercial and industrial sector took place on January 27-28, 2011 in Kaduna. A total number of 100 participants from the electronic and print media, across the country were in attendance. DMO officials and experts presented papers on Bonds and other aspects of the core functions of the Office. Again, the

Retreat achieved the objective of enlightening the media on the contributions made by the DMO towards the growth and economic development of the country, deepening the relationship between the DMO and the media as well as sharpening the reportorial skills of participants. It also gave participants the opportunity to appreciate the efforts being made by the DMO at managing the nation's public debt at both domestic and sub-national levels. Participants were also able to get clarifications on topical areas, including the bond issued at the International Capital Market.

10.4.7 Media Briefing in Lagos

A third media event was held in Lagos on February 01, 2011, targeted at the top echelon of the media industry, whom it was considered, not able to attend the Abuja and Kaduna events because of the very busy schedules. Like the Abuja and Kaduna events, the purpose of the interactive session was to acquaint these final gate-keepers of the media industry on the DMO's role in public debt management and keep them abreast of developments, while clarifying grey areas for the ultimate education of the reading public. Participants included editorial board members, managing directors, chief executive officers, publishers and title editors, who constitute the most critical and influential segment of the journalism profession. The events were successfully conducted and provided the DMO with another opportunity to clarify misconceptions bordering on Nigeria's debt management activities.

10.4.8 Training in Cash Management, February 14 – 25, 2011

This Project provided an opportunity for building capacity within the DMO in basic concepts and understanding of cash management which would help in improving its integration into Nigeria's public debt management process. In line with the agreed Terms of Reference, a Cash Management Expert conducted a two-week capacity building programme for DMO staff from February 14 – 25, 2011. In order to enrich the training, the Consultant and participants had interactions with some Federal Government MDAs (CBN, OAGF and BOF) who are external stakeholders to the cash management function.

10.4.9 External Stakeholder Analysis, February 21 – March 4, 2011

This Project contracted an Expert to codify a Framework for the DMO's interaction with its stakeholders and came up with a communication strategy. Building on the preparations made by the DMO on issues related to its on-going interaction with stakeholders, the Expert held meetings with identified stakeholders of the debt management function in Nigeria. Participants included the CBN, FMF, BOF, NPC, OAGF and Niger State DMDs.

The main thrust of the meetings was to gain an understanding of the processes of the host stakeholders as regards its complementary role in debt operations, apprise them of the DMO's processes, determine areas that may require further smoothening and obtain other suggestions that would foster stronger relations with the Agency and its stakeholders. The meetings took place from 21 February through 4 March 2011.

10.4.10 Train-the-Trainer Programme for setting up the Public Debt Management Institute (PDMI), August 8 – 19, 2011

From August 8-19, 2011, five members of staff of DMO received intensive training in Lagos on all aspects of running the Public Debt Management Institute (PDMI). The objective of the training was to build the capacity of targeted DMO staff in the specialized area of running the Institute.

10.4.11 Training for VP's Office Staff

The Terms of Reference (TOR) for Phase III of DFID's Support Project to DMO made provision for the DMO to ensure that key stakeholders benefit from targeted support in building their capacity in the area of debt management. In this light, the Project had since 2010 facilitated training of some key personnel from the VP's Office.

10.4.12 CS-DRMS Training, July 25 – August 5, 2011

From 25 July – 05 August, 2011, the Project supported a CS-DRMS Train-the-Trainer Workshop, which was facilitated by the Commonwealth Secretariat (ComSec) and attended by fifteen (15) DMO staff and four (4) officials from Kano, Cross Rivers, Bauchi and Adamawa States. CS-DRMS is the debt management application used by the DMO to manage (record & settle) Nigeria's external, domestic and sub-national debts. The system is also used to manage the country's private sector external debts (PSED), memorandum of understanding (MOU) between the FGN and Ministries, Departments and Agencies (MDAs)/Financial Development Institutions in Nigeria (FDIs) and Federal credits (loans to other Countries).

10.4.13 Module one of DSA Training for 22 DMO Staff in 2011

From November 05-09, 2011, a training programme on Debt Sustainability Analysis (DSA) was also supported by the DFID Project. The training was delivered wholly by 6 members of staff of the DMO. Such participation of DMO staff as resource persons confirmed that training in DSA previously supported by the project had been most beneficial. This intervention is in line with the DMO's Strategic Plan and decisions by management to focus on core areas of capacity building. Extending the DSA to a wider group of staff would build sustainable capacity – which is one major marker of DFID's support.

10.4.14 Human Resource Appraisal System Consultancy

The Project had been supporting the DMO in improving the HR Function and Strategy. In particular, a Consultant was provided to design an appropriate Appraisal Form for the DMO.

The Human Resource Appraisal System consultancy was also concluded within the period under review.

10.4.15 Automating SAP Payment Process

The Project provided a Consultant to deliver optimized payment processes using SAP and specifically to redesign and optimize the identified payment business processes for different types of payments methods and design and implement SAP system functionality (SAP financial Controlling) requirements supporting the redesigned/optimized business processes. The Realization Phase of the project was completed, followed by the User Acceptance training for DMO staff responsible for Procurement, IT and Finance and Accounts. The training which was also an opportunity to test-run the system signaled the end of the consultancy.

10.5: Federal Government of Nigeria Guarantee in Favour of the Bondholders of the N1.742 trillion 3-Year Zero-Coupon 2013 AMCON Tradable Bonds

The Asset Management Corporation of Nigeria (AMCON) was created to be a key stabilizing and re-vitalizing tool to resolve the banking sector crisis in the country thereby contributing to galvanizing the Nigerian financial system and the economy in general. As part of this, the AMCON, pursuant to Section 26 of the AMCON Act, is issuing Bonds as consideration for the purchase of Non-Performing Loans (NPLs) and other Eligible Banks Assets from Eligible Financial Institutions, funding the acquisition of interest in some recapitalized banks and the acquisition of nationalized banks, etc.

Pursuant to Section 27 of the AMCON Act, which requires the FGN to guarantee bonds issued by AMCON in this regard, the DMO through the Honourable Minister of Finance (HMF), provided the Federal Government of Nigeria Guarantee in favour of the Bondholders of the N1.742 trillion 3-year Zero-Coupon 2013 AMCON Tradable Bonds issued by AMCON for the acquisition of Eligible Bank Assets of Eligible Financial institutions. It is envisaged that additional bonds would be considered for FGN Guarantee in future.

10.6: Settlement and Securitisation of the Federal Government of Nigeria Local Contractors' Debts (LCDs)

In line with the objectives of Federal Government of Nigeria to evolve creative ways of settling its obligations, the DMO designed and is implementing an innovative Resolution Model that is anchored on private sector participation for the settlement of Local Contractors' Debts (LCDs) of the FGN.

10.7: Framework and Programme for the Issuance of Nigeria Diaspora Bond (NIDBOND).

In 2009, the DMO, as part of its strategic focus conceived the idea of encouraging Nigerians in the Diaspora to invest in Nigeria. One of the cardinal policy thrusts of the current administration's Transformation Agenda is the attraction of investment and resolution of infrastructure deficits. However, recognizing the huge investment outlay required in the next 5-7 years to close the country's infrastructure, and mindful that dependence on debt financing (such as using FGN Bonds) might not be advisable due to the need to keep the country's public debt at a sustainable level, there is the need to encourage the Nigerians in the Diaspora to make equity investment in the critical sectors of the economy on a purely private enterprise basis, with the FGN providing the relevant incentives. In line with the policy thrust of the FGN, the DMO has developed a comprehensive framework to attract investment through the issuance of Nigeria Diaspora Bonds.

10.8 Implementation of the Acquisition and Installation of a Bond Auction System Platform for the FGN Bond Market.

In managing its debt burden after the exit from the Paris and London Club debts, the policy thrust of the government shifted to the development of the domestic capital market, and in particular, the Federal Government of Nigeria (FGN) bond market for a number of reasons. These include: to provide the much needed platform for funding of public and private sector long term projects; to reasonably insulate the economy from external contagion; and, to provide a benchmark for pricing other debt securities in line with global practice.

With the rejuvenation of the FGN bond market in the year 2003, which culminated into a sustained monthly bond issuance since July 2005, the establishment of a Primary Dealer Market Maker (PDMM) system in 2006, and the subsequent commencement of a liquid secondary FGN bond market, a lot of benefits have accrued to the government. These benefits include a readily available source of government borrowing for funding its developmental projects, creation of a benchmark yield curve for pricing financial instruments of sub-nationals and corporates, which has boosted activities of the States in accessing the capital market through issuance of bonds, attraction of foreign investors and capital, development of the capital market, enhancement of the perception of the country by the international market, etc.

The desire for the Bond Auction System (BAS) platform followed from the need to sustain the development and deepening of the domestic capital market and the FGN Bond market. This will provide the much needed paradigm shift from dependence on external finance. It is also in tandem with the policy thrust of the present administration to de-emphasize external commercial or non-concessional borrowing and diversify into domestic sources through the development of the domestic capital market.

In line with the above, the DMO has commenced the process of acquiring and installing a bond auction platform for the FGN bond market.

10.9 A Guide on the Prospects for issuance of Sovereign SUKUK by Nigeria

Sukuk, sometimes known as Islamic Bonds, are better described as 'Trust Certificates' or 'Participation Securities' that grant the investor a share of an asset along with the cash flows and risk commensurate with such ownership. Similar to financial bonds in the conventional financial industry, Sukuk are proof of ownership title and are utilized by financial institutions and corporates to raise cash. The core principles of Islamic Finance are very old, but the issuance of Sukuk (singular Sakk) is a relatively recent phenomenon.

In order to operationalise the potential issuance of sovereign Sukuk by Nigeria, it is pertinent to fully evaluate and understand some factors which are key to the success of Sukuk issuance by Nigeria. It is against this background, that the DMO prepared a "Guide on the Prospects for issuance of Sovereign Sukuk by Nigeria", to unbundle the prospects and challenges of issuance of Sukuk by the Sovereign, which will help in taking a decision on this new mode of financing.

CHAPTER ELEVEN

FINANCIAL STATEMENTS AND ACCOUNTS

CHAPTER ELEVEN

FINANCIAL STATEMENTS AND ACCOUNTS

11.1 2011 BUDGET

The 2011 approved budget for the Debt Management Office amounted to N842,225,019.60 (Eight hundred and forty-two million, two hundred and twenty five thousand, and nineteen naira sixty kobo) only. It comprised N514,404,309.00 for Personnel Emolument, N295,412,214.60 for Overhead Expenditure, and N32,408,496.00 for Capital Expenditure.

Of the N514,404,309.00 approved for the Personnel Emolument during 2011 financial year, the sum of N422,954,654.16 was released for payment of staff salaries and allowances, while the sum of N91,449,654.84 was deducted at source for the purpose of Employees' NHIS and Pension Funds Contributions. Out of the N422,954,654.16 released, the sum of N416,149,930.62 was utilized for payment of actual salaries and allowances, while the balance of N6,804,723.62 was returned to the Sub-Treasurer of the Federation at the end of the year.

Out of the N295,412,214.60 released for Overhead Expenditure during the year, the sum of N295,312,835.19 was utilized for funding the day-to-day activities of the Office, while the balance of N99,379.41 was returned to the Sub-Treasurer of the Federation at the end of the year.

From the approved Capital Expenditure of N32,408,496.00, the sum of N26,876,113.00 (or 83 per cent) was released and fully utilized.

In the light of the foregoing, the year 2011 budget for the DMO was implemented 100 percent for recurrent expenditure, while 83.0 percent was implemented for capital expenditure, due to shortfall in cash-backing in the sum of N5,532,383.00.

11.2 FINANCIAL STATEMENTS AND ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2011

CORPORATE INFORMATION

SUPERVISORY BOARD

The Supervisory Board has overall responsibility for supervision of the operations of the Debt Management Office. The composition of the Board during the 2011 reporting year was as follows.

Arc. Mohammed Namadi Sambo, (GCON)	-Vice President of Federal Republic of Nigeria. (Chairman)
Dr. Ngozi Okonjo - Iweala	-CME/Hon. Minister of Finance - (Vice Chairman)

Mr Mohammed Bello Adoke, SAN	- Attorney–General of the Federation/ Minister of Justice (Member)
Prof. Nwanze Okidegbe	- Chief Economic Adviser to the President (Member)
Mr. Jonah Otunla	- Accountant-General of the Federation (Member)
Mallam Sanusi Lamido Sanusi.	- Governor, Central Bank of Nigeria (Member).
Dr. Abraham E. Nwankwo	-Director-General, DMO (Member/Secretary to the Board)

PRINCIPAL OFFICERS

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

Dr. Abraham E. Nwankwo	-	Director – General
Mrs. Funmi Ilamah	-	Director, Strategic Programmes Department.
Ms. Patience Oniha	-	Director, Market Development Department.
Mrs. A. M. Mohammed	-	Director, Organizational Resourcing Department
Mr. James K.A. Olekah	-	T.A. /Head Policy, Strategy & Risk Management Dept.
Mr. Miji Amidu	-	Deputy Director, Special Projects Group
Mrs. Hannatu Suleiman-Onuja	-	Deputy Director, Debt Recording & Settlement Department.
Mr. Joe Ugoala	-	Deputy Director, Public Debt Management Institute.
Mr. Atiku Saleh Dambatta	-	Assistant Director, Portfolio Management Department

REGISTERED OFFICE

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

EXTERNAL AUDITOR

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 Usuma Street Branch
Maitama - Abuja.

(3) United Bank for Africa Plc.,
Area 3 Branch, Garki – Abuja.

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

B&C BEN. UGWU & CO

(Chartered Accountants & Consultants)

HEAD OFFICE:
Suite 214, Anbeez Plaza,
Opp. Corporate Affairs Commission,
15 Ndola Crescent, Zone 5, Wuse,
P.O. Box 77 Garki - Abuja.
Tel :08037202120, 080377378537
E-mail: chiefbenugwu@yahoo.com

OUR SERVICES:

- Auditing
- Accounting
- Taxation
- Secretarial Services
- Investigation
- Financial & 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 Statements of **Debt Management Office** for the year ended 31st December, 2011 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 out procedures and obtained all the information and explanations we considered necessary.

RESPECTIVE RESPONSIBILITIES OF THE BOARD AND AUDITORS.

The Board of Debt Management Office is responsible for the preparation of the financial statements. 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 Nigerian Financial Reporting Council. 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 Senior Management 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 evaluated 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, 2011 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.

A 347990

16/05/2012

11.4 ACCOUNTING POLICIES FOR THE YEAR ENDED 31ST DECEMBER 2011

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 Assets are stated at cost. Depreciation of fixed assets 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 V on page 24 was prepared for management information and could be useful in decision making.

D TAXATION

There was no provision for both Income and Education Taxes during the period ended 31st December, 2011 because the office is a non-profit making organization.

11.5 BALANCE SHEET AS AT 31ST DECEMBER 2011

DEBT MANAGEMENT OFFICE
BALANCE SHEET AS AT 31ST DECEMBER 2011

		2011		2010	
ASSETS EMPLOYED	**NOTES**	**N**	**N**	**N**	**N**
Fixed Assets	3		**464,536,044**		**292,199,901**
Current Assets					
Cash and Bank	4	834,020,393		977,683,082	
			834,020,393		977,683,082
			1,298,556,437		**1,269,882,983**
FINANCED BY:					
Accumulated Fund	5		1,298,556,437		1,269,882,983
			1,298,556,437		**1,269,882,983**

The Financial Statements were approved by the Management Team on May 16, 2012 and signed on its behalf by:

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

Director, Organizational Resourcing Dept. ---------------------------------- **Mrs. A.M. Mohammed**

The notes on pages 9-19 form an integral part of these Financial Statements.

11.6 STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31ST DECEMBER 2011

		2011	2010
RECEIPTS	**NOTES**	**N**	**N**
Votes Allocations	*6*	*752,302,163*	*913,233,546*
Service Wide Votes	**6(a)**	**152,742,420**	**-**
Other Receipts	6(b)	519,500	617,410
SPECIAL ITEMS			
FGN Bond Floatation	**6(c)**	**672,000,000**	**1,385,154,669**
10% WHT on PDMMs Comm.	6(d)	257,526,416	306,707,028
SPONSORS RECEIPTS	6(e)	63,870,239	79,379,135
		1,898,960,738	**2,685,091,788**
LESS EXPENDITURE			
Recurrent Expenditure	***7a***	***749,288,793***	***845,716,921***
SPECIAL ITEMS:			
FGN Bond Floatation Expenditure	7b	713,727,115	558,155,392
10% WHT on PDMMs Comm.	7c	331,672,812	221,522,600
SPONSORS EXPENSES	7d	75,598,564	73,691,150
		1,870287,284	**1,699,086,063**
Excess of Receipts over Expenditure	8	**28,673,454**	**986,005,725**

11.7 CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2011

	2011	2010
	N	N
Excess of Income over Expenditure	*28,673,454*	*986,005,725*
Add: Adjustment for items not involving		
Movement of cash:		
- Accumulated fund adjustment	-	-
Cash generated/(expended) from		
Operation	28,673,454	986,005,725
Operating Income before working		
Capital Change:		
- Prior Adjustment on stores items	-	-
	28,673,454	**986,005,725**
Cash Flow from Investing Operation		
Purchase of fixed Assets	(172,336,143)	(44,210,657)
Net Cash Flow for the Year	(143,662,689)	941,795,068
Bank balance as at January 1st	977,683,082	35,888,014
Bank balance as at Dec 31st	**834,020,393**	**977,683,082**

The notes on pages 110-121 form an integral part of these Financial Statements.

11.8 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2011

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 efficiently manage Nigeria's debt portfolio (both at the Federal and Sub National levels) at sustainable levels, compatible with desired economic activities over medium and long terms for economic growth and national development.

The Debt Management Office started operation in October, 2000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	LAND/ BUILDING	MOTOR VEH & CYCLE	COMPUTER/IT EQUIPMENT	OFFICE EQUIPMENT	TOTAL
3. FIXED ASSETS	N	N	N	N	N
(Capital Expenditure)					
Cost as at 1/1/11	-	86,138,549	86,069,304	119,992,048	292,199,901
Addition in the year	120,037,177	16,158,919	34,026,047	2,114,000	172,336,143
Disposal	-	-	-	-	-
Written off	-	-	-	-	-
	120,037,177	**102,297,468**	**120,095,351**	**122,106, 048**	**464,536,044**
DEPRECIATION					
As at 01/01/11	-	-	-	-	-
Charge for the year	-	-	-	-	-
Net book Value @ 31/12/11	**120,037,177**	**102,297,468**	**120,095,351**	**122,106, 048**	**464,536,044**
Net book Value @ 31/12/10	= ==	**26,138,549**	**86,069,304**	**119,992, 048**	**292,199,901**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	NOTES	2011	2010
4. CURRENT ASSETS		N	N
Bank Balances	9a	834,020,393	977,683,082
		834,020,393	**977,683,082**
5. ACCUMULATED FUND			
As at January		1,269,882,983	283,877,258
Surplus of income over expenditure		28,673,454	986,005,725
Balance C/Fwd as at Dec. 31st		**1,298,556,437**	**1,269,882,983**
6 VOTES ALLOCATION RECEIVED			
Capital	9b	33,935,294	68,134,035
Overhead	10	295,412,215	526,073,033
Personnel Emolument	11	422,954,654	319,026,477
		752,302,163	**913,233,545**
SPECIAL ITEMS			
6a Service Wide Votes	12	152,742,420	-
6b Other Receipts	13	519,500	617,410
6c FGN Bond Floatation	14a	672,000,000	1,385,154,669
6d 10% WHT on PDMMs Comm.	14b	257,526,416	306,707,028
6e Miscellaneous Funds Received	15	63,870,239	79,379,135
		1,146,658,575	**1,771,858,242**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

		NOTES	2011	2010
	EXPENDITURE		N	N
7.	Capital Expenditure	15a	172,336,143	44,210,657
			172,336,143	**44,210,657**
7a	**RECURRENT EXPENDITURE**			
	Personnel Emolument	16	416,149,931	318,885,991
	Overheads	17	302,942,413	525,977,605
	Amount Returned to Sub- Treasury	18	30,196,449	853,325
			749,288,793	**845,716,921**
	SPECIAL ITEMS			
7b	FGN Bond Floatation	19	713,727,115	558,155,392
7c	10% WHT on PDMM's Comm.	20	331,672,812	221,522,600
7e	Sponsors Expenese	21	75,598,564	73,691,150
			1,120,998,491	**853,369,142**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	2011	2010
9.a BANK BALANCES	N	N
CBN- Capital A/C	7,862,526	23,923,378
UBA	00.00	00.00
Zenith Bank I	00.00	00.00
Central Bank of Nigeria (FGN Bond Account)	813,742,968	929,616,480
C.B.N. Paris Club Redemption Proceeds	1,719,390	1,719,390
Zenith Bank II (Miscellaneous Account)	10,695,509	22,423,834
	834,020,393	**977,683,082**

	2011	2010
9b VOTES RECEIVED- CAPITAL		
2010 4th Quarter Allocation	7,059,181	-
2011 1st Quarter Allocation	7,635,048	-
2011 2nd Quarter Allocation	5,741,364	22,513,508
2011 3rd Quarter Allocation	5,637,220	45,620,527
2011 4th Quarter Allocation	7,862,481	-
	33,935,294	**68,134,035**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011 – CONT'D

	2011	2010
	N	N
10.VOTES – OVERHEAD		
Jan. Allocation	43,839,419.45	22,047,221
Feb. Allocation	43,839,419.45	22,047,221
March Allocation	43,839,419.45	22,047,221
April Allocation	43,839,419.45	-
May Allocation	43,839,419.45	122,837,286
June Allocation	43,839,419.45	61,418,643
July Allocation	5,395,949,65	61,418,643
August Allocation	5,395,949,65	61,418,643
Sept. Allocation	5,395,949,65	61,418,643
Oct. Allocation	5,395,949,65	-
Nov. Allocation	5,395,949,65	60,946,341
Dec. Allocation	5,395,949,65	30,473,179
	295,412,214.60	**526,073,033**
11. VOTES - PERSONNEL		
Jan. Allocation	35,246,221.48	26,585,540
Feb. Allocation	-	26,585,539
March Allocation	70,492,442.36	26,585,539
April Allocation	35,246,221.48	26,585,540
May Allocation	35,246,221.18	26,585,540
June Allocation	35,246,221.18	26,585,540
July Allocation	35,246,221.18	26,585,540
August Allocation	35,246,221.18	26,585,539
Sept. Allocation	35,246,221.18	26,585,540
Oct. Allocation	-	26,585,540
Nov. Allocation	70,492,442.36	26,585,540
Dec. Allocation	35,246,221.18	26,585,540
	422,954,654.16	**319,026,477**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011 – CONT'D

	2011	2010
	N	N
12 SERVICE WIDE VOTES		
RISK MANAGEMENT CONSULTANCY	30,342,420	-
PROJECT VEHICLES	14,600,000	-
OFFICE LAND / BUILDING	107,800,000	-
	152,742,420	**-**
13. OTHER RECEIPTS:		
Sales of Stores	128,250	134,500
Sales of Vehicles	391,250	-
Contractors Registration	-	90,000
Salaries Returned	-	392,910
	519,500	**617,410**
14. VOTES – FGN BOND FLOATATION		
Fund Released for FGN Bonds Operation	672,000,000	1,385,154,669
CBN Fund 10% for WHT or Comm. Bonds	257,526,416	306,707,028
	929, 526,416	**1,691,861,697**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011- CONT'D

	2011	2010
	N	N
15. SPECIAL ITEMS:		
SPONSORS RECEIPTS		
-Capacity Building Fund	7,633,321	15,930,453
-DFID Sponsored Training	10,856,468	4,049,042
- Debt Data Reconstruction (Received)	22,000,000	48,299,640
Study tour in Brazil (DFID sponsored)	-	11,100,000
-DFID Sponsored Retreat	23,370,450	-
	63,870,239	**79,379,135**
15a.EXPENDITURE		
- CAPITAL		
Land/ Office Building	120,037,177	-
Motor Vehicles	16,158,919	21,285,715
Computers	34,026,047	2,399,728
Office Equipment	2,114,000	20,525,214
	172,336,143	**44,210,657**
16 EXPENDITURE – PERSONNEL		
Basic Salary	415,667,931	318,407,991
Regular Allowances	-	478,000
Non-Regular Allowances – Overtime	482,000	-
	416,149,931	**318,885,991**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011-CONT'D

	2011	2010
	N	**N**
17. EXPENDITURE – OVERHEAD		
Local Travels	48,826,590	55,767,630
Int'l Travels & Transport	7,311,206	16,032,334
Local Travels & Transport -Training	34,815,210	14,213,550
Int'l Travels & Transport –Training	32,444,484	59,411,163
Telephone Charges	3,027,000	1,996,955
Internet Access Charges	-	6,318,084
Office Materials & Supplies	6,931,720	33,706,610
Library Books & Periodical	1,154,840	696,565
Computer Material & Supplies	18,973,740	27,828,993
Printing of Non-Security Documents	8,020,226	30,095,670
Drugs & Materials Supplies	60,250	227,950
Other Materials & Supplies	3,066,945	8,000,657
Uniforms & other clothing	188,400	874,980
Maintenance of Motor Vehicles	4,319,420	4,837,991
Maintenance of Building – Office	5,872,061	28,630,738
Maintenance of Building – Residential	-	10,000
Maintenance of Office Equipment	1,329,800	5,635,900
Maintenance of Computers & IT Equipment	13,988,388	16,722,048
Local Training	27,852,057	13,509,447
Int'l Training	3,694,554	42,759,829
Security Services	480,000	440,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	2011	2010
	N	**N**
Cleaning & Fumigation Services	-	65,000
Office Accommodation Rent	15,320,982	15,320,982
Financial Consulting	3,850,500	13,404,010
Information Technology Consulting	5,883,449	6,575,061
Legal & Other Professional Charges	2,892,301	11,037,520
Bank Charges	119,821	245,628
Insurance Charges/ Premium	1,735,135	2,019,262
Motor Vehicle Fuel costs	7,808,600	8 ,957,150
Refreshment & Meals	29,745,877	51,322,509
Publicity & Advertisements	2,274,260	39,016,235
Postages & Courier	3,519,597	327,054
Welfare Packages	6,265,000	1,324,000
Subscription to Professional Bodies	-	572,000
Honorarium &sitting allowance	1,170,000	7,617,900
Other Miscellaneous expenses	-	456,200
	302,942,413	**525,977,605**

18. AMOUNT RETURNED TO SUB-TREASURY

	2011	2010
Capital	60,005	-
Overheads	99,379	95,429
Personnel Emolument	6,804,724	140,486
Service Wide Vote-Risk Consultancy	22,712,841	-
Other Receipts	519,500	617,410
	30,196,449	**853,325**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	2011	2010
	N	N
19. EXPENDITURE – FGN BOND		
Local Travels & Transport	58,607,300	20,176,850
Int'l Travel & Transport	41,096,153	204,804,728
Printing of Non-Security Documents	3,263,750	6,250,000
Refreshment & Meals	15,806,250	3,834,338
Publicity & Advertisements	254,690,051	294,994,332
Maintenance of Building -office	-	4,298,000
Computer material supplies	8,822,563	-
Maintenance of Office Equipments	-	390,000
Financial Consulting	4,422,857	1,428,611
Other professional services	6,331,841	836,133
Office Materials & Supplies	590,000	-
Local Training	2,841,183	-
International Training	465,000	-
Financial Advisory Services (Euro Bond)	98,865,730	-
Legal Advisory Services (Euro Bond)	49,097,368	-
Joint Lead Managers (Euro Bond)	93,198,102	-
Rating Fees (Euro Bond)	53,213,730	-
Listing Fees (FGN Bond)	20,000,000	20,000,000
Insurance (Project Vehicle FGN Bond)	1,628,571	-
Postages & Courier Services	786,666	-
Other miscellaneous Exp.	-	1,142,400
	713,727,115	**558,155,392**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2010

	2011	2010
	N	N
20 10%WHT on PDMM Comm.	331,672,812	221,522,600
	331,672,812	**221,522,600**
21. SPECIAL ITEMS:		
SPONSORED EXPENSES		
Capacity Building Fund	14,844,950	16,196,331
Debt Data Reconstruction Expenses	26,661,670	42,345,777
DFID Sponsored Retreat	23,373,065	-
DFID Sponsored Training	10,718,878	11,100,000
Study Tour to Brazil	-	4,049,042
	75,598,564	**73,691,150**

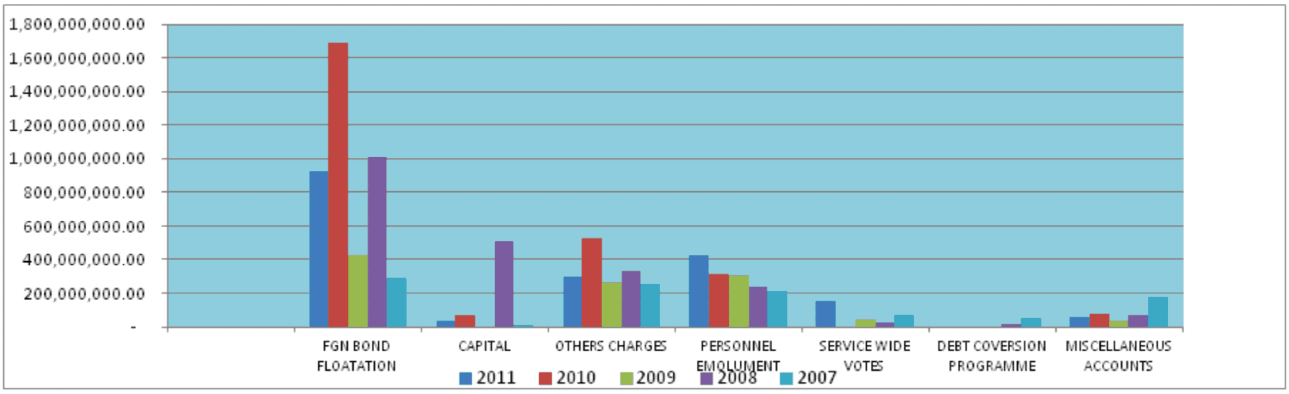
11.9 ANNEXURE TO THE FINANCIAL STATEMENTS

ANNEX 1

SUMMARY OF TOTAL VOTES FOR THE YEAR 2007 – 2011 (N)

	2011	2010	2009	2008	2007
FGN BOND FLOATATION	929,526,416	1,691,861,697	423,117,016	1,012,893,102	288,254,498
CAPITAL	33,935,294	68,134,035	-	509,200,617	9,550,255
OTHERS CHARGES	295,412,215	526,073,033	266,852,061	327,585,989	258,532,040
PERSONNEL EMOLUMENT	422,954,654	319,026,477	305,915,485	235,606,859	211,004,986
SERVICE WIDE VOTES	152,742,420	-	47,160,748	27,207,282	65,446,659
DEBT COVERSION PROGRAMME	-	-	-	13,481,792	50,564,930
MISCELLANEOUS ACCOUNTS	63,870,239	79,379,135	32,789,139	70,197,584	182,017,936
TOTAL	**1,898,441,238**	**2,684,474,377**	**1,075,834,449**	**2,196,173,225**	**1,065,371,304**

SUMMARY OF TOTAL VOTES FOR THE YEAR 2007 - 2011

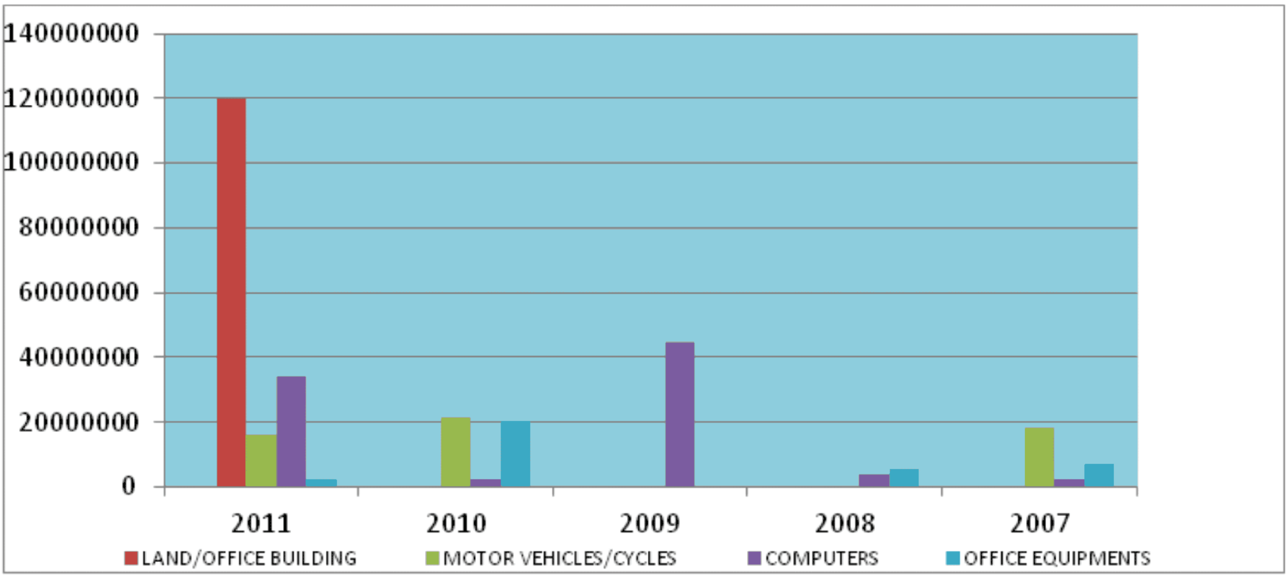


ANNEXURE II

SUMMARY OF CAPITAL EXPENDITURE FOR THE YEAR 2007 - 2011

	2011 N	2010 N	2009 N	2008 N	2007 N
LAND/OFFICE BUILDING	120,037,177	-	-	-	-
MOTOR VEHICLES/CYCLES	16,158,919	21,285,715	-		18,339,380.00
COMPUTERS	34,026,047	2,399,728	44,637,000.00	3,942,000.00	2,397,905.00
OFFICE EQUIPMENTS	2,114,000	20,525,214		5,395,950.00	7,152,350.00
TOTAL	**172,336,143**	**44,210,657**	**44,637,000.00**	**9,337,950.00**	**27,889,635.00**

SUMMARY OF CAPITAL EXPENDITURE FOR YEAR 2007 – 2011

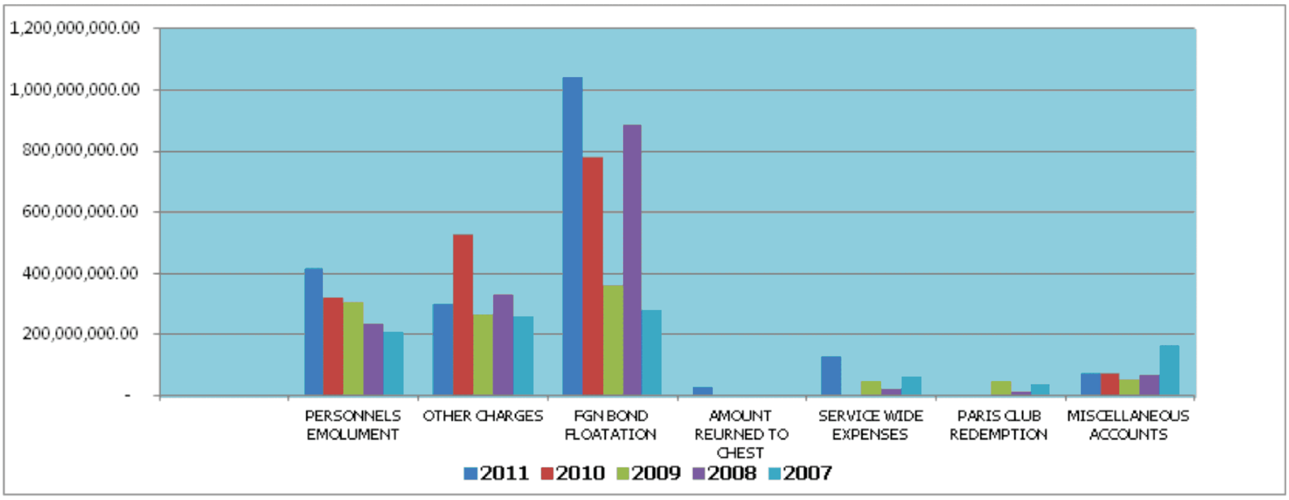


ANNEXURE III

SUMMARY OF EXPENDITURES

	2011 N	2010 N	2009 N	2008 N	2007 N
PERSONNELS EMOLUMENT	416,149,931	318,885,991	305,830,600	235,601,514	210,976,680
OTHER CHARGES	302,942,413	525,977,605	264,526,203	330,006,954	258,508,083
FGN BOND FLOATATION	1,045,399,927	779,677,992	362,459,757	888,253,706	278,363,488
AMOUNT REURNED TO CHEST	30,196,449	853,325	2,410,742	6,111	52,263
SERVICE WIDE EXPENSES	130,029,079	-	47,160,748	24,932,806	65,446,659
PARIS CLUB REDEMPTION	-	-	47,697,938	13,481,792	39,131,597
MISCELLANEOUS ACCOUNTS	75,598,564	73,691,150	54,433,839	69,081,599	164,370,118
TOTAL	**2,000,316,363**	**1,699,086,063**	**1,084,519,827**	**1,561,364,482**	**1,016,848,888**

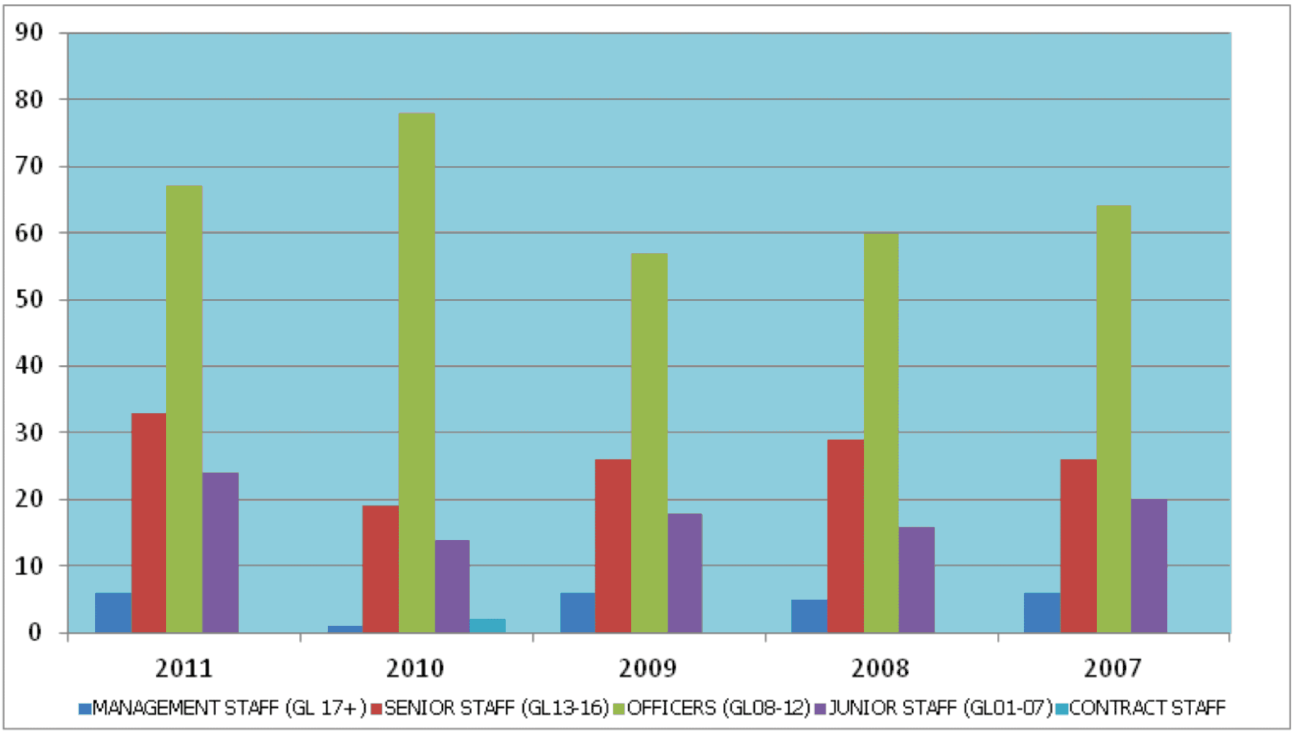
SUMMARY OF RECURRENT EXPENDITURE FOR THE YEAR 2007 – 2011



ANNEXURE IV
SCHEDULE OF STAFF STRENGTH FOR THE YEAR 2007 – 2011

	2011	2010	2009	2008	2007
MANAGEMENT STAFF (GL 17+)	6	1	6	5	6
SENIOR STAFF (GL13 -16)	33	19	26	29	26
OFFICERS (GL08 -12)	67	78	57	60	64
JUNIOR STAFF (GL01 -07)	24	14	18	16	20
CONTRACT STAFF	-	2	-		
TOTAL	**130**	**114**	**107**	**110**	**116**

SCHEDULE OF STAFF STRENGTH FOR THE YEARS 2007 – 2011



ANNEXURE V

SCHEDULE OF FIXED ASSETS LESS ACCUMULATED DEPRECIATION AS AT 31ST DEC. 2011

FIXED ASSETS	OFFICE BUILDING N	MOTOR VEH. AND CYCLE N	COMPUTER EQUIPMENT N	OFFICE N	TOTAL N
CAPITAL EXPENDITURE					
(CAPITAL EXPENDITURE)					
COST AS AT 01/01/10	-	86,138,549	86,069,304	119,992,048	292,199,901
ADDITIONS	120,037,177	16,158,919	34,026,047	2,114,000	172,336,143
DISPOSAL	-	-	-	-	-
WRITTEN OFF	-	-	-	-	-
	120,037,177	**102,297,468**	**120,095,351**	**122,106,048**	**464,536,044**
DEPRECIATION					
AS AT 01/01/10	-	70,174,253	78,827,395	101,744,634	250,746,282
CHARGE FOR THE YEAR	-	19,986,016	15,748,411	18,670,204	54,404,631
DISPOSAL	-	-	-	-	-
WRITTEN OFF	-	-	-	-	-
	-	**90,160,269**	**94,575,806**	**120,414,838**	**305,150,913**
NET BOOK VALUE AT 31/12/11	**120,037,177**	**12,137,199**	**25,519,545**	**1,691,210**	**159,385,131**
NET BOOK VALUE AT 31/12/10	**-**	**15,964,296**	**7,241,909**	**18,247,414**	**41,453,619**

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.