DMO

DEBT MANAGEMENT OFFICE

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

2005

DEBT MANAGEMENT OFFICE NIGERIA

ANNUAL REPORT AND STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31ST, 2005

Chief Olusegun Obasanjo, *GCFR*
PRESIDENT, FEDERAL REPUBLIC OF NIGERIA

Atiku Abubakar, *GCON*
VICE PRESIDENT, FEDERAL REPUBLIC OF NIGERIA

DR. (MRS.) NGOZI OKONJO-IWEALA
HON. MINISTER OF FINANCE

MRS. NENADI E. USMAN
HON. MINISTER OF STATE FOR FINANCE

Senior Management

Dr. Mansur Muhtar,
Director-General.

Dr. Abraham Nwankwo,
Director, Portfolio Management.

Dr. Mahmoud Magaji,
Director, Debt Recording and Settlement.

Mrs. Funmi Ilamah,
Director, Policy, Strategy and Risk Management.

DEBT MANAGEMENT OFFICE

MANAGEMENT STAFF

S/N	NAME	Designation
1.	Mrs. A. M. Mohammed	Deputy Director, DRS
2.	Dr. C. Onosode	Deputy Director, Special Duties
3.	Mr. Y. Aliyu	Deputy Director, PSRM
4.	Mr. M. Amidu	Deputy Director, PMD
5.	Mr. A. Ayinla	Assistant Director, ORD
6.	Mr. O. Popoola	Assistant Director, ORD
7.	Dr. N. Eleri	Assistant Director, DRS
8.	Dr. G. Dinneya	Assistant Director, PSRM
9.	Mr. A. D. Nazifi	Assistant Director, PSRM
10.	Mr. T. Ogundipe	Assistant Director, PMD
11.	Mrs. H. Suleiman-Onuja	Chief Operations Officer, DRS
12.	Mr. N. M. Mahmoud	Chief Operations Officer, ORD
13.	Mrs. J. O. Jiya	Chief Legal Officer, PMD
14.	Mr. M. Y. Babashi	Chief Operations Officer, ORD
15.	Mr. A. S. Dangaji	Chief Operations Officer, Internal Audit
16.	Mr. J. A. M. Ohiani	Chief Legal Officer, PMD
17.	Mr. M. M. Sa'ad	Chief Operations Officer, DRS
18.	Mrs. L. E. Okpanachi	Assistant Chief Operations Officer, DRS
19.	Mr. A. N. Anukposi	Assistant Chief Operations Officer, DRS
20.	Mrs. A. A. El-Rufai	Assistant Chief Legal Officer, PMD
21.	Mr. I. H. Ekpokoba	Assistant Chief Operations Officer, DRS
22.	Ms. E. E. Ekpenyong	Assistant Chief Operations Officer, ORD

Key

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

DEBT MANAGEMENT OFFICE 2005
ANNUAL REPORT AND STATEMENT OF ACCOUNTS

List of Tables

List of Figures

GLOSSARY

ADB	African Development Bank
BOF	Budget Office of the Federation
CBN	Central Bank of Nigeria
CHF	Swiss Franc
CPIA	Country Policy and Institutional Assessment
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DAS	Dutch Auction System
DFID	Department For International Development
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
DRI	Debt Relief International
DSF	Debt Sustainability Framework
EDF	European Development Fund
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
EU	European Union
EUR	Euro
FAAC	Federation Accounts Allocation Committee
FDI	Foreign Direct Investment
FGN	Federal Government of Nigeria
FMF	Federal Ministry of Finance
FUA	African Development Fund Unit of Account
G8	Group of Eight Industrialised Countries
GBP	Great British Pound (Sterling)
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFEM	Inter-bank Foreign Exchange Market
IMF	International Monetary Fund
IS	Information Systems
IT	Information Technology
JPY	Japanese Yen
KRW	Korean Won
LIC	Low Income Country
MDG	Millennium Development Goals
MDU	Market Development Unit
NGN	Nigerian Naira
NHIS	National Health Insurance Scheme
NPV	Net Present Value
NSE	Nigerian Stock Exchange
NTB	Nigerian Treasury Bill
ODA	Official Development Assistance
OPEN	Overview of Public Expenditure in NEEDS
ORD	Organisational Resource Department
PSI	Policy Support Instrument
RMAFC	Revenue Mobilisation Allocation and Fiscal Commission
SDR	Special Drawing Right
SEC	Securities and Exchange Commission
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
WAIFEM	West African Institute for Financial and Economic Management

VISION, MISSION, CORE VALUES AND MANDATE OF THE DEBT MANAGEMENT OFFICE

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

Mission of the Debt Management Office
To transform Nigeria's debt portfolio into an asset for growth and development

Core Values of the Debt Management Office
EXCITE: Excellence,Commitment, Integrity,Teamwork and 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 etc.) Act 2003, specifies that the DMO shall:

- Maintain a reliable database of all loans taken or guaranteed by the Federal or State Governments or any of their agencies;
- Prepare and submit to the Federal Government a forecast of loan service obligations for each financial year;
- Prepare and implement a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels compatible with desired economic activities for growth and development; and participate in negotiations aimed at realising those objectives;
- Verify and service external debts guaranteed or directly taken by the Federal Government;
- 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;
- Set guidelines for managing Federal Government financial risks and currency exposure with respect to all loans;
- Advise the Federal Government on the re-structuring and re-financing of all debt obligations;
- 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;
- Submit to the Federal Government for consideration in the annual budget, a forecast of borrowing capacity in local and foreign currencies;
- 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;
- Establish and maintain relationships with international and local financial institutions, creditors and institutional investors in Government debts;
- Collect, collate and disseminate information, data and forecasts on debt management with the approval of the Board;
- Carry out such other functions which may be delegated to it by the Minister or by Act of the National Assembly, and perform such other functions which in the opinion of the office are required for the effective implementation of its functions under the Act.

The DMO Act also provides that the Office shall:

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

DIRECTOR GENERAL'S STATEMENT

Mansur Muhtar
DIRECTOR - GENERAL

I am delighted to present to you, our esteemed clients, stakeholders and the general public, the DMO's 2005 Annual Report and Statement of Accounts. It is my hope that this report provides a detailed explanation of our activities in the last financial year, and as with previous reports, proves a useful reference material for debt management activities in Nigeria.

2005 was undoubtedly the most significant year in the DMO's history. During this period, Nigeria secured a landmark debt relief deal from it's Paris Club creditors. The year began with a concerted campaign, led by the Minister of Finance and backed strongly by Mr. President, aimed at securing substantial debt cancellation from the Paris Club, with the UK-chaired G8 summit in July a key focal point. Working in conjunction with the National Assembly, as well as advocacy groups in Nigeria and abroad, the Nigerian team was able to make a convincing case for debt relief to the major creditor governments, culminating in a formal announcement by the Paris Club on 29 June, 2005. The total relief package amounted to an $18 billion debt write-off, with Nigeria expected to pay off the balance of approximately $12.4 billion to the creditors over a period of six months in order to completely exit from all Paris Club obligations.

This momentous deal was unique in several Important ways. Firstly, it was the biggest ever debt write-off for any Sub-Saharan African country.

Secondly, it was granted without a formal IMF programme in place. Instead, the IMF introduced a Policy Support Instrument (PSI) in order to formally endorse Nigeria's home grown economic reform programme, the National Economic Empowerment and Development Strategy (NEEDS).

Thirdly, this was the first time that the Paris Club creditors allowed a buy-back of their debt at a discount below face value.

Finally, this debt deal was structured to enable Nigeria to secure a complete and permanent exit from the Paris Club in the shortest possible time. This historic deal is a result of the vision, leadership and unwavering commitment of Mr. President who has pursued debt relief tirelessly from the beginning of this administration. The DMO is happy to have played a key role in the realization of this goal.

Since our inception in 2000, we have been guided by our vision *to build a world-class Debt Management Office capable of making Nigeria's debt sustainable by 2006*. I am proud to say that with the completion of the Paris Club debt deal Nigeria's debt stock is now sustainable. We will continue with our efforts to make DMO a world-class organisation, as well as work with all our stakeholders and partners towards our mission, which is *to transform Nigeria's debt portfolio into an asset for growth and development.*

The benefits of this debt relief will accrue in very tangible ways. The cancellation of $18 billion worth of debt entails a significant write-off from our books and enables the resources to be channeled towards meeting our developmental needs. As a corollary, the government no longer needs to spend the $1 billion a year on average in servicing its Paris Club debts. To ensure that debt relief savings are judiciously utilized, a Virtual Poverty Fund-Oversight of Public Expenditure in NEEDS (OPEN)-has been set up to monitor and track spending of the debt relief savings. The 2006 budget has earmarked these savings for spending in priority areas, such as health, education, water, agriculture, power and works. In addition to the direct benefit above, the removal of the debt overhang will also help to restore investor confidence in Nigeria, attract increased foreign direct investment, and facilitate the smooth conduct of trade with other countries by improving access to the facilities of export credit guarantee agencies.

In conjunction with the efforts towards debt relief, the DMO effectively carried out activities in its other key areas. On the domestic debt front, the 2nd FGN Bond Series was successfully launched during the year and a total of N178 billion worth of bonds were floated between July and December 2005. Five of the seven issues were substantially oversubscribed, demonstrating the keen appetite of the market for the instruments. Concurrently, efforts to restructure the 90-day Treasury Bills into 6 and 12 months tenors were successful, and combined with the bond issuance, these activities led to a lengthening of the maturity structure of the domestic debt stock, in line with the DMO's strategic objectives.

Our core values Excellence, Commitment, Integrity, Teamwork and Efficiency (EXCITE) continue to guide and motivate our activities. Our pursuit of excellence in service delivery has led us to rewrite the DMO Client Service Charter, with the launch of SERVICOM by the Presidency and the creation of a SERVICOM Unit within the DMO. This seeks to ensure effective and efficient service delivery in the public sector.

The extensive organizational restructuring that we undertook during 2004 began to yield fruit in 2005 with each of the Front, Middle and Back Offices effectively executing their clearly defined operational roles. With the restructuring and right-sizing, various skill gaps arose and the Office embarked on a recruitment exercise, which included engaging two new Directors. In addition, a merit-based promotion exercise was conducted, as well as comprehensive training and capacity building initiatives. The training programme identified skill gaps and matched these with relevant courses provided by renowned training institutes both within Nigeria and abroad.

In line with our drive for efficiency in all areas of operation, the DMO installed the industry-standard SAP software for improved management of payroll and other administrative procedures. Furthermore, the Accounting Transaction Recording and Reporting Software (ATRRS), newly introduced by the Office of the Accountant-General of the Federation, was installed and is in use at the DMO.

During the year, the DMO was also a key driver behind the finalization of the draft Fiscal Responsibility Bill. It provided the secretariat for the Working Group on the Fiscal Responsibility Bill, which finalized the draft bill and subsequently passed it on to the National Assembly to debate. This is a key piece of legislation that will engender fiscal prudence and ensure a sound framework for transparent public expenditure management in Nigeria.

The DMO enjoyed fruitful relations with its external stakeholders, and a significant event that was hosted in collaboration with the Senate of the Federal Republic of Nigeria was the first Senate President's Roundtable on *'Debt, Development and Democracy: Challenges for Nigeria'*. In addition, the DMO organized a technical roundtable on *'Development of the Nigerian Bond Market: Challenges and Prospects'* which was an important precursor to the commencement of the issuance of the 2nd FGN Bonds in July.

Another sign of the success of the DMO is that officials from other nations are visiting Nigeria to learn from our experiences in debt management. For example, in December 2005 a high-level government delegation from the Sudanese Ministry of Finance and Central Bank undertook a productive one-week study tour of the DMO.

Despite the numerous and significant successes achieved during the year, the DMO faces continued challenges. Our strategic focus will now shift to building upon the progress made in restructuring the domestic debt portfolio, furthering the development of the domestic bond market, including developing a vibrant secondary market with an efficient primary dealer/market maker system, and supporting the establishment of effective debt management units at the State level in order to create a sound sub-national debt management system.

I am proud to note that the Paris Club debt deal led to the DMO's nomination for the This Day Newspaper Award for *Government Parastatal of the Year 2005* and *Transaction of the Year*, the latter of which the DMO was ultimately awarded. Our achievements are a reflection of the hard work, dedication and commitment of all the staff in the DMO, and I wish to express my appreciation to the entire team.

Mansur Muhtar
Director-General

CHAPTER ONE

NIGERIA'S TOTAL PUBLIC DEBT

1.1 Economic Context

1.1.1 Global Environment

Major international developments of relevance to Nigeria during 2005 include strong global economic growth and high energy demand from China, India and the United States, which, coupled with capacity constraints and supply shocks, helped to sustain high international oil prices throughout the year. Crude oil prices averaged US$51.10 per barrel over the year,[1] and this allowed Nigeria to build up significant international reserves thanks to strict adherence to a prudent oil price-based fiscal rule. Gross international reserves rose to an estimated historic US$28.3 billion, providing Nigeria with 26.1 months of import cover. This resulted in a projected current account balance of US$9.4 billion, with an overall balance of payments position of US$13.4 billion. These developments provided Nigeria with an improved capacity to service its external debts and achieve debt sustainability.

Other relevant developments include the G8 summit, Tony Blair's Commission For Africa Report, and the emphasis across the international community upon the challenges facing Africa. The high profile political context helped raise awareness particularly of the debt situation of African nations, including Nigeria, and played a role in achieving the historic Paris Club debt deal granted to Nigeria by its major creditors.

1.1.2 Domestic Economy

Major developments during the year that are relevant to domestic debt issues include monetary policy, liquidity management, fiscal policy and banking sector consolidation. These had a direct impact on inflation and interest rates over the year.

Despite prudent monetary policy for 2004 and a year-end inflation rate of 10% that year, monetary aggregates increased rapidly in the first half of 2005. In the first six months of the year, M1 and M2 (broad and narrow money) expanded by 19.6 percent and 20.2 percent respectively. An increased benchmark crude oil price for the 2005 budget led to the rise in net foreign assets. This combined with an increase in aggregate net credit to the domestic economy (due to monetisation of the 2004 excess crude earnings and significant banking sector consolidation), resulting in the increase in broad money over the period. In addition, an expansionary budget, insufficient sterilisation of excess liquidity by the CBN in the first half of the year, and higher food prices driven up by droughts in neighbouring countries, led to a year-on-year inflation at 30 June, 2005 of 18.5 percent. Improved liquidity management by the CBN in the second half of the year yielded successful results, and the end-December year-on-year inflation rate is projected at 11.9 percent, which is marginally above the target rate of 10 percent.

The CBN minimum rediscount rate (MRR) was reduced by 200 basis points from December 2004 to 13.0 percent in June 2005. The NTB rate was market driven in line with the deregulation policy stance of CBN. Consequently, due to the excess liquidity in the system the NTB rate declined from a range of 12.5 - 16.0 percent in December 2004 to 4.5 - 8.0 percent in June 2005. However, tighter liquidity management in the second half of the year resulted in a rise to a range of 9.75 - 12.0 percent in December 2005.

[1] World Energy Outlook (WEO) projection for Nigeria.

1.2 Debt Stocks

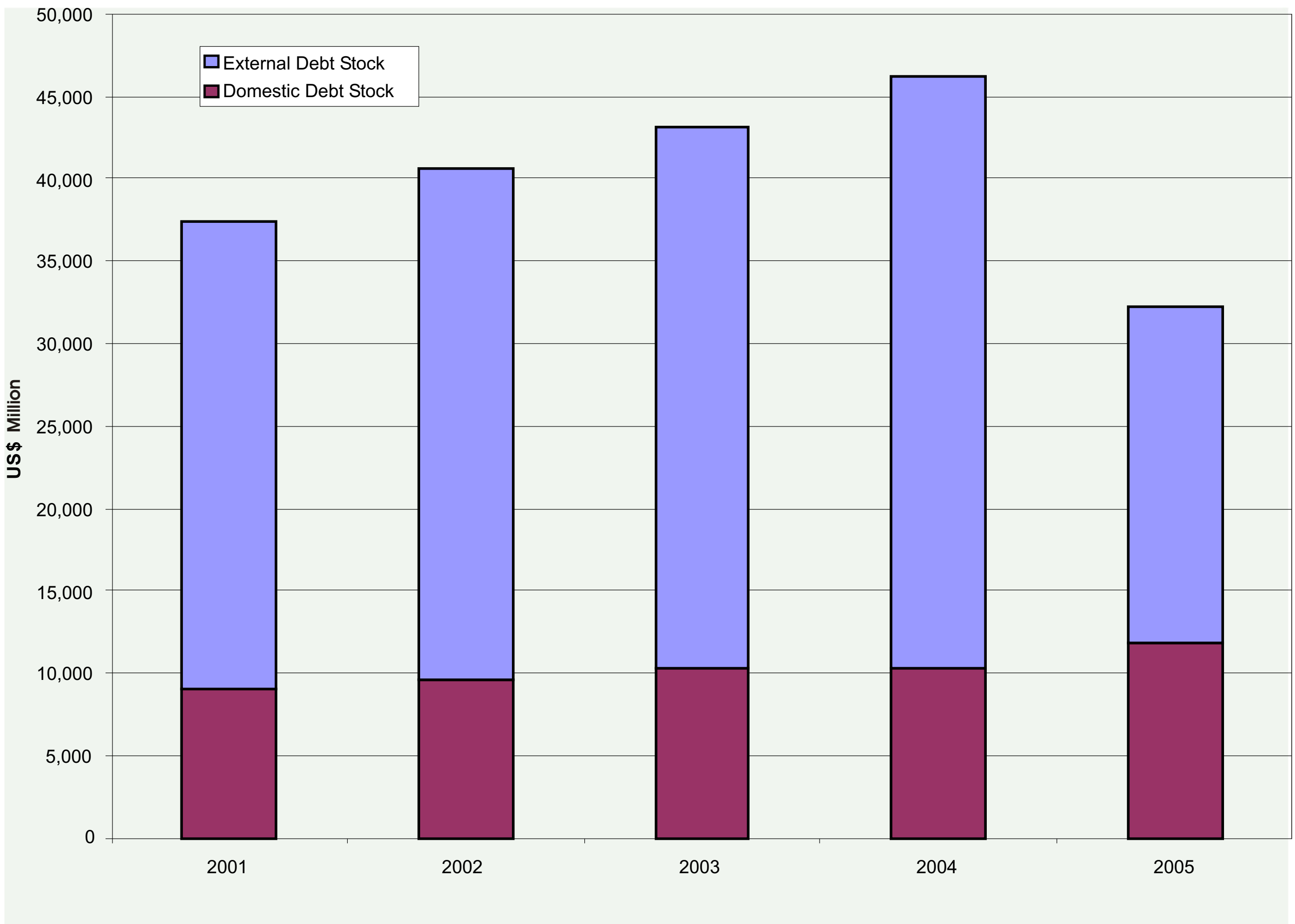
1.2.1 Total Public Debt Outstanding

The total public debt outstanding (total external and securitized domestic debt of the Federal Government) as at 31 December, 2005 stood at US$32,306.73 million, as against US$46,259.45 million in December 2004, indicating a decrease of US$13,952.72 million or 30.16 percent (see Table 1.1).

Figure 1.1 displays the trend of total public debt over the period 2001-2005. The greater share of Nigeria's public debt over the whole period is external, with a gradual rise in the volume of external debt from 2001 to 2004. This rise was due to the accumulation of arrears, penalty charges and exchange rate movements, rather than new borrowings.

During 2005, a significant decrease in the total debt stock is observed. This is due to a 43 percent reduction in the external debt stock, which occurred as a result of the part implementation of the agreed Paris Club debt deal during the year. On October 20th, 2005, an historic deal was agreed that will allow Nigeria to fully exit from all obligations to its Paris Club creditors. The deal is structured in several stages, as explained in detail in chapter four of this report, and the first of these stages required Nigeria to make two payments during October 2005 in order to clear all outstanding arrears to the creditors. Immediately, 33 percent of the remaining eligible stock was written off. Final payments and debt cancellation will take place in March 2006, subject to Nigeria's performance in implementing a Policy Support Instrument (PSI) with the IMF.

Figure 1.1 Total Government Debt, 2001-2005



Source: Debt Management Office

TABLE 1.1 TOTAL GOVERNMENT DEBT OUTSTANDING, 2001-2005

US$ million[1]

	2001	2002	2003	2004	2005	% of total in 2005
External Debt Stock	28,347.00	30,991.87	32,916.81	35,944.66	20,477.97	63.39%
Official Creditors	25,012.01	28,396.89	30,563.63	33,719.63	18,386.38	56.91%
Private Creditors	3,334.99	2,594.97	2,353.18	2,225.03	2,091.59	6.47%
Domestic Debt Stock	9,088.29	9,636.36	10,283.99	10,314.79	11,828.76	36.61%
Public Sector[2]	6,077.84	4,400.41	4,747.25	3,139.71	5,383.10	16.66%
Private Sector[3]	3,010.46	5,235.95	5,536.74	7,175.08	6,445.66	19.95%
TOTAL	37,435.29	40,628.23	43,200.80	46,259.45	32,306.73	100.00%

1.Official/IFEM/DAS Exchange Rate at 31/12

2.Public Sector constitutes CBN holdings and parastatals.

3.Private Sector constitutes banks, discount houses and non-bank public holders of domestic debt.

Source: Debt Management Office

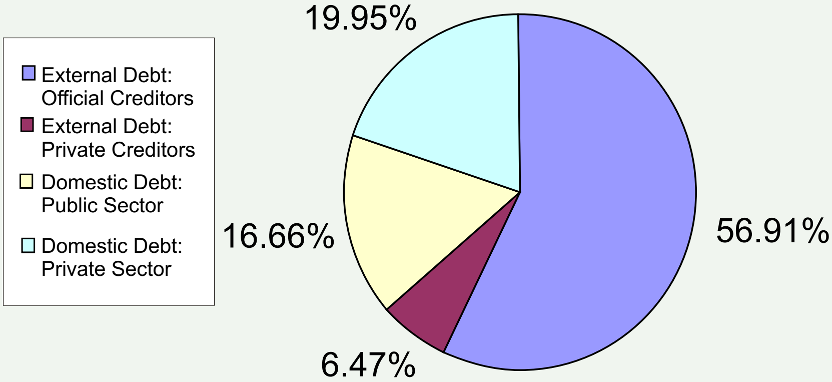
The stock of domestic debt grew gradually each year between 2001 and 2004. It then increased by 14.68 percent in nominal terms (dollar equivalent) between December 2004 and December 2005, as a result of new issuance of Treasury Bills to help finance a capital expenditure carried over from 2004, and new issuance of 2nd FGN Bonds to help finance the 2005 budget deficit. Domestic debt issues will be discussed further in chapter three.

1.2.2 Total Public Debt by Creditor and Maturity

The total public debt stock outstanding as at 31 December, 2005 comprised of 63.39 percent external debt obligations and 36.61 percent domestic debt obligations (using the official IFEM/DAS exchange rate as at 31/12/05). External debt owed to both official and private creditors has decreased, while domestic debt owed to both public and private holders has increased over the year. However, external debt owed to official creditors, which includes the Paris Club, is still the largest share of total public debt outstanding at 56.91 percent. External private creditors hold 6.47 percent of the total, while domestic private creditors hold 19.95 percent and the public sector (CBN and parastatals) hold 16.66 percent. Figure 1.2 displays the shares of total government debt by creditor type as at 31 December, 2005.

Table 1.2 displays total government debt outstanding by maturity, in US$ million. It shows that all external debt since 2001 has been long-term (greater than one year maturity). It also shows that the majority of domestic debt is short-term (less than one year): 20.51 percent of total debt is domestic short-term, as opposed to 16.10 percent domestic long-term.

FIGURE 1.2 TOTAL GOVERNMENT DEBT BY CREDITOR TYPE AS AT 31 DECEMBER, 2005



1.3 Debt Flows

1.3.1 Total Debt Service Payments

Total debt service payments for the year amounted to US$10,109.74 million, an increase of US$6,820.03 million or 207.31 percent from US$3,289.71 million in 2004. Of the total debt service, US$8,943.46 million or 88.46 percent was to external creditors, while US$1,166.28 million was for domestic debt. This significant increase is due to the large payments made under phase I and phase II of the Paris Club debt deal during 2005, the details of which will be explained in chapter four of this report.

[2] A total of US$7,575.92 was paid as part of the deal. If this exceptional payment were to be excluded in the analysis, figures show that conventional debt service would have fallen by US$755.89 million or 22.98 percent between 2004 and 2005.

Table 1.2 Total Government Debt Outstanding by Maturity, 2001-2005

US$ million[1]

	2001	2002	2003	2004	2005	% of total In 2005
External Debt	28,347.00	30,991.87	32,916.81	35,944.66	20,477.97	63.39%
Short-Term[2]	-	-	-	-	-	-
Long-Term	28,347.00	30,991.87	32,916.81	35,944.66	20,477.97	63.39%
Domestic Debt	9,088.29	9,636.36	10,283.99	10,314.79	11,828.76	36.61%
Short-Term[3]	5,223.77	6,064.13	6,380.90	6,560.56	6,626.59	20.51%
Long-Term	3,864.52	3,572.23	3,902.86	3,754.23	5,202.17	16.10%
TOTAL	37,106.13	37,435.29	40,628.23	43,200.80	32,306.73	100.00%

1. Official/IFEM/DAS Exchange Rate at 31/12
2. Short-term external debt is defined as debt with less than 1 year original maturity.
3. Short-term domestic debt consists of 91, 180 and 360-day Treasury Bills. Long-term domestic debt consists of Treasury Bonds, FRN Development Stocks, 1st FGN Bonds and 2nd FGN Bonds.

Source: Debt Management Office

1.3.2 Disbursements and New Issues

Total disbursements of external debt and new issues of domestic debt for 2005 amounted to US$2,670.00 million, an increase of US$2,134.60 million or 398.69 percent when compared to 2004 (see Table 1.3). Of the total disbursements, US$262.70 million or 9.85 percent were from external creditors, and US$2,405 million (equivalent to N310.27 billion) or 90.15 percent were new issues from domestic sources. The large increase in disbursements between 2004 and 2005 is due predominantly to the large rise in new issues from domestic sources, which are accounted for by the introduction of the 2nd FGN Bond Series during the year, as well as issuance of Nigerian Treasury Bills. The bond issues were part of the debt restructuring and market development initiatives currently being undertaken by the DMO and will be discussed in further detail in chapter three of this report.

1.4 Debt Sustainability Ratios

Nigeria's solvency position has significantly improved over the course of 2005. As at 31 December, 2005, the net present value (NPV) of the external debt stock amounted to 12.7 percent of GDP, which is well below the 30 percent sustainability threshold indicated by the IDA/IMF Debt Sustainability Framework for Low Income Countries. Furthermore, the NPV of external debt to exports was 39.7 percent, safely below the 100 percent indicative threshold. Finally, the NPV of external debt to government revenue was 44.8 percent, as against the sustainability threshold of 200 percent. All three ratios are within sustainable levels, and are significantly lower than a year earlier thanks to the Paris Club debt reduction (see Table 1.4).

Liquidity ratios on the other hand are not sustainable when the payments Nigeria made during 2005 as part of the Paris Club exit deal are taken into account. Total debt service (including the Paris Club exit payments) amounted to 33.1 percent of exports, which is significantly above the 15 percent sustainability threshold, and 37.1 percent of budget revenue, as against the 20 percent threshold.

This clearly reflects the large outflow of resources used to exit Nigeria's Paris Club debt. However, forward-looking debt sustainability analysis indicates that after all Paris Club exit payments have been made in 2005 and 2006, Nigeria's liquidity ratios will fall to extremely low and sustainable levels in 2007 and beyond.

Table 1.3 New Disbursements on Debt, 2001-2005
US$ million[1]

	2001	2002	2003	2004	2005
External	38.85	51.83	106.23	185.23	264.81
Domestic	1,060.95	1,231.65	1,267.90	350.17	2,405.19
Total	**1,099.79**	**1,283.48**	**1,374.13**	**535.40**	**2,670.00**

1. Official/IFEM/DAS Exchange Rate at 31/12
Source: Debt Management Office

TABLE 1.4 EXTERNAL DEBT SUSTAINABILITY RATIOS FOR 2005

Solvency Indicators	***Benchmark*** [1]	***Actual***
NPV of Debt/GDP	30%	12.70%
NPV of Debt/Exports	100%	39.70%
NPV of Debt/Revenue	200%	44.80%
Liquidity Indicators		
Debt Service/Exports	15%	33.10%
Debt Service/Revenue	20%	37.10%

[1]Benchmarks are taken from the IDA/IMF Debt Sustainability Framework for Low Income Countries.
Source: Debt Management Office

CHAPTER TWO

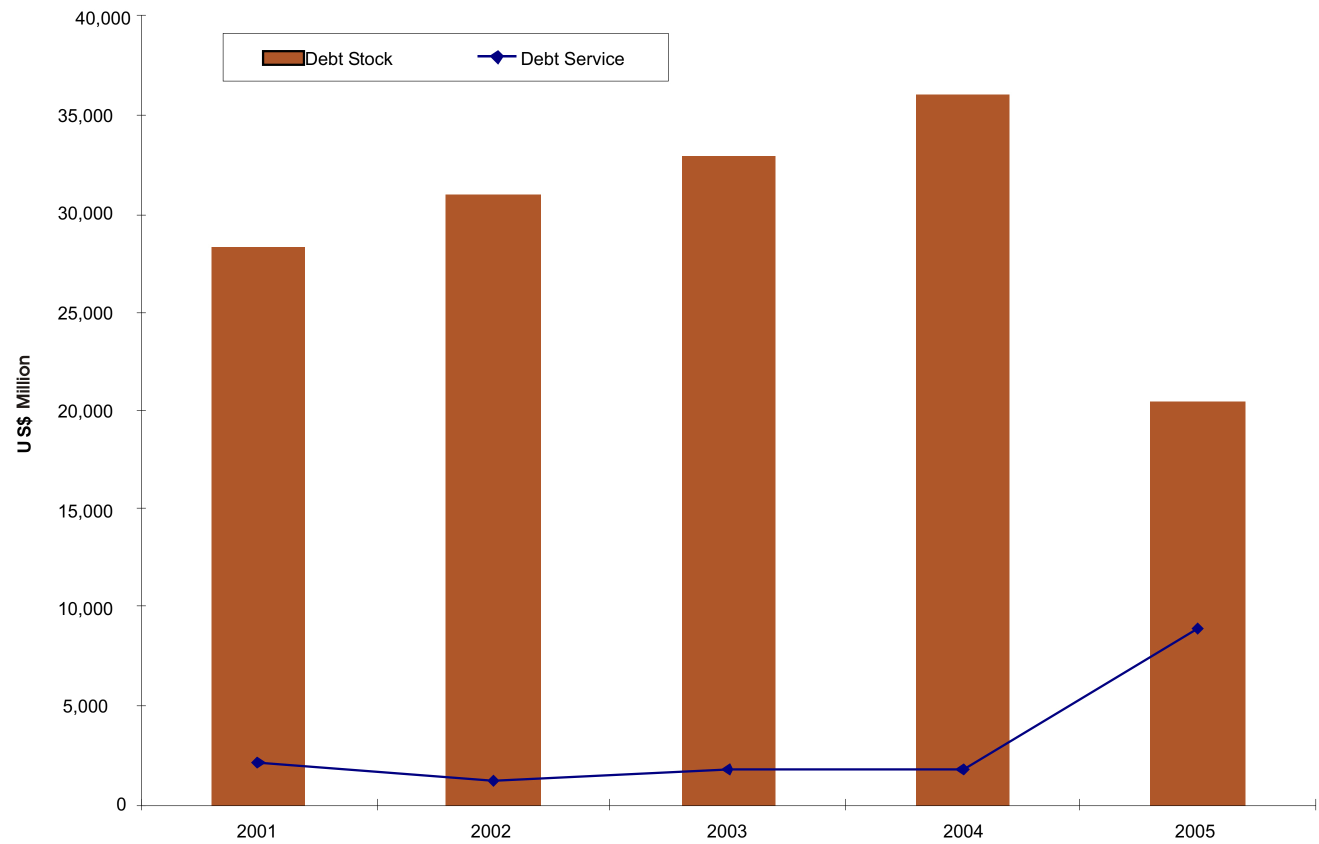
EXTERNAL DEBT ISSUES

2.1 External Debt Stock

The total external debt outstanding as at 31 December, 2005 stood at US$20,477.97 million as against US$35,944.66 million in December 2004, indicating a decrease of US$15,466.69 million or 43.03 percent. The significant reduction was as a result of the implementation of the first and second phases of the Paris Club debt deal, which reduced the pre-cut off Paris Club debt by 33 percent after regularisation of arrears.

As all arrears to the Paris Club have been paid, and no arrears are outstanding to any other external creditor, the entire external debt stock of US$20,477.97 million comprises of principal balances (disbursed outstanding debt). This is the first time in twenty years that Nigeria has no arrears outstanding in its external debt stock. This is shown in Table 2.1.

Figure 2.1 External Debt Stock and Debt Service, 2001-2005



Source: Debt Management Office

Table 2.1 Stock of External Debt Outstanding and Arrears by Creditor Type as at 31 December, 2005

US$ million[1]

	Debt Outstanding Excluding Arrears 1	Arrears of Principal 2	Debt Outstanding Incl. Principal Arrears 3 (1+2)	Arrears of Interest/ Commission 4	Late/Penalty Interest Arrears 5	Debt Outstanding Incl. Total Arrears 6 (3+4+5)	Total Arrears 7 (2+4+5)	Total Arrears as % of Debt Outstanding Incl. Arrears 8
Official Creditors	**18,386.38**	**0**	**18,386.38**	**0**	**0**	**18,386.38**	**0**	**0**
Bilateral	15,874.19	0	15,874.19	0	0	15,874.19	0	0
Paris Club[2]	15,412.40	0	15,412.40	0	0	15,412.40	0	0
Non Paris	461.79	0	461.79	0	0	461.79	0	0
ODA	113.61	0	113.61	0	0	113.61	0	0
Non ODA	346.37	0	346.37	0	0	346.37	0	0
Multilateral	**2,512.19**	**0**	**2,512.19**	**0**	**0**	**2,512.19**	**0**	**0**
Concessional	1,296.70	0	1,296.70	0	0	1,296.70	0	0
IDA	979.07	0	979.07	0	0	979.07	0	0
IFAD	30.11	0	30.11	0	0	30.11	0	0
ADF	160.78	0	160.78	0	0	160.78	0	0
EDF	126.73	0	126.73	0	0	126.73	0	0
Non-Concessional	1,215.49	0	1,215.49	0	0	1,215.49	0	0
IBRD	702.67	0	702.67	0	0	702.67	0	0
ADB	507.07	0	507.07	0	0	507.07	0	0
ECOWAS Fund	0.40	0	0.40	0	0	0.40	0	0
EIB	5.34	0	5.34	0	0	5.34	0	0
Private Creditors	**2,091.59**	**0**	**2,091.59**	**0**	**0**	**2,091.59**	**0**	**0**
Promissory Notes	649.80	0	649.80	0	0	649.80	0	0
Commercial Banks	1,441.79	0	1,441.79	0	0	1,441.79	0	0
TOTAL	**20,477.97**	**0**	**20,477.97**	**0**	**0**	**20,477.97**	**0**	**0**

1. Exchange rate of US$ vis-à-vis other currencies as at 31/12/2005 applied
2. Paris Club debt outstanding reflects the partial implementation of the PC debt deal.
Source: Debt Management Office

Figure 2.1 displays the trend in Nigeria's external debt stock and debt service payments over the five year period 2001-2005. The external debt stock increased significantly between 2001 and 2004 despite the fourth rescheduling agreement with the Paris Club creditors in 2000. However, after the Paris Club deal signed in 2005, the first and second phases of debt reduction have been granted and the resulting decrease in the debt stock is very significant.

In terms of creditor categorisation, the external debt stock in 2005 comprised US$15,412.40 million or 75.26 percent owed to the Paris Club, US$2512.19 million or 12.27 percent owed to multilateral institutions, US$1,441.79 million or 7.04 percent owed to the London Club, US$649.80 million or 3.17 percent owed to the Promissory Note holders and US$461.79 million or 2.26 percent owed to non-Paris Club creditors (see Table 2.2).

Figure 2.2 displays Nigeria's external debt outstanding by creditor over the period 2001-2005. It shows that the proportion of external debt owed to the Paris Club increased from 77.94 percent in 2001 to 85.82 percent in 2004. However, by the end of 2005 it had reduced significantly to 75.26 percent, while the shares of all other creditors had risen in 2005.

2.2 External Debt Stock by Creditor Category

2.2.1 Official Creditors

2.2.1.1 Multilateral

The multilateral debts outstanding as at 31 December, 2005 amounted to US$2,512.19 million or 12.27 percent of the total external debt stock. Of this amount, US$1,296.70 million was owed to concessional multilateral creditors, and US$1,215.49 million to non-concessional multilateral creditors. Concessional creditors constituted International Development Association (IDA), with US$979.07 million; International Fund for Agricultural Development (IFAD) with US$30.11 million; African Development Fund (ADF) with US$160.78 million and European Development Fund (EDF) with US$126.73 million. Non-concessional creditors consisted of International Bank for Reconstruction and Development (IBRD) with US$702.67 million; African Development Bank (ADB) with US$507.07 million; Economic Community Of West African States (ECOWAS) Fund with US$0.40 million and European Investment Bank (EIB) with US$5.34 million. The breakdown by multilateral creditor is given in Table 2.1.

Total multilateral debt has decreased by US$312.13 million or 11.05 percent compared to the value as at 31 December, 2004. The decrease in the stock of multilateral debt in 2005 was due to repayments exceeding new disbursements during the year.

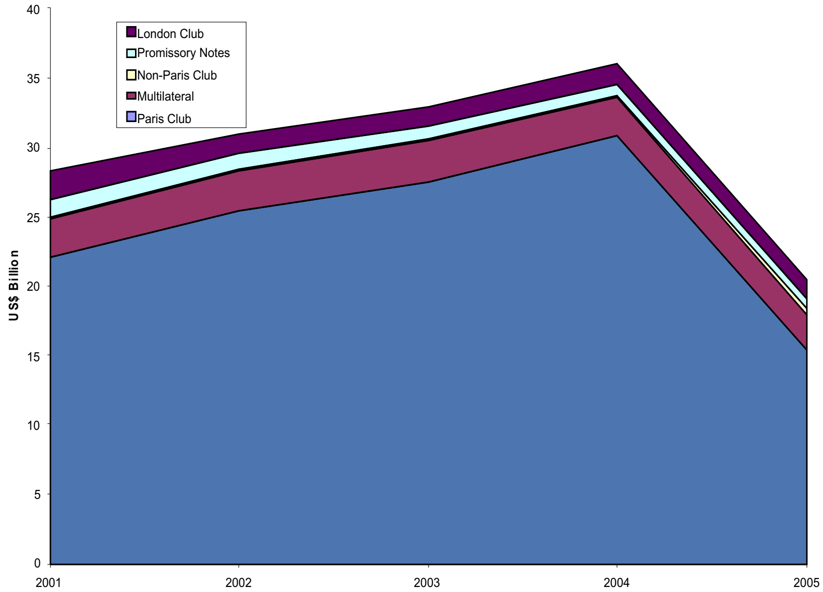
2.2.1.2 Bilateral

Paris Club Debt

Total debts owed to the Paris Club stood at US$15,412.40 million, or 75.26 percent of total external debt stock, as at 31 December, 2005. This comprised entirely of principal balance as there were no arrears outstanding, and represents the third phase payment of US$4.8 billion to be paid in March 2006 and the anticipated cancellation of approximately US$10.6 billion by the Paris Club creditors in the same month.

Paris Club debt outstanding decreased by US$15,435.41 million, or 50.04 percent, from US$30,847.81 million in December 2004. The significant decrease is due to the first and second phases of the Paris Club debt deal executed during 2005.

Figure 2.2 External Debt Outstanding by Creditor, 2001-2005



Non-Paris Club Bilateral Debt

The amount owed to the non-Paris Club bilateral creditors as at 31 December, 2005 was US$461.79 million, compared to US$47.50 million in 2004. This represents an increase of 872.19 percent. The significant increase represents the inclusion of loans from China in the portfolio.

2.2.2 Private Creditors

2.2.2.1 Promissory Notes

The total amount owed to the Promissory Note holders at the end of 2005 was US$649.80 million compared to US$783.23 million in 2004. This reduction was due to amortisation of the debt.

2.2.2.2 London Club Debt

The total amount outstanding to the London Club as at 31 December, 2005 was US$1,441.79 million, reflecting no change from the previous year. This is because only interest is paid on the bonds as the principal amount matures in 2020 which is to be settled in one bullet payment. It should be noted that in 2002 the DMO carried out a debt-buy back arrangement which led to a significant reduction in the stock of the Par Bonds from US$2,043.21 million to US$1,441.79 million.

2.3 External Debt by Concessionality, Currency Composition and Maturity

2.3.1 Concessionality of External Debt

Table 2.3 displays external debt outstanding by creditor type and concessionality for the period 2001 to 2005. There was a sharp decrease in both bilateral official development assistance (ODA) and bilateral non-ODA from 2004-2005. This reflects the reduction in the Paris Club debt stock over the year, which includes both ODA and non-ODA. Multilateral assistance also fell between 2004 and 2005 as mentioned in section 2.2.1 above. However, this fall is entirely accounted for by a drop in the non-concessional component (which fell by 28 percent), as multilateral concessional debt increased by 15 percent over the year. This is a reflection of the change in Nigeria's classification as a World Bank borrower.

During 2005, the World Bank re-classified Nigeria's borrower status to IDA-only from Blend-country status, meaning that Nigeria is only eligible to borrow from the World Bank's concessional lending arm, IDA, and not from its non-concessional lending arm, the IBRD. This change in status reflects Nigeria's low per capita income level, its implementation of sound economic reforms and the fact that it has not borrowed from the IBRD for twelve years. As a result, Nigeria has been receiving new disbursements on concessional terms, but no new non-concessional loans during 2005.

TABLE 2.2 EXTERNAL DEBT OUTSTANDING BY CREDITOR, 2001-2005

US$ million

CREDITOR CATEGORY	2001	2002	2003	2004	2005
A. Official:					
1. Bilateral	22,214.14	25,436.3	27,521.55	30,895.31	15,874.19
Paris Club	22,092.93	25,380.75	27,469.92	30,847.81	15,412.40
Non-Paris Club	121.21	55.55	51.63	47.50	461.79
2. Multilateral	2,797.87	2,960.59	3,042.08	2,824.32	2512.19
Sub-Total	**25,012.01**	**28,396.89**	**30,563.63**	**33,719.63**	**18,386.38**
B. Private:					
1. Promissory Notes	1,291.78	1,153.18	911.39	783.23	649.80
2. Banks (London Club)	2,043.21	1,441.79	1,441.79	1,441.79	1,441.79
Sub-Total	**3,334.99**	**2,594.97**	**2,353.18**	**2,225.03**	**2091.59**
Grand Total	**28,347.00**	**30,991.87**	**32,916.81**	**35,944.66**	**20,477.97**

Percentage Share

CREDITOR CATEGORY	2001	2002	2003	2004	2005
A. Official:					
1. Bilateral	78.37	82.07	83.61	85.95	77.52
Paris Club	77.94	81.89	83.45	85.82	75.26
Non-Paris Club	0.43	0.18	0.16	0.13	2.26
2. Multilateral	9.87	9.55	9.24	7.86	12.27
Sub-Total	**88.24**	**91.63**	**92.85**	**93.81**	**89.79**
B. Private:					
1. Promissory Notes	4.56	3.72	2.77	2.18	3.17
2. Banks (London Club)	7.21	4.65	4.38	4.01	7.04
Sub-Total	**11.76**	**8.37**	**7.15**	**6.19**	**10.21**
Grand Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Debt Management Office

Table 2.3 External Debt Outstanding by Creditor Type and Concessionality, 2001-2005

US$ million[1]

Creditor Type	2001	2002	2003	2004	2005	% of total in 2005
Official						
Bilateral	**22,214.14**	**25,436.30**	**27,521.55**	**30,895.31**	**15,874.19**	**77.52**
ODA	533.93	587.32	655.23	682.26	113.61	0.55
Non-ODA	21,680.21	24,848.98	26,866.32	30,213.05	15,760.58	76.96
Multilateral	**2,797.87**	**2,960.59**	**3,042.08**	**2,824.33**	**2,512.19**	**12.27**
Concessional	789.72	907.94	1,083.82	1,129.30	1,296.70	6.33
Non concessional	2,008.15	2,052.65	1,958.26	1,695.03	1,215.49	5.94
Private						
Promissory Notes	**1,291.78**	**1,153.18**	**911.39**	**783.23**	**649.8**	**3.17**
Bond Holders	**2,043.21**	**1,441.79**	**1,441.79**	**1,441.79**	**1,441.79**	**7.04**
TOTAL	**28,347.00**	**30,991.86**	**32,916.81**	**35,944.66**	**20,477.97**	**100.00**

1. Exchange rate at 31/12
Source: Debt Management Office

2.3.2 Currency Composition of External Debt

Table 2.4 and Figure 2.3 display the currency composition of the external debt stock as at 31 December, 2005. The euro is the largest currency in the portfolio, constituting 35.80 percent of the external debt stock. This is followed by the US dollar with 32.80 percent of the total, then British pound sterling (GBP) with 14.76 percent, Japanese yen with 9.87 percent, special drawing rights (SDR) with 4.88 percent and other currencies (the Swiss franc, Danish kroner, Nigerian naira and Korean won) accounting for the balance of 1.89 percent.

2.3.3 External Debt by Original Maturity

Table 2.5 displays the external debt stock by creditor category and original maturity. There is no external debt with an original maturity of less than 5 years. Debt with an original maturity of 5-9 years amounted to US$40.89 million or 0.20 percent, and debt with an original maturity of over 10 years amounted to US$20,437.08 million or 99.80 percent. Paris Club debt outstanding accounts for US$15,412.40 million or 75.26 percent of the total. This debt has been consolidated and will be written off after the third phase exit payment in March 2006, but represents previously rescheduled debts with maturities of over 10 years.

Table 2.4 External Debt by Currency Composition
As at 31 December, 2005

S/No	Currency	Debt Stock as at 31.12.05	US$ Exch. Rate as at 31.12.05	USD (Million) EQUIVALENT	Percent of Total
1	EUR	6,195,270,350.25	0.85	7,331.68	**35.80%**
2	USD	6,716,210,255.21	1.00	6,716.21	**32.80%**
3	GBP	1,755,162,097.08	0.58	3,021.97	**14.76%**
4	JPY	238,172,301,918.33	117.81	2,021.66	**9.87%**
5	CHF	493,239,117.92	1.31	375.66	**1.83%**
6	DKK	31,374,266.33	6.31	4.97	**0.02%**
7	SDR	698,599,389.69	0.70	998.43	**4.88%**
8	NGN	63,581,218.32	129.00	0.49	**0.00%**
10	KRW	6,918,968,000.00	1,004.50	6.89	**0.03%**
TOTAL	**USD**			**20,477.97**	**100%**

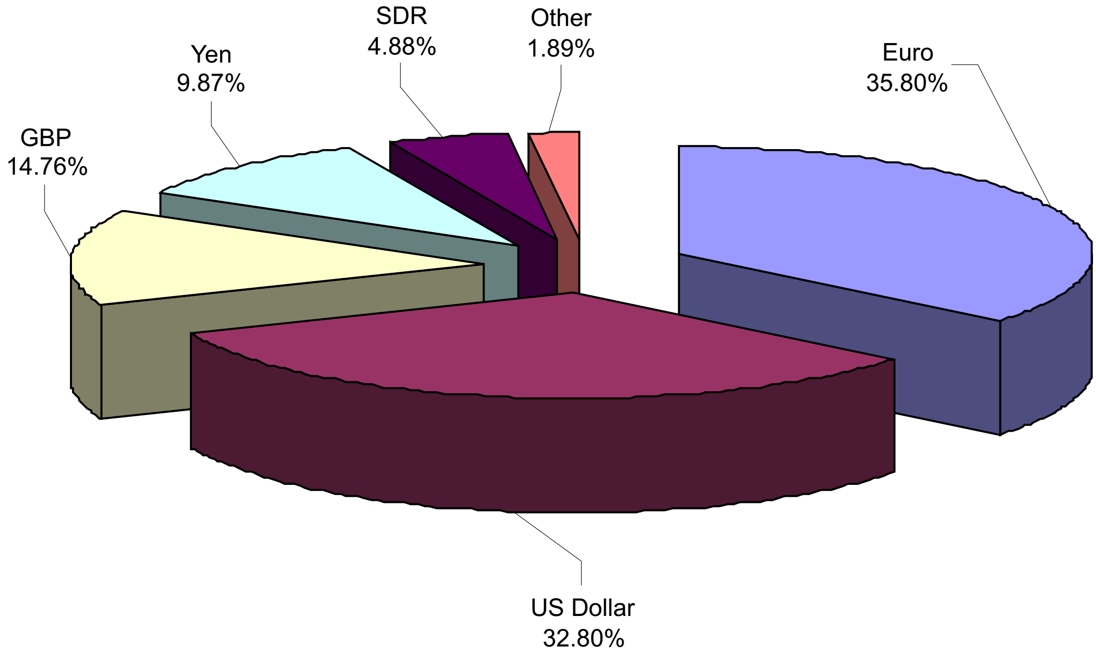
Source: Debt Management Office

Table 2.5 External Debt Outstanding by Original Maturities
as at 31 December, 2005 (US$ million)

CREDITOR	Maturity 1- 4 years	5-9 years	Over 10 years	Total
OFFICIAL				
Bilateral				
Paris Club[1]	-	n/a	**15,412.40**	**15,412.40**
Non -Paris Club	-	33.93	427.86	**461.79**
Multilateral	-	6.96	2,505.23	**2,512.19**
PRIVATE				
London Club	-	-	1,441.79	**1,441.79**
P/Notes	-	-	649.80	**649.80**
TOTAL	-	**40.89**	**20,437.08**	**20,477.97**

1/ Paris Club debt stock represents remaining stock to be cleared under the third phase exit payment in March 2006
Source: Debt Management Office

Figure 2.3 External Debt Stock by Currency Composition As at 31 December, 2005



2.4 State Debt Issues

2.4.1 Disaggregated Debt Stock: Federal and State Governments

Table 2.6 shows the disaggregated debt stock among the Federal and the 36 State Governments for the year 2005. The table shows that out of the US$20,477.97 million external debt stock, US$16,174.10 million or 79.01 percent was owed by the Federal Government while the remaining US$4,298.87 million, or 20.99 percent, was owed by State Governments. Among the State Governments, the data reveals that Abia State owed the largest debt amounting to US$312.36 million, or 1.53 percent of the total external debt, followed by Plateau State with US$280.63 million or 1.37 percent; Lagos State with US$272.55 or 1.33 percent; Niger State with US$264.84 million or 1.29 percent and Osun State with US$240.71 million or 1.18 percent. The least indebted States were Yobe with only US$9.32 million or 0.05 percent of the total; Zamfara with US$14.40 million or 0.07 percent and Kebbi with US$28.49 million or 0.14 percent (see Figure 2.4).

In terms of the composition of the debt stock, Paris Club debt constituted the largest share of total external debt stock, at US$15,412.40 million. The Federal Government share of Paris Club debt was US$12,708.07 million, and the State Governments' share was US$2,704.33 million. Multilateral debt consisted of US$1,384.86 million owed by the Federal Government and US$1,127.33 million owed by the State Governments. Debts owed to the London Club consisted of US$974.58 million held by the Federal Government, and US$467.21 million held by the States. Only the Federal Government owed the non-Paris Club creditors and promissory note holders, and the amounts were US$461.79 million and US$649.80 million respectively.

2.4.2 State Debt Service and Sustainability

Table 2.7 displays the total debt service payments made by each state during 2005, as well as gross allocations from the Federation Account for the year, net income after debt service deductions, and the ratio of debt service to gross allocation for each State.

Figure 2.5 ranks the 36 States by the ratio of their external debt service to gross allocation. This provides an indication of the sustainability of the external debt of each State - their major debt service obligations expressed as a percentage of their major source of income. Abia has the highest debt service to revenue ratio at 20.18 percent; followed by Imo State, with 15.95 percent and Enugu with 11.69 percent. There is huge variation across the States, and those with the lowest debt service ratios are Kaduna, Zamfara and Katsina, with 0.89percent, 0.88percent and 0.75percent respectively.

There are no internationally agreed thresholds for debt sustainability at the sub-national level,butthe State debt service ratios displayed here can be closely compared to the indicative sustainability thresholds for national government debt. Studies by Debt Relief International (DRI) show that external debt service to budget revenue ratios over 12 percent are historically unsustainable. This indicates that Abia and Imo have an unsustainable liquidity burden, based on 2005 debt service data. Enugu, Kwara and Lagos are all very close to having unsustainabile liquidity burdens based on this method.

2.4.3 States' External Debt Management

A States' Debt Reconciliation Committee was set up by the Federation Accounts Allocation Committee (FAAC) in 2005 to resolve outstanding debt issues brought up by the State Governments.

Table 2.6 Federal and State Government External Debt Stock as at 31 December, 2005
In US dollars

S/N	State	Multilateral	Non-Paris Club Bilateral	London Club	Paris Club	P/Notes	Total	Share
1	Abia	4,917,974.09	-	41,685,217.56	265,755,496.74	-	312,358,688.39	1.53%
2	Adamawa	7,370,368.29	-	6,146,578.28	120,655,038.90	-	134,171,985.47	0.66%
3	Akwa Ibom	58,337,842.02	-		59,731,914.26	-	118,069,756.28	0.58%
4	Anambra	15,433,427.04	-	3,072,441.90	50,027,062.26	-	68,532,931.20	0.33%
5	Bauchi	38,472,651.25	-	2,551,349.57	18,041,125.84	-	59,065,126.66	0.29%
6	Bayelsa	9,790,327.89	-	14,768,073.58	54,070,893.03	-	78,629,294.51	0.38%
7	Benue	6,069,695.59	-	27,076,161.90	98,919,640.74	-	132,065,498.23	0.64%
8	Borno	6,065,481.00	-	5,086,680.00	54,725,819.09	-	65,877,980.09	0.32%
9	Cross River	88,833,411.02	-		12,019,398.64	-	100,852,809.66	0.49%
10	Delta	29,016,184.26	-	4,098,349.40	46,982,664.36	-	80,097,198.02	0.39%
11	Ebonyi	7,502,399.77	-	20,809,161.58	55,609,411.02	-	83,920,972.37	0.41%
12	Edo	32,237,225.42	-	19,602,036.46	110,870,663.63	-	162,709,925.50	0.79%
13	Ekiti	13,490,592.94	-	26,712,530.85	34,323,751.01	-	74,526,874.80	0.36%
14	Enugu	11,858,937.80	-	20,434,951.21	124,297,070.83	-	156,590,959.84	0.76%

Table 2.6 Federal and State Government External Debt Stock as at 31 December, 2005*(Continued)*

In US dollars

15	**Gombe**	5,490,718.77	-	11,763,271.55	34,602,267.90	-	51,856,258.22	0.25%
16	**Imo**	24,940,256.07	-	32,529,900.00	154,951,907.81	-	212,422,063.89	1.04%
17	**Jigawa**	9,579,258.88	-	3,384,090.00	25,809,840.27	-	38,773,189.15	0.19%
18	**Kaduna**	68,864,829.20	-	-	-	-	68,864,829.20	0.34%
19	**Kano**	45,760,912.30	-	2,750,143.13	19,057,472.17	-	67,568,527.60	0.33%
20	**Katsina**	63,127,494.34	-		-	-	63,127,494.34	0.31%
21	**Kebbi**	24,063,267.64	-		4,430,466.96	-	28,493,734.60	0.14%
22	**Kogi**	17,710,031.66	-	10,891,957.02	153,995,558.73	-	182,597,547.41	0.89%
23	**Kwara**	19,951,776.17	-	9,792,704.90	150,731,967.29	-	180,476,448.36	0.88%
24	**Lagos**	127,022,321.39	-		145,525,582.04	-	272,547,903.43	1.33%
25	**Nassarawa**	34,803,575.37	-	19,248,722.95	-	-	54,052,298.32	0.26%
26	**Niger**	34,658,658.61	-	1,364,819.66	228,811,710.45	-	264,835,188.71	1.29%
27	**Ogun**	22,578,929.25	-		118,158,990.41	-	140,737,919.66	0.69%
28	**Ondo**	36,571,418.35	-	20,621,260.62	39,541,970.06	-	96,734,649.02	0.47%
29	**Osun**	53,236,629.95	-	15,528,283.45	171,942,722.29	-	240,707,635.69	1.18%
30	**Oyo**	115,162,115.74	-		11,858,311.62	-	127,020,427.36	0.62%
31	**Plateau**	23,866,597.00	-	80,991,483.75	175,769,117.05	-	280,627,197.80	1.37%
32	**Rivers**	24,914,324.01	-	2,395,082.42	78,971,632.98	-	106,281,039.40	0.52%
33	**Sokoto**	25,598,989.05	-	58,618,983.24	8,715,786.50	-	92,933,758.79	0.45%
34	**Taraba**	5,530,212.22	-	5,284,961.72	66,201,988.90	-	77,017,162.84	0.38%
35	**Yobe**	4,709,905.72	-		4,614,615.77	-	9,324,521.49	0.05%
36	**Zamfara**	9,790,376.43	-		4,608,537.54	-	14,398,913.97	0.07%
	Total	**1,127,329,116.52**		**467,209,196.68**	**2,704,330,397.07**		**4,298,868,710.28**	**20.99%**
37	**FGN**	**1,384,860,183.40**	**461,785,115.58**	**974,583,803.32**	**12,708,071,121.07**	**649,797,827.24**	**16,179,098,050.61**	**79.01%**
	Grand Total	**2,512,189,299.92**	**461,785,115.58**	**1,441,793,000.00**	**15,412,401,518.14**	**649,797,827.24**	**20,477,966,760.88**	**100.00%**

Figure 2.4 External Debt Stock by State Governments as at 31 December, 2005

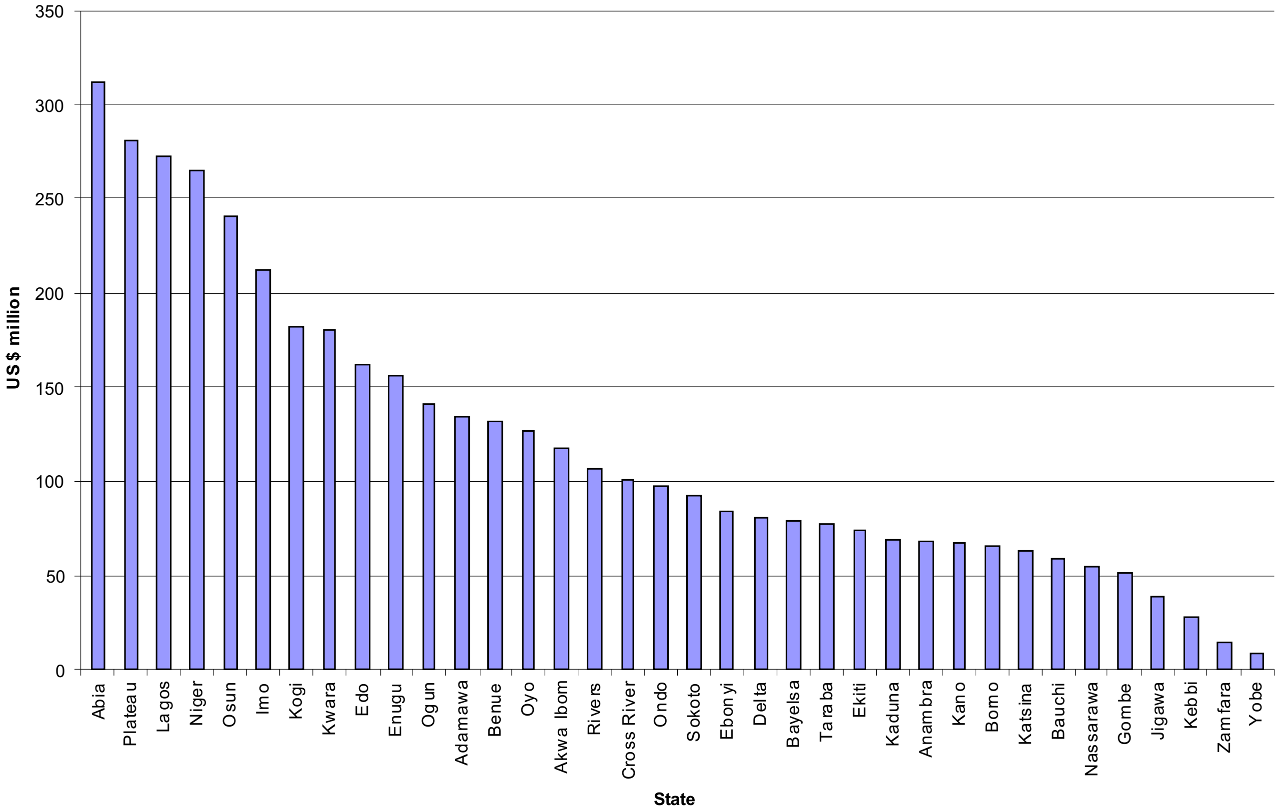


Table 2.7 Gross Allocation and External Debt Service by State, 2005 US$ million[1]

S/No	State	Gross Allocation	External Debt Service	Net Income after Debt Service	External Debt Service as % of Gross Alloca-
1	**Abia**	120.28	24.27	96.01	20.18%
2	**Adamawa**	134.17	12.92	121.25	9.63%
3	**Akwa Ibom**	132.52	8.37	124.15	6.32%
4	**Anambra**	134.28	9.05	125.22	6.74%
5	**Bauchi**	145.77	2.25	143.52	1.54%
6	**Bayelsa**	104.25	7.62	96.63	7.31%
7	**Benue**	144.77	12.15	132.62	8.40%
8	**Borno**	145.93	9.83	136.10	6.74%
9	**Cross River**	117.92	4.30	113.61	3.65%
10	**Delta**	121.77	8.04	113.72	6.61%

Table 2.7 Gross Allocation and External Debt Service by State, 2005*(Continued)***

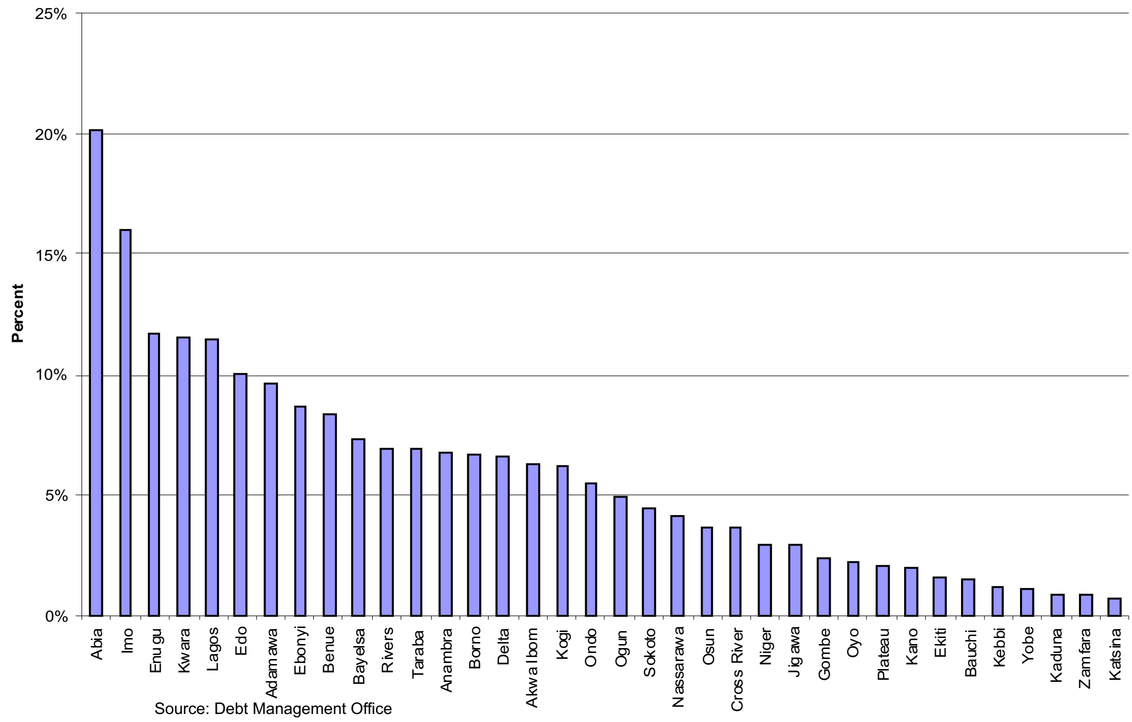
US$ million[1]

11	**Ebonyi**	113.52	9.82	103.70	8.65%
12	**Edo**	133.54	13.42	120.12	10.05%
13	**Ekiti**	112.26	1.80	110.46	1.60%
14	**Enugu**	124.91	14.60	110.31	11.69%
15	**Gombe**	114.92	2.70	112.22	2.35%
16	**Imo**	130.89	20.88	110.01	15.95%
17	**Jigawa**	147.01	4.27	142.74	2.90%
18	**Kaduna**	164.48	1.46	163.02	0.89%
19	**Kano**	200.07	4.02	196.06	2.01%
20	**Katsina**	156.88	1.17	155.71	0.75%
21	**Kebbi**	130.46	1.55	128.91	1.19%
22	**Kogi**	130.85	8.17	122.68	6.24%
23	**Kwara**	119.13	13.80	105.33	11.59%
24	**Lagos**	189.07	21.70	167.37	11.48%
25	**Nassarawa**	112.71	4.61	108.10	4.09%
26	**Niger**	151.57	4.50	147.07	2.97%
27	**Ogun**	127.67	6.30	121.37	4.93%
28	**Ondo**	125.48	6.95	118.52	5.54%
29	**Osun**	122.70	4.50	118.20	3.67%
30	**Oyo**	153.13	3.42	149.71	2.23%
31	**Plateau**	130.59	2.70	127.89	2.07%
32	**Rivers**	144.46	10.06	134.39	6.97%
33	**Sokoto**	138.19	6.14	132.05	4.45%
34	**Taraba**	129.16	8.93	120.22	6.92%
35	**Yobe**	125.51	1.38	124.13	1.10%
36	**Zamfara**	130.08	1.14	128.94	0.88%
	TOTAL	**4,860.89**	**278.82**	**4,582.07**	

Source: Debt Management Office

1/ Exchange rate as at 31/12/05

Figure 2.5 External Debt Service as a Share of Gross Allocation by State, 2005



Source: Debt Management Office

2.5 External Debt Flows

2.5.1 Debt Service Payments

The total external debt service payments for the year 2005 were US$8,943.45 million, compared to US$1,754.75 million in 2004, reflecting an increase of US$7,188.71 million or 410 percent (see Table 2.8 and Figure 2.6). The huge increase is due to the inclusion of the Paris Club exit payment under the first and second phases, which totalled US$7,575.92 million. Excluding this payment, total external debt service payments were US$1,367.54 million, comprising of principal repayments of US$978.36 million, and interest payments and commitment charges of US$389.17 million (see Table 2.9).

Table 2.9 shows that the largest payment was made to the Paris Club, amounting to US$8,072.55 million or 90.26 percent. This included US$496.64 million principal and interest payments under Agreements III and IV, and US$7,575.92 million of principal payment under the first and second phases of the exit deal. Payments to multilateral creditors amounted to US$471.66 million, or 5.27 percent of the total. US$213.55 million or 2.39 percent was paid to promissory note holders, US$169.86 million or 1.90 percent to London Club creditors, US$12.16 million or 0.14 percent to non-Paris Club bilateral creditors and US$3.67 million or 0.04 percent to other creditors.

2.5.2 External Debt Disbursements

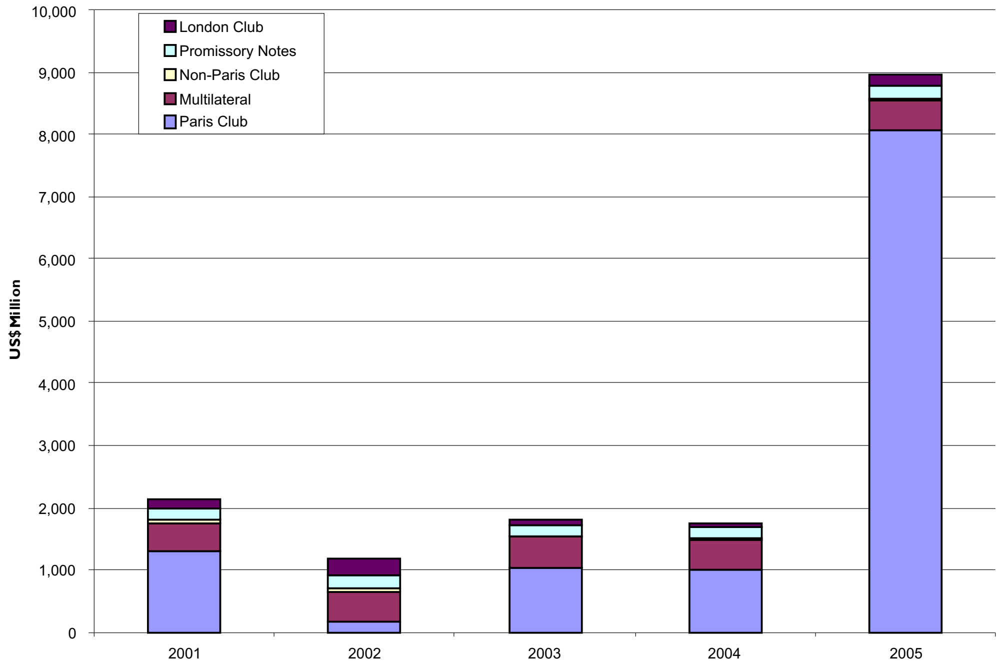
Table 2.10 displays disbursements of external debt by creditor for the period 2001-2005. External disbursements (excluding grants) totalled US$264.81 million for 2005, an increase of US$79.58 million or 42.96 percent from the level in 2004. The rise in total disbursements is largely due to an increase in disbursements from IDA over the year, as IDA maintains its position as the largest provider of new credit to Nigeria.

2.5.3 Net Flows and Net Transfers on External Debt

Table 2.11 shows net flows (which are disbursements less principal repayments) and net transfers (which are net flows less interest payments) in 2005 by creditor type. Total net flows and total net transfers were very large and negative for the year. Net flows stood at negative US$8,288.89 million, while net transfers, an indication of the total resources actually flowing into or out of a country, recorded an out flow of US$8,677.93 million.

This represents a negative net transfer from Nigeria to its creditors of approximately US$67 for every Nigerian in 2005. This figure is down from a negative net transfer from Nigeria in 2004 of US$12.70, and is far below the average for low income countries excluding Nigeria of negative US$1.29 in 2003. Despite significant debt relief, Nigeria has a great need for increased aid per capita in the future to reverse these negative net flows and provide significant financing to help achieve the millennium development goals (MDGs) by 2015.

Figure 2.6 External Debt Service Payments, 2001-2005



Source: Debt Management Office

Table 2.8 External Debt Service Payments, 2001-2005
US$ million

CREDITOR CATEGORY	2001	2002	2003	2004	2005
A. Official:					
1. Bilateral					
Paris Club	1,273.62	161.55	1,020.18	994.44	8,072.55
Non-Paris Club	33.81	75.86	13.26	11.65	15.83
2. Multilateral	491.48	472.12	509.23	487.28	471.66
Sub-Total	***1,798.91***	***709.54***	***1,542.66***	***1,493.37***	***8,560.04***
B. Private:					
1. Promissory Notes	195.18	192.12	176.42	171.23	213.55
2. Banks (London Club)	134.08	266.75	90.21	90.15	169.86
Sub-Total	***329.26***	***458.87***	***266.62***	***261.38***	***383.41***
Grand Total	**2,128.17**	**1,168.40**	**1,809.28**	**1,754.75**	**8,943.45**

Source: Debt Management Office

Table 2.9 External Debt Service Payments by Creditor in 2005
US$ million

Category	Principal	Interest/ Service Fee	Late Interest	Waiver	Commitment Charges	Other Charges	Total	% Share
OFFICIAL								
MULTILATERAL	**374.55**	**94.87**	**0.69**	**(3.83)**	**4.60**	**0.79**	**471.66**	**5.27%**
I.B.R.D.	226.62	39.86	0.07	(1.32)	0.01	0.00	265.23	
A.D.B	112.04	43.48	0.00	(2.35)	0.62	0.35	154.14	
IFAD	2.06	0.38	0.00	(0.02)	0.00	0.00	2.43	
EIB	4.44	0.29	0.00	0.00	0.00	0.00	4.74	
ECOWAS FUND	0.78	0.05	0.00	0.00	0.00	0.01	0.84	
ADF	1.66	1.23	0.00	(0.03)	0.85	0.00	3.70	
IDA	19.73	8.10	0.00	(0.11)	3.11	0.42	31.25	
EDF	7.22	1.48	0.62	0.00	0.01	0.00	9.33	
BILATERAL								
PARIS CLUB	**8,001.95**	**70.41**	**0.19**	**0.00**	**0.00**	**0.00**	**8,072.55**	**90.26%**
Agreement III & IV	426.04	70.41	0.19	0.00	0.00	0.00	496.64	
Phase I & II Exit Deal	7,575.91	0.00	0.00	0.00	0.00	0.00	7,575.91	
NON-PARIS BILATERAL	**9.37**	**2.79**	**0.00**	**0.00**	**0.00**	**0.00**	**12.16**	**0.14%**
EXIM Bank of Korea	5.60	1.55	0.00	0.00	0.00	0.00	7.15	
SBI Holdings	3.77	1.24	0.00	0.00	0.00	0.00	5.01	
PRIVATE								
LONDON CLUB	**0.00**	**143.18**	**0.00**	**0.00**	**0.00**	**26.68**	**169.86**	**1.90%**
Int. on Par Bonds/BoE	0.00	143.18	0.00	0.00	0.00	26.68	169.86	
PROMISSORY NOTES	**168.37**	**45.17**	**0.00**	**0.00**	**0.00**	**0.01**	**213.55**	**2.39%**
OTHERS	**0.04**	**0.00**	**0.00**	**0.00**	**0.02**	**3.61**	**3.67**	**0.04%**
WADMO	0.04	0.00	0.00	0.00	0.02	3.61	3.67	
Bank Saderat/W&Case	0.002	0.00	0.00	0.00	0.00	0.00	0.002	
TOTAL	**8,554.28**	**356.42**	**0.88**	**(3.83)**	**4.62**	**31.08**	**8,943.45**	**100.00**

Notes: Figures in parenthese s indicate waivers in favour of FGN.
Source: Debt Management Office

2.6 Waivers

As in the previous year, the DMO took advantage of timely debt service payments to obtain waivers from its multilateral creditors. In 2005 Nigeria obtained waivers amounting to US$1.32 million from the IBRD; US$2.38 million from the ADB Group; US$0.11 million from IDA and US$0.02 million from IFAD, bringing the total waivers received during the year to US$3.83 million.

Table 2.10 Disbursements by Creditor, 2001-2005
US$ million

	2001	2002	2003	2004	2005
Official					
Multilateral					
IDA	9.07	18.83	63.18	156.19	244.95
IFAD	0.30	-	5.17	2.43	2.46
ADB	16.73	32.60	21.45	26.26	10.42
ADF	2.75	0.40	16.43	0.35	6.98
Bilateral	-	-	-	-	-
Private	-	-	-	-	-
TOTAL	**38.85**	**51.83**	**106.23**	**185.23**	**264.81**

Notes: Disbursements exclude grants.
Source: Debt Management Office

Table 2.11 Net Flows and Net Transfers on External Debt by Creditor Type in 2005
US$ million

	Disbursements in 2005[1] (A)	Principal re-payments in 2005[2]	Net flows in 2005 (C=A-B)	Interest & Comm. In 2005[3]	Net trans-fers in 2005 (C-D)
Official Creditors	**264.81**	**8,385.28**	**-8,120.47**	**170.37**	**-8,290.84**
Bilateral	-	8,010.73	**-8,010.73**	73.25	**-8,083.98**
Multilateral	264.81	374.55	**-109.74**	97.12	**-206.86**
Private Creditors	**-**	**168.37**	**-168.37**	**215.04**	**-383.41**
Promissory Notes	-	168.37	**-168.37**	45.18	**-213.55**
Bond Holders	-	-	**-**	169.86	**-169.86**
Others	**-**	**0.05**	**-0.05**	**3.63**	**-3.68**
TOTAL	**264.81**	**8,553.70**	**-8,288.89**	**389.04**	**-8,677.93**

1. Figures for disbursements include ADB, ADF, IFAD and IDA.
2. Include payments to the Paris Club for Phase 1 and Phase 2 of the debt deal.
3. Less waivers on multilateral debt service.

Source: Debt Management Office

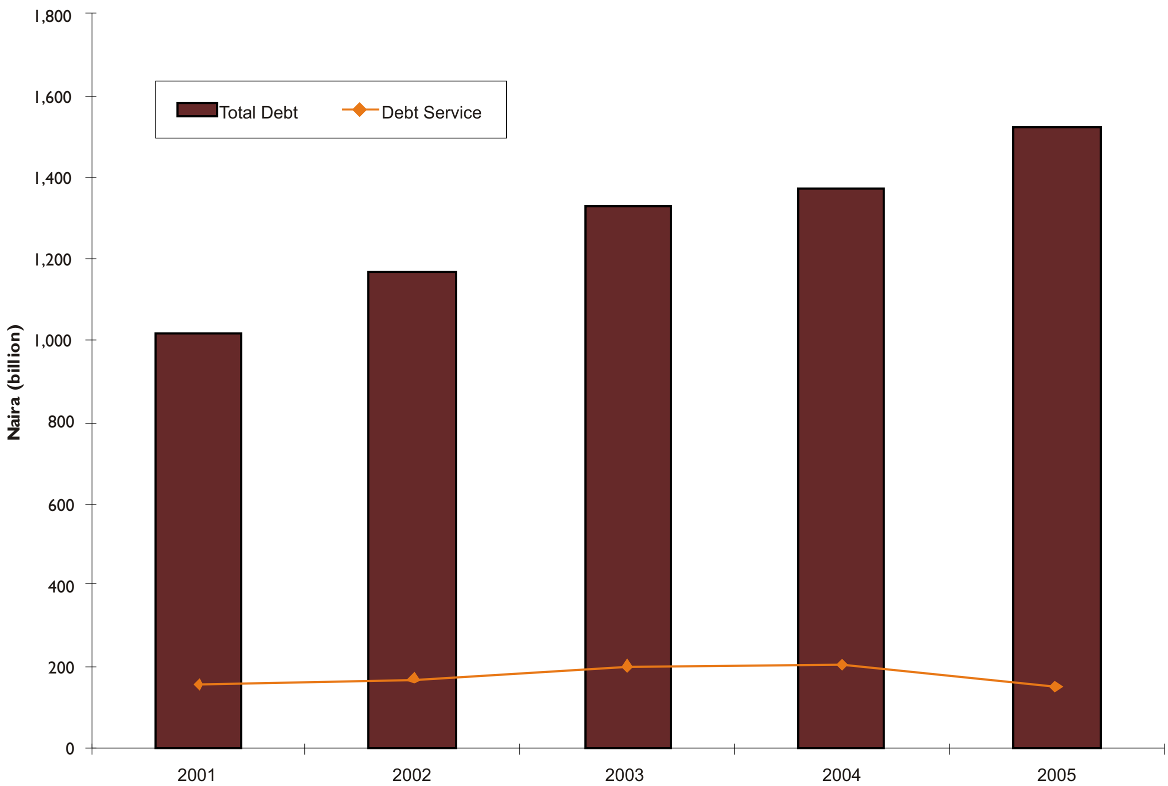
CHAPTER THREE
DOMESTIC DEBT ISSUES

3.1 Domestic Debt Stock

The domestic debt stock outstanding as at 31 December, 2005 amounted to N1,525.91 billion, compared to N1,370.32 billion as at 31 December, 2004. This figure represents an increase of N155.59 billion or 11.35 percent over the previous year's figure. This growth exceeded the 3.1 percent increase recorded in 2004 (see Table 3.1 and Figure 3.1).

The large increase of N155.59 billion is due to two factors. Firstly, the issuance in September of N27.00 billion by the DMO in 2nd FGN bonds to fund 2004 capital expenditure that was carried over into 2005. Secondly, the issuance in December of N132 billion in T-Bills by the CBN to fund the 2005 budget deficit. A further N151 billion in 2nd FGN Bonds were issued between July and December 2005 in order to develop the domestic financial market and to restructure the domestic debt. However, the proceeds of these issues were used to refinance maturing 91-day Treasury Bills, and consequently the impact on the overall domestic debt stock was neutral.

Figure 3.1 Domestic Debt Stock and Debt Service, 2001-2005



Source: Debt Management Office

3.2 Domestic Debt Service

Table 3.1 shows the magnitude of domestic debt stock and domestic debt service payments from 2001-2005. The table shows that the cost of domestic debt service fell from N203.64 billion in 2004, to N150.45 billion in 2005, representing a decrease of 26.11 percent. This decrease is due to a drop in market interest rates experienced during the year, and resulted in the lowest debt service payments since 2000. In addition the average cost of debt (i.e. debt service as a proportion of total debt) decreased from 14.86 percent in 2004 to 9.86 percent in 2005, due to a combination of both lower debt service and higher debt stock.

3.3 Composition of Domestic Debt by Instrument

Figure 3.2 illustrates the structure of domestic debt by instrument in 2005. As in the previous years, Treasury Bills constituted the dominant instrument, accounting for N854.83 billion or 56 percent of the total domestic debt stock. However, this is a fall from their share of 64 percent as at December 2004. It should also be noted that the maturity structure of the T-Bills has been lengthened from 91-days to include 182 and 360-day tenors. Treasury Bonds account for N419.27 billion or 27 percent of the total, and the newly introduced 2nd FGN Bonds constitute 178.27 billion or 12 percent. 1st FGN Bonds are unchanged at N72.56 billion or 5 percent, and FRN Development Stocks comprise N0.98 billion or less than 0.1 percent. Table 3.2 displays holdings of domestic debt by instrument for 2005. Table 3.3 shows the trend in the structure of debt by instrument from 2001 to 2005.

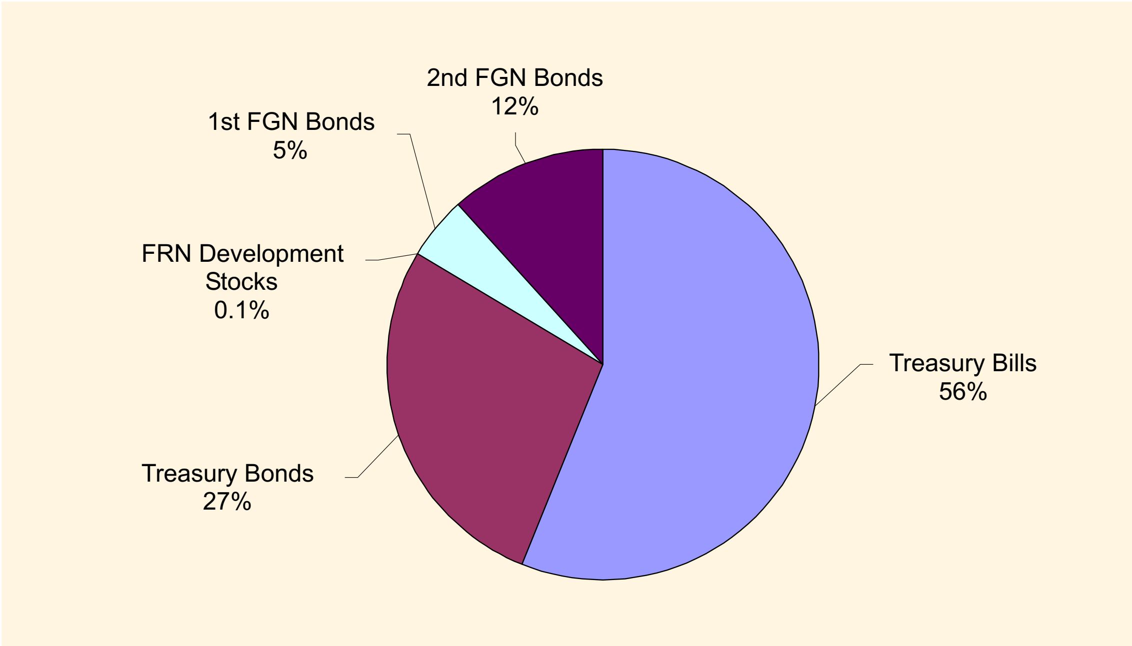
Table 3.1 Domestic Debt Stock and Debt Service 2001-2005

Year	Total Debt	Debt Service	Debt Service / Total Debt
	N billion	N billion	(percent)
2001	1,016.97	155.40	15.28
2002	1,166.00	170.64	14.63
2003	1,329.72	200.00	15.04
2004	1,370.32	203.64	14.86
2005	1,525.91	150.45	9.86

Source: Debt Management Office

Note: 2005 figures provisional

Figure 3.2 Composition of Domestic Debt by Instrument as at 31 December, 2005



3.4 Holdings of Domestic Debt

In terms of holdings of government securities, the banking sector remained the main holders accounting for N1,261.58 billion or 82.68 percent. The Central Bank of Nigeria (CBN) share of the banking sector holding was N501.97 billion or 32.90 percent, while the deposit money banks held N759.61 or 49.78 percent. The non-bank public held the remainder of N264.33 billion or 17.32 percent. Table 3.3 and Figure 3.3 show the structure of domestic debts in terms of holdings over the period 2001 to 2005. The CBN is still a dominant holder of government securities even though its share in relative terms has been declining over the years. Both the banking sector and the non-bank public have been assuming an increasing share of domestic debt since 2001.

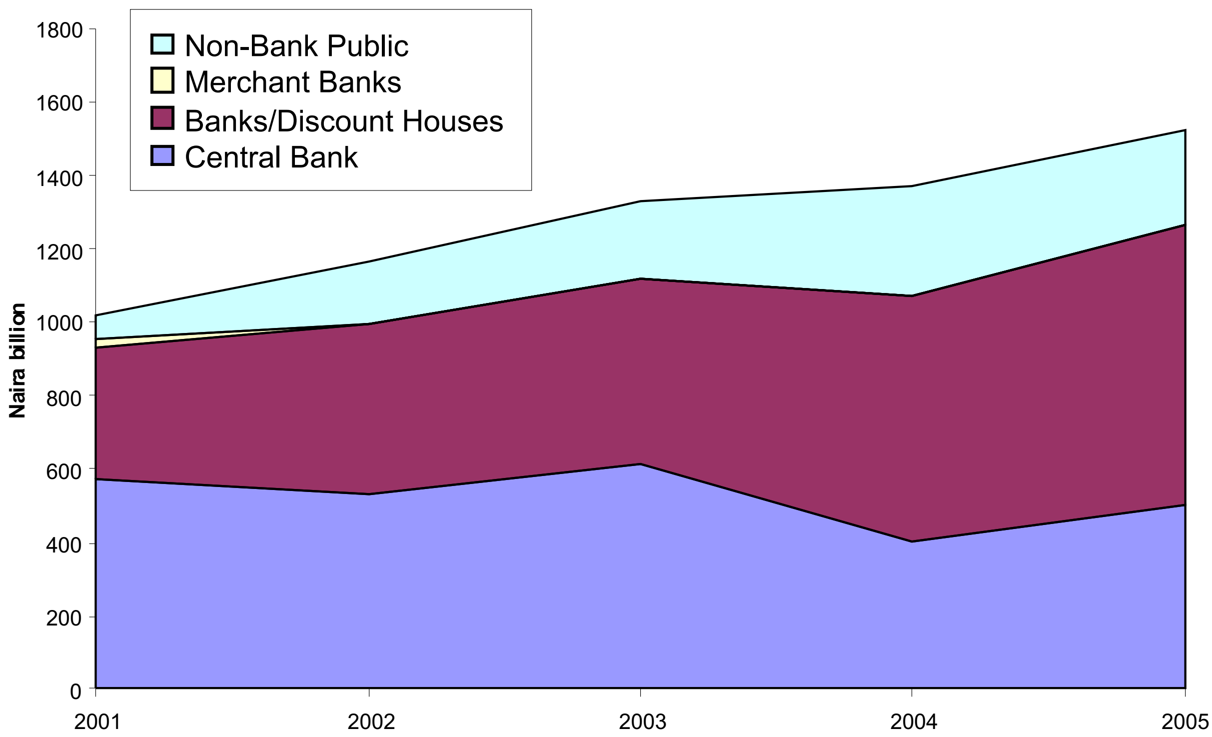
3.5 Domestic Debt by Outstanding Maturity

Table 3.4 displays the domestic debt stock by outstanding maturity and instrument. Each instrument has been separated into debt with less than one year outstanding maturity, i.e. that which will fall due during 2006, and debt with greater than one year outstanding maturity. The lion's share of the domestic debt stock consists of short-term debt: N916.36 billion or 60.05 percent is debt with less than one year outstanding maturity. Of this short-term stock, N854.83 billion are T-Bills; N55.70 billion are 1st FGN Bonds falling due in 2006; N5.67 billion are Treasury Bonds falling due in 2006 and the remaining N0.16 billion are FRN Development Stocks that fall due in 2006.

N609.55 billion or 39.95 percent of the total debt stock is debt with an outstanding maturity of greater than one year. Treasury Bonds account for N413.60 billion; 2nd FGN Bonds N178.27 billion; 1st FGN Bonds N16.86 billion and FRN Development Stocks the remaining N0.82 billion of this long-term debt.

Table 3.4 clearly illustrates the short-term nature of Nigeria's domestic debt portfolio; especially the dominance of the T-Bills.

Figure 3.3 Composition of Domestic Debt by Holding, 2001-2005



Source: Debt Management Office

Table 3.2 Holdings of Domestic Public Debt Instruments As at 31 December, 2005[1]

Naira billion

	Banks/ Discount Houses	CBN	Parastatals	Non-Bank	Total
NTBS	585.00	82.70	185.90	1.23	854.83
1st FGN Bond	46.58	0.00	6.27	19.71	72.56
2nd FGN Bond	128.03	0.00	0.00	50.24	178.27
T-Bonds	0.00	419.27	0.00	0.00	419.27
FRN Dev. Stocks	0.00	0.00	0.28	0.70	0.98
TOTAL	759.61	501.97	192.45	71.88	1,525.91

[1] Provisional
Source: Debt Management Office

Table 3.3 Domestic Debt by Type of Instrument and Holder, 2001-2005
Naira billion

	2001	2002	2003	2004	2005[3/]
Category of Instrument					
Treasury Bills	584.54	733.76	825.1	871.57	854.83
Treasury Bonds	430.61	430.61	430.61	424.94	419.27
FRN Development Stocks	1.83	1.63	1.47	1.25	0.98
1st FGN Bonds	-	-	72.56	72.56	72.56
2nd FGN Bonds	0	0	0	0	178.27
Total	**1,016.98**	**1,166.00**	**1,329.72**	**1,370.32**	**1,525.91**

Category of Holders

Banking System	**955.96**	**992.68**	**1,169.03**	**1,072.56**	**1,261.58**
Central Bank	569.51	532.45	613.8	403.49	501.97
Deposit Money Banks [1/]	386.45	460.20	500.43	669.07	759.61
Non-Bank Public [2/]	**61.02**	**173.32**	**215.46**	**297.76**	**264.33**
Total	**1,016.98**	**1,166.00**	**1,329.72**	**1,370.32**	**1,525.91**

Source: Debt Management Office
1/ Includes Discount Houses
2/ Includes Parastatals
3/ Provisional

Table 3.4 Domestic Debt by Outstanding Maturity
As at 31 December, 2005

Naira Billion

	Outstanding Maturity		
Instrument	Less than 1 year	Greater than 1 year	TOTAL
Treasury Bonds	5.67	413.60	419.27
FRN Development Stocks	0.16	0.82	0.98
1st FGN Bonds	55.70	16.86	72.56
2nd FGN Bonds	-	178.27	178.27
T-Bills	854.83	-	854.83
TOTAL	**916.36**	**609.55**	**1,525.91**

Source: Debt Management Office

3.6 Securities Issuance

3.6.1 2005 Bond Issuance Programme

The DMO continued the bond issuance programme with the floatation of N140 billion 2nd FGN Bonds over the period July to December 2005. The objectives of the 2005 bond issuance programme were to restructure the existing stock of Nigerian Treasury Bills into longer-tenored bonds, and to help sustain the momentum of reviving, deepening and developing the Nigerian capital market.

Unlike the 2003 bond programme, the 2005 series had the following distinctive features:

A) The issuance was devoid of cumbersome and costly procedures (for example, exemption from SEC's registration and filing requirements)
B) Use of offer circulars instead of Prospectus
C) Auction-based pricing system

The benefits of restructuring the 91-day NTBs into securities of longer maturities included the following:

A) Reduction of roll-over and refinancing risks to the issuer (the Federal Government)
B) Reduction of monetary financing by CBN

C) Elongation of the yield curve over the long-term horizon

D) Inreased ability to forecast debt Servicing and fiscal requirements

3.6.2 Restructuring of the 3-month NTBs into 6-month and 12-month Bills

During the year, DMO with the active collaboration of CBN continued with the conversion of 3-month NTBs into 6-month and 12-month bills. As at end-December 2005, the outstanding 6-month bills stood at N480.0 billion or 56.15 percent of the total stock of NTBs, while 3-month NTBs accounted for N224.83 billion or 26.30 percent. The balance of N150 billion or 17.55 percent represented 12-month bills.

3.6.3 Analysis of Subscription

The 2005 bond issuance programme was highly successful with five out of the seven tranches over-subscribed. The global analysis indicates that a cumulative total of N140 billion 2nd FGN Bonds were offered between July and December 2005. However, total subscription was N326.35 billion while total amount allotted to successful subscribers was N178.27 billion (see Table 3.5). The total allotment of N178.27 billion represented 127.34 percent and 54.63 percent of the total offer and total subscription, respectively. The coupons from the seven auctions ranged between 8.00 and 17.00 percent while the range of bids was between 4.50 and 23.50 percent.

The impact on the domestic debt stock of the introduction of both longer-maturity T-Bills and the 2nd FGN Bonds can be seen in Figures 3.4a and 3.4b, which display the domestic debt stock by instrument for both 2004 and 2005.

Figure 3.4a Domestic Debt Stock by Instrument, 2004

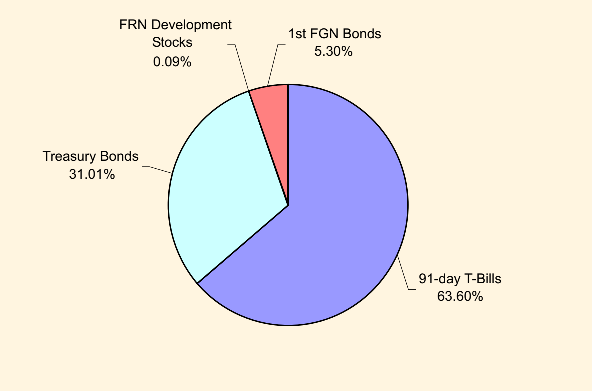
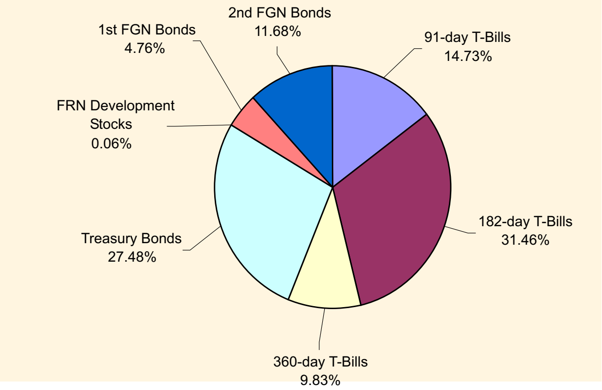


Figure 3.4b Domestic Debt Stock by Instrument, 2005



3.6.4 Analysis of Allotment

Analysis of allotment shows that deposit money banks accounted for a significant portion of the total, constituting N114.73 billion or 64.36 percent. This is followed by non-bank financial institutions with investments worth N34.14 billion or 19.15 percent. Pension funds were allotted N16.07 billion or 9.01 percent; discount houses received a total of N13.25 billion or 7.43 percent, and individuals were allotted the balance of N0.084 billion or 0.05 percent of the total (see Figure 3.5).

3.7 Market Development

Market development is a key objective of the domestic debt programme. Efforts in developing the primary bond market continued during 2005 with the introduction of monthly auctions of FGN Bonds throughout the second half of the year. The development of the secondary market intensified during 2005 with the achievement of the following:

- The finalization of guidelines for the primary dealer/market maker framework, with inputs from stakeholders
- The Bond Market Steering Committee was constituted during 2005

Figure 3.5 Allotment of Second FGN Bonds
As at 31 December, 2005

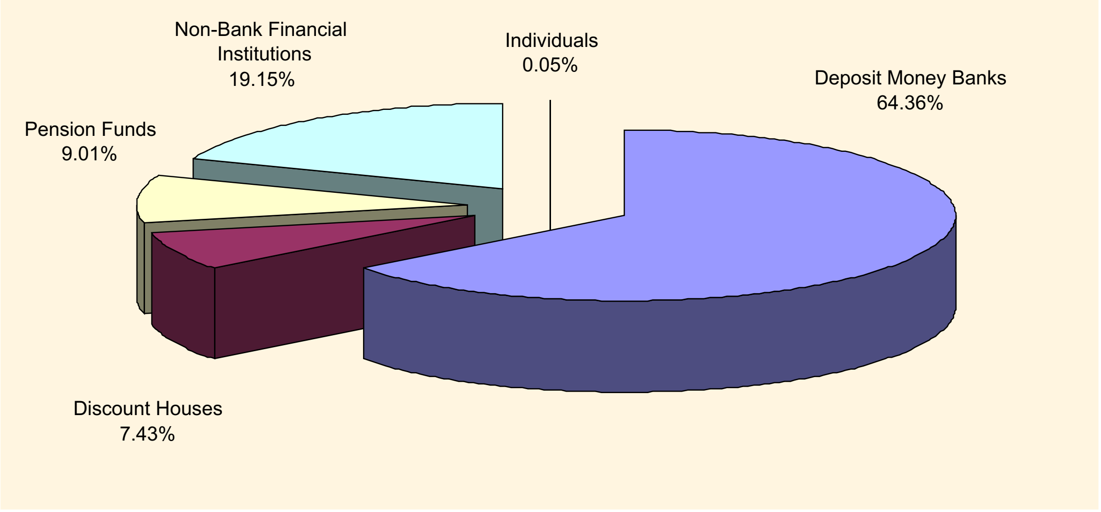


Table 3.5

Analysis of the Allotments of the Second FGN Bond Series

Naira million

SERIES	1	2	3	4	5	6	7
DATE OF AUCTION	15-Jul-05	12-Aug-05	9-Sep-05	30-Sep-05	28-Oct-05	23-Nov-05	16-Dec-05
TENOR	3-YEAR	2-YEAR	3-YEAR	2-YEAR	3-YEAR	2-YEAR	3-YEAR
ISSUE AMOUNT	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
TOTAL SUBSCRIPTION	69,923.57	64,586.93	58,283.22	34,464.78	11,064.86	17,610.00	69,428.50
TOTAL ALLOTMENT	20,533.54	20,812.01	29,310.00	23,064.76	11,064.84	17,610.02	55,878.54
a) Deposit Money Banks	16,250.00	16,000.00	18,300.00	22,500.00	8,229.24	7,505.00	25,950.61
b) Discount Houses	3,000.00	4,750.00	1,000.00	250.00	2,750.00	500.00	1,000.00
c) Pension Funds	925.00	50.00	-	308.07	50.00	3,480.00	11,256.00
d) Non-Bank Financial Institutions	356.00	8.00	10,000.00	1.50	10.00	6,107.90	17,652.50
e) Individuals	2.54	4.01	10.00	5.19	25.60	17.12	19.43
RANGE OF BIDS	7.00%-17.00%	5.00-17.00%	6.00-20.00%	4.50%-12.00%	4.50%-14.00%	5.00%-15.00%	5.50%-23.50%
MARGINAL RATE (COUPON)	11.50%	8.25%	8.50%	8.00%	12.50%	15.00%	17.00%

Source: Debt Management Office

CHAPTER FOUR

NIGERIA'S PARIS CLUB DEBT DEAL

4.1 INTRODUCTION

In 2005 Nigeria agreed an historic debt deal with the Paris Club group of creditors to allow a complete exit from all obligations owed to the group.

Right from his inauguration in 1999, President Olusegun Obasanjo identified debt relief as a key objective of his administration and tenaciously pursued it. His continuous effort and tireless diplomatic engagement, as well as consistent focus on debt relief, helped keep the issue at the forefront of the national agenda, build a conducive political climate and remove occasional challenges. In addition, he cultivated relationships with the leadership of key Paris Club creditor countries, in particular the UK, France and the USA, to secure their support. The Minister of Finance, Dr. Ngozi Onkonjo-Iweala, also made significant efforts towards articulating and implementing the reform programme, including her dynamic leadership of the economic management team. She also exploited a vast network of contacts across the globe and engaged the support of multilateral institutions including the World Bank, civil society and the media. Economic and governance reforms, as well as anti-corruption measures further facilitated the execution of the deal.

During 2005 a number of advocacy groups in Nigeria and abroad had been campaigning for debt relief for Africa in general and Nigeria in particular. In the run-up to the G8 summit in Gleneagles from July 6-8 2005, a combined National Assembly and DMO delegation visited six major creditor countries to solicit support through the various parliaments, non-governmental organisations, key decision makers and Nigerians in diaspora. The major goal of the advocacy campaign was to amplify Nigeria's quest for cancellation of at least two-thirds of the debt owed to the Paris Club.

4.2 Details of the Paris Club Debt Deal

The deal consisted of three parts:

Firstly, Nigeria was required to settle arrears owed to the Paris Club, and make a levelling up payment. Arrears are amounts of principal, interest and late interest that have fallen due, but have not been paid. It is a standard requirement of the Paris Club for a debtor to clear its arrears prior to commencement of any debt relief negotiation. It should be noted that Nigeria's case is exceptional in the sense that the debt relief offer was made even before the settlement of the arrears.

Following the payment of arrears, Nigeria would get a reduction of the debt stock on Naples Terms. This simply meant that the Paris Club would write off 67 percent of the total debt stock. The name "Naples Terms" comes from the first time it was used in Naples, Italy in 1994. This step is phased in three parts. The arrears were paid under the first and second phases in October 2005, and 34 percent of the eligible stock was immediately written off. The remaining 33 percent will be written off in March 2006 subject to a satisfactory review of the IMF's Policy Support Instrument or PSI (see Box 4.1).

Box 4.1 Nigeria's Policy Support Instrument (PSI) with the IMF

Usually, to reach a deal with the Paris Club, a country is required to have a formal agreement with the IMF. Nigeria does not have an IMF programme, and thus has signed up to a new framework with the IMF known as a Policy Support Instrument (PSI).

A PSI is purely a formal monitoring and endorsement arrangement of the IMF, and does not constitute any new programme or any new conditionalities. The IMF's PSI framework is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. PSIs are voluntary and demand driven. PSI-supported programmes are based on country-owned poverty reduction strategies, adopted in a participatory process involving civil society and development partners, and articulated in a national document. Members' performance under a PSI is normally reviewed semi-annually, irrespective of the status of the program.

What the PSI means for Nigeria is an arrangement for IMF officials to endorse NEEDS, Nigeria's home-grown economic reform programme. The IMF already endorses NEEDS on a quarterly basis, and the PSI only formalises this endorsement arrangement. Therefore it does not represent any new policy requirements for Nigeria. This PSI arrangement has been necessary in order for Nigeria to obtain a debt relief deal from the Paris Club, and as such has benefited Nigeria significantly.

More information can be found at: http://www.imf.org/external/np/sec/pr/2005/pr05229.htm

What remains of Nigeria' debt stock after the cancellation on Naples Terms will then qualify for a "buy back" at an appropriate discount rate. This means Nigeria will pay less than the face value to liquidate the debt, thus making substantial 'buy back savings'.

In total, Nigeria is expected to achieve about 60% cancellation of its Paris Club total debt stock based on December 2004 figures.

Paris Club Debt Negotiations

Box 4.2 Benefits of the Paris Club Debt Deal

After completion of the deal, Nigeria's external debt will become sustainable. This means that Nigeria will be able to service its debt without recourse to exceptional financing. It means also a “fresh start” or a new beginning for Nigeria, providing an opportunity to accelerate the process of rekindling the economy and intensifying the fight against poverty.

Significant improvements in the debt ratios are expected to occur after debt relief. The NPV of external debt as a percentage of gross domestic product is expected to fall from the pre-relief level of 52 percent to approximately 4.8 percent by the end of 2006. The NPV of debt to government revenue will also fall from 412 percent to 16.1 percent, and the NPV of debt to exports will fall from 152 percent to 15.7 percent (see Table 4.1).

Debt service as a percentage of government revenue and exports will also fall: Nigeria will need only 8.7 percent of government revenue, and 2.1 percent of its export earnings to service its external debt after the debt relief.

The debt write-off of US$18 billion, when eventually actualised, will constitute a direct saving on debt service payments. Nigeria has in the last five years been spending an average of US$1 billion out of about US$2.1 billion falling due annually in Paris Club debt service. This substantial amount would immediately be made available to fund critical priority sectors such as health, basic education, water, power, road networks and other infrastructure to stimulate the economy, and encourage private sector investment. Importantly, debt relief also removes the debt overhang - a situation in which accumulated debt acts as a tax on future output, discouraging productive investment by the private sector.

The savings from debt relief are imperative for the implementation of NEEDS, and the attainment of the Millennium Development Goals (MDGs) in Nigeria.

The exceptional circumstance of the debt relief de-classifies Nigeria as a “bad and doubtful debt” country, into a credit worthy country. It is therefore a testimonial to an improving political environment and investment climate, which will help to increase foreign direct investment (FDI), expand the industrial base and help to enhance wealth creation.

Export credit guarantee agencies will be confident to restore insurance cover for exports of goods and services, as well as investment capital to the Nigerian private sector. This will improve the competitiveness of private enterprises.

4.2.1 Payments and Debt Cancellation

Nigeria paid US$7,575.91 million in October 2005. Nigeria's total indebtedness to the Paris Club was immediately reduced by this amount and the 34 percent stock reduction discussed above, and at 31 December, 2005 stood at US$15,412.40 million.

This stock will receive a further reduction subject to approval of the PSI in March 2006, leaving a remaining balance of about US$8 billion. The balance will qualify for a buyback at a market-related discount, expected to save Nigeria a further US$3.5 billion, leaving a balance of about US$4.5 billion which Nigeria will pay in order to completely exit its Paris Club debt.

In total, therefore, it is expected that the amount of debt cancellation Nigeria will receive from this treatment is approximately US$18 billion, whilst paying a total of US$12.4 billion over 2005 and 2006.

4.3 Post-Debt Deal Sustainability Indicators

Table 4.1 displays debt sustainability indicators (solvency and liquidity ratios) for Nigeria's debt stock before and after the Paris Club debt deal. According to all indicators, Nigeria's external debt is projected to be sustainable after completion of the deal.

There is projected to be a significant reduction in the solvency indicators after the deal is completed. The NPV of external debt to GDP is expected to fall from 51.4 percent of GDP to 4.8 percent of GDP; the NPV of external debt to exports will fall from 151.9 percent to 15.7 percent and the NPV of debt to government revenue is expected to fall from 412.0 percent to 16.1 percent.

With respect to liquidity ratios, debt service as a share of exports is projected to fall from 7.4 percent in 2004 to 2.1 percent in 2007, and debt service to revenue should fall from 20.1 percent to 8.7 percent. Figures for 2007 are used as debt service projections for 2006 include the third phase Paris Club exit payments and are thus not a true reflection of post-debt deal service payments.

Figure 4.1 displays graphically the impact that the debt deal will have on the external debt stock. The stock as at 30 September, 2005 was US$34,823.77 million. After completion of the exit deal and in the absence of any Paris Club debt in the portfolio, Nigeria's external debt stock outstanding is projected to be approximately US$5,065.57 million.

4.4 Reform Measures in Place to Prevent a Reoccurrence of the Debt Crisis

As part of the economic reform programme and plans to institutionalise transparency and accountability, several important measures have been put in place. These include a Fiscal Responsibility Bill, a Public Procurement Bill, an Extractive Industries Transparency Initiative (EITI) Bill, and a framework for the Overview of Public Expenditure in NEEDS (OPEN). These will help to improve public financial management in Nigeria and will help to ensure that the debt crisis does not happen again.

The Fiscal Responsibility Bill has been designed to reform the management of public finances in Nigeria. The Law will commit all tiers of government to a set of rules for efficient economic management in terms of standardised planning, as well as control and monitoring of public borrowing and expenditure. The Public Procurement Bill aims to enforce due process in the awarding of government contracts; reduce wasteful expenditure, and ensure value for money in the public procurement process. The EITI Bill aims to enhance transparency in the oil, gas and solid minerals sectors by enforcing a system of 'publish what you pay'. In addition, the Federal Government has introduced a system of publishing monthly allocations to State Governments from the Federation Account.

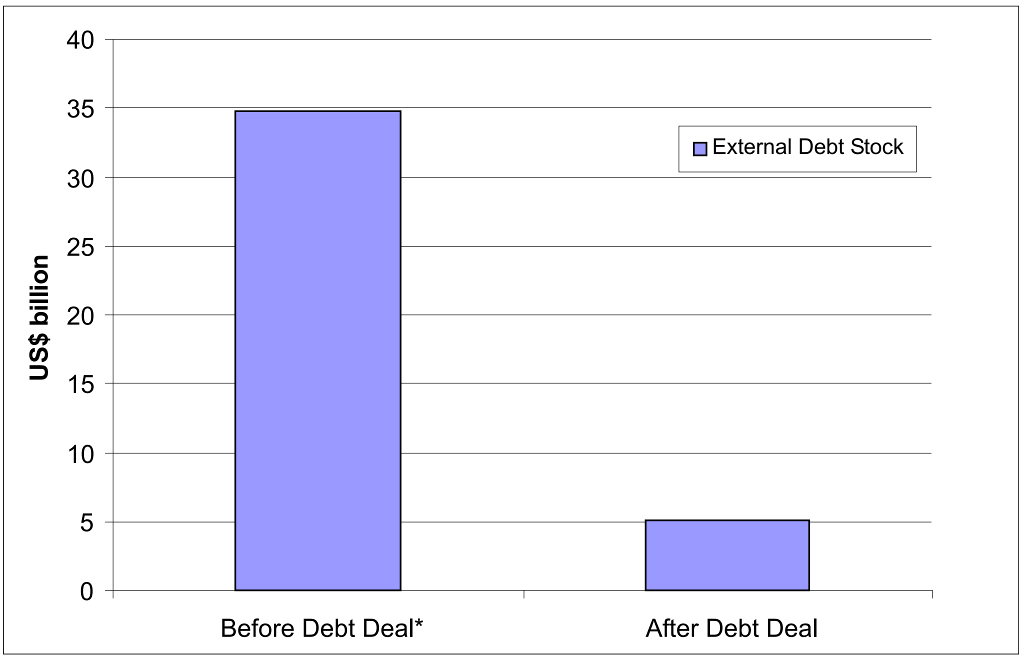
OPEN is a mechanism for enhanced funding, tracking and monitoring of budget lines in key sectors aimed at meeting the MDGs. It will monitor the use to which the direct budgetary gains from debt relief will be put, and can also be expanded to track future aid disbursements from international development partners. This monitoring will involve representatives from the civil society, the media and the organized private sector.

Table 4.1 External Debt Sustainability Ratios: Before and After the Paris Club Debt Deal

Solvency Indicators	***Before***	***After***
NPV of Debt/GDP	51.4%	4.8%
NPV of Debt/Exports	151.9%	15.7%
NPV of Debt/Revenue	412.0%	16.1%
Liquidity Indicators		
Debt Service/Exports	7.4%	2.1%
Debt Service/Revenue	20.1%	8.7%

Notes: All figures for 'Before' the debt deal are as at 31 December, 2004. Solvency figures for 'After' the debt deal are projected for end -2006, as the debt stock reduction will have taken place. Liquidity figures for after the deal are projected for 2007 as debt service figures for 2006 will include third phase Paris Club exit payments.
Source: Debt Management Office

Figure 4.1 External Debt Stock Before and After the Paris Club Deal



Source: Debt Management Office

Notes: Debt stock before the debt deal is as at 30 September, 2005. The stock totaled US$34,823.77 million. Debt stock after the debt deal is projected, and estimated at US$ 5,065.57 Million

CHAPTER FIVE

DMO INSTITUTIONAL ISSUES

5.1 Capacity Building

During 2005, eight local courses and sixteen foreign courses had been sponsored by DFID and attended by twenty-seven and twenty-six members of staff respectively. In addition, the DMO sponsored local and overseas training courses for different categories of staff during the year, as did the West African Institute for Financial and Economic Management (WAIFEM).

A competitive recruitment exercise was conducted during the year to fill identified skill gaps that resulted from the restructuring exercise that took place in the year 2004. An unprecedented promotion exercise was also carried out which led to the upgrading of over 40 officers.

5.2 Stakeholder Events

In collaboration with the Senate of the Federal Republic of Nigeria, the DMO hosted the first Senate Presidents' Roundtable on 'Debt, Development and Democracy: Challenges for Nigeria'. The DMO also organized a technical roundtable on *'Development of the Nigerian Bond Market: Challenges and Prospects'*. A team of Argentinean and UNCTAD debt managers visited the DMO in January 2005 to share their debt management experience with their Nigerian counterparts. In addition, a high-level government delegation from the Sudanese Ministry of Finance and central bank undertook a one-week study tour of DMO in December 2005.

The DMO participated in the launch of SERVICOM by the Presidency in May 2005, and this resulted in the remaking of the DMO Client Service Charter.

A delegation from the DMO participated in the Fifth Inter-regional WADMO Conference in Geneva in June 2005. This was a forum to share country experiences in debt management practices and procedures.

The Commonwealth Secretariat mission visited the DMO to assess CS-DRMS requirements for domestic debt during July 2005.

The DMO and some of its key stakeholders undertook study tours to nations that have succeeded with the implementation and management of sub-national debt and fiscal responsibility legislation. Countries visited include Argentina, India and Brazil.

The DMO was represented in India at the Commonwealth Secretariat mission to assess the CS-DRMS management tools module for domestic debt.

5.3 Accounting

The Accountant-General of the Federation (AGF) installed the newly introduced Accounting Transaction Recording and Reporting (ATRRS) software designed specifically for public sector accounting. The system is now being used for rendering timely monthly reports to the Office of the Accountant-General of the Federation.

5.4 Awards

The DMO was nominated for the This Day Awards of '*Government Parastatal of the Year 2005*' and '*Transaction of the Year*' for securing the debt relief deal.

The Director-General visited ABU, Zaria, to deliver a public lecture on the management of Nigeria's External Debt at the Annual Public Lecture of the Department of Economics, and received an Award of Excellence for his contributions towards the achievement of the debt relief deal.

CHAPTER SIX

FINANCIAL STATEMENTS AND ACCOUNTS

6.1 2005 Budget

For the year 2005, the total budget approved for the Debt Management Office was N485,266,798, made up of N217,752,316 for personnel cost, N240,084,482 for overhead cost and N27,430,000 for capital expenditure. Overall, there was an increase of 17 percent compared to the total budgetary allocation of N416,475,521 for 2004.

In 2005, the Federal Government reduced expenditure levels in overhead cost and capital expenditure by 26 percent and 22 percent across the board, respectively. While actual release for personnel cost was 100 percent (i.e. N217,752,316 less N25,448,331 deducted at source for pension and National Health Insurance Scheme (NHIS) contributions) that of overhead was only N177,422,432. However, capital expenditure releases were only N17,110,060, a shortfall of 38 percent as against the planned shortfall of 22 percent. The DMO has almost concluded all requirements for the issuance of a "due process certificate of payment" to enable it to access the capital release of N17,110,060.

6.2 Financial Statements for the Year Ended 31 December, 2005

6.2.1 Corporate Information

DEBT MANAGEMENT OFFICE

CORPORATE INFORMATION
FOR THE YEAR ENDED 31ST DECEMBER, 2005.

1. **DIRECTORS**

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

Dr. Mansur Muhtar	-	Director-General
Dr. Abraham E. Nwankwo	-	Director
Mr. Osarodion Okun Agho	-	Director (To May 2005)
Mr. Isiaka Abdulrazaq	-	Director (To March 2005)
Mrs. Funmi Ilamah	-	Director
Dr. Mahmoud Magaji	-	Director

2. **REGISTERED OFFICE**

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

3. **EXTERNAL AUDITORS**

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

4. **BANKERS**

(1) Central Bank Of Nigeria
Garki, Abuja.

(2) Zenith Bank Plc
Maitama Branch
House 13, Plot 991,
Maitama Zone
Opposite Transcorp Hilton Hotel, Abuja.

(3) United Bank For Africa Plc
Federal Agencies & Comms
Public Sector
Kaura Namoda Street,
Area 3, Garki, Abuja.

6.2.2 Reports of the Auditors

Olamoju Babatunde & Co.

(CHARTERED ACCOUNTANTS)

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

Plot 351,
Aminu Kano Crescent,
Wuse II, Abuja

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

DEBT MANAGEMENT OFFICE

REPORTS OF THE AUDITORS
FOR THE YEAR ENDED 31ST DECEMBER, 2005.

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

DIRCTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The Directors of Debt Management Office has decided to prepare the Statement of Receipts and Expenditure and Statement of Affairs for the period, which give a true and fair view of the state of affairs as at 31st December, 2005.

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

- Select suitable accounting policies and then apply them consistently,
- Make judgments and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in finacial statements, and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the office will continue operations.

AUDITORS' RESPONSIBILITY

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

BASIS OF OPINION

We conducted the audit in accordance with Accounting Standards issued by the Nigeria Accounting Standards Board with some adaptations as regard Public Service Operations.

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

We planned and performed the audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material 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 the Debt Management Office as at 31st December, 2005 and the surplus and changes in the Cash Flow for the year ended.

OLAMOJU BABATUNDE & CO.
(CHARTERED ACCOUNTANTS)

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

OLAMOJU BABATUNDE & CO.
(CHARTERED ACCOUNTANTS)

6.2.3 Balance Sheet as at 31st December 2005

DEBT MANAGEMENT OFFICE
BALANCE SHEET
AS AT 31ST DECEMBER, 2005.

		2005		2004	
ASSETS EMPLOYED	NOTES	N	N	N	N
Fixed Assets	2		158,603,460		128,118,362
Current Assets	3	63,817,852		120,396,799	
Deduct: Current Liabilities		-		-	
Working Capital			63,817,852		120,396,799
			222,421,312		248,515,161

		2005		2004	
FINANCED BY: -		N	N	N	N
Accumulated Fund 31/12/05	4		109,530,506		98,101,939
Excess of Income Over Expenditure			112,890,806		150,413,222
			222,421,312		248,515,161

Director - General ....
Dr. Mansur Muhtar

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

The notes on pages 54 to 64 from an integral part of these Financial Statements.

6.2.4 Statement of Income and Expenditure as at 31st December 2005

		2005	2004
RECEIPT	**NOTES**	**N**	**N**
Votes	5	389,713,584	434,709,511
Additional Release from Budget Office	5a	23,068,130	-
SPECIAL ITEMS:			
FGN Bond Floatation	5aa	237,296,798	86,892,104
Debt Conversion Funding	5b	71,292,031	3,205,123,163
SPECIAL ITEMS:			
Debt Conversion take - off grant (Loan from FGN Bond)	5c		29,265,000
Miscellaneous Account	5d	75,673,063	-
Other Income	6	208	161,514
		797,043,814	3,669,319,188
EXPENDITURE			
Recurrent Expenditure	7a	376,792,290	347,877,407
SPECIAL ITEMS:			
FGN Bond Floatation	7b	199,096,967	38,153,343
Debt Conversion Redemption		41,913,754	3,132,875,216
Miscellaneous Account	7c	66,349,996	-
		684,153,007	3,518,905,966
Excess Of Income Over Expenditure	8	112,890,807	150,413,222

The notes on pages 54 to 64 from an integral part of these Financial Statements.

6.2.5 Cash Flow Statement

	2005	2004
	N	N
Excess Of Income Over Expenditure	112,890,806	150,413,222
Add:- Adjustment for items Not Involving the movement of funds		
Accumulated Fund Adjustment	(120,396,799)	(86,925,540)
Depreciation	-	-
Income generated from operations	(7,505,993)	63,487,682
Operating Income before Working Capital Charges		
	(7,505,993)	102,106,024
Tax Paid	-	-
	(7,505,993)	63,487,682
Cash from Investing Activities		
Purchase of Fixed Assets	(49,072,954)	(30,016,423)
	(56,578,947)	33,471,259
Bank Balances at the beginning of the year	120,396,799	86,925,540
Bank Balances at the end of the year	63,817,852	120,396,799

6.2.6 Notes to the Statement of Affairs

ACCOUNTING POLICIES

1. The Following are the significant accounting policies which have been adopted by the Debt Management Office.

A. BASIS OF ACCOUNTING

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

B. RECEIPT

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

C. NATURE OF ACTIVITIES

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

D. DEPRECIATION

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

E. STOCKS

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

F. TAXATION

There was no provision for both Income and Education Taxes during the period ended 31st December, 2005 because the office is a non-profit making Organization.

G. COMMENCEMENT OF ACTIVITIES

The Debt Management Office started operations in October, 2000.

FINANCIAL STATEMENT OF ACCOUNTS

DEBT MANAGEMENT OFFICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

	MOTOR VEHICLE & CYCLE	COMPUTER	OFFICE EQUIPMENT	TOTAL
2 **FIXED ASSETS**				
(CAPITAL EXPENDITURE)	**N**	**N**	**N**	**N**
Cost as at 01 / 01 / 05	41,076,245	28,697,792	58,344,325	128,118,362
Additions	12,483,531	4,698,500	31,890,923	49,072,954
Disposal	-16,584,056	-840,000	-1,163,800	-18,587,856
	36,975,720	32,556,292	89,071,448	158,603,460
DEPRECIATION				
As at 01/10/05	-	-	-	-
Charge for the year	-	-	-	-
Net Book Value 31/12/05	36,975,720	32,556,292	89,071,448	158,603,460

	NOTES	2005 N	2004 N
3 **CURRENT ASSETS**			
Cash Balances	9	63,817,852	84,086,717
Cash in Transit	10	-	36,310,082
		63,817,852	120,396,799
4 **ACCUMULATED FUND**			
As At 31/12/05		248,515,161	185,241,384
Deduct: Excess of 2004 expended in 2005		-120,396,799	-86,925,540
: Assets disposal		-18,587,856	-213,905
Balance transferred to Balance Sheet		109,530,506	98,101,939
5 **VOTES**			
Capital	12	20,000,000	-
Overhead	13	177,422,432	110,021,909
Personnel Emolument	14	192,303,988	

CONTINUED

		NOTES	2005 N	2004 N
	Balance on Account (Being Bank Charges as at 31st December, 2004 not captured in other charges		-12,836	-
			389,713,584	347,87 7,407
5a	Additional Release from Budget Office	15	23,068,130	-
5aa	FGN Bond Floatation	11	237,296,798	86,892,104
5b	Debt Conversion Funding	15a	71,292,031	3,205,123,163
5c	**DEBT CONVERSION TAKE OFF GRANT**			
	Loan from FGN Bond	15b	-	29,265,000
5d	Miscellaneous Account	15c	75,673,062	-
			797,043,606	3,669,157,674
6	**OTHER INCOME**			
	Interest Income	16	208	161,514
			797,043,813	3,669,3 19,188
7a.	**RECURRENT EXPENDITURE**			
	Personnel Emolument	18	192,264,110	237,812,358
	Overheads	19	161,453,452	109,973,161
	Additional Release from Budget Office	20	23,028,752	-
	Amount Returned To Chest / Sub -Treasurer	21	45,976	91,888
			376,792,290	347,877,407
7b.	**SPECIAL ITEMS:**			
	Debts Conversion Programme Redemption	22	41,913,754	3,132,875,216
	FGN Bond Floatation	17	199,096,967	38,153,343
	Miscellaneous Account	22a	66,349,996	-
			684,153,007	3,518,905,966

DEBT MANAGEMENT OFFICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

CONTINUED

	NOTES	2005 N	2004 N
8 EXCESS OF INCOME OVER EXPENDITURE			
Part of the excess of Income over Expenditure was the amount used for the year under review. **See note 2.**			
9 CASH BALANCES			
UBA I		-	-
Zenith Bank		-	-
Central Bank Of Nigeria (FGN Bond Account	23	25,716,300	84,086,717
UBA Plc II (Debt Conversion A/C)		28,778,485	-
Zenith Bank II (Miscellaneous A/C)		9,323,067	-
		63,817,852	84,086,717
10 CASH IN TRANSIT- FGN BOND FLOATION			
Loan Refund From Personal Emolument		-	7,045,082
Loan Refund From Debt Conversion Programme		-	29,265,000
		-	36,310,082
11 VOTES-FGN BOND FLOATATION			
Balances Brought From 2004		84,086,717	86,892,104
Loan Refund from Personal Vote		7,045,082	-
Loan Refund from Debt Conversion		29,265,000	-
Reimbursement for Debt relief Advocacy Expenses		33,499,999	-
Additional Fund Released for FGN Bond Operation		83,400,000	-
		237,296,798	86,892,104

12 VOTES CAPITAL

There was N27,430,000 approved for capital acquisition during the year under review but this amount has not been released up till the time of the audit. This amount would be considered in 2006 account. However, the capital allocation the year 2004 was released in January 2005, and has been considered in this account. **See Note 2.**

CONTINUED

	NOTES	2005 N	2004 N
13 VOTES OVERHEADS			
Jan. Allocation		4,334,246	1,349,840
Feb. Allocation		4,334,246	1,349,840
March Allocation		4,334,246	1,349,840
April Allocation		4,334,246	1,349,840
May Allocation		21,348,403	20,524,738
June Allocation		21,348,405	20,524,738
July Allocation		24,344,344	8,668,492
Aug. Allocation		24,344,344	8,668,492
Sept. Allocation		24,344,344	8,668,492
Oct. Allocation		-	8,668,492
Nov. Allocation		22,177,804	8,668,492
Dec. Allocation		22,177,804	8,668,492
Additional Allocation		-	6,000,000
Additional Allocation		-	5,562,119
		177,422,432	110,021,909

	NOTES	2005 N	2004 N
14 VOTES - PERSONNEL EMOLUMENT			
Jan. Allocation		19,209,990	20,530,833
Feb. Allocation		19,209,990	20,930,213
March Allocation		19,209,990	20,730,523
April Allocation		19,209,990	20,730,523
May Allocation		14,058,751	22,204,011
June Allocation		14,486,468	22,204,011
July Allocation		14,486,468	17,338,727
Aug. Allocation		14,486,468	17,338,727
Sept. Allocation		14,486,468	17,338,727
Oct. Allocation		14,486,468	17,338,727
Nov. Allocation		14,486,468	17,338,727
Dec. Allocation		14,486,468	17,338,727
Additional Allocation (Arrears 0ct. - Dec. 2004)		-	599,069
Additional Allocation (Arrears Jan.- Apr. 2004)		-	5,893,953
		192,303,988	237,855,498

DEBT MANAGEMENT OFFICE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

CONTINUED

		NOTES	2005 N	2004 N
15	**ADDITIONAL RELEASE FROM BUDGET OFFICE**			
	Rent Arrears (Office)		14,624,900	-
	Public Services Reforms (Study Tour)		8,443,230	-
			23,068,130	-
	SPECIAL ITEMS:			
15a.	**DEBT CONVERSION FUNDING**			
	Redemption Proceeds to Viva Methano		-	2,070,076,837
	1st Transfer		-	1,135,046,326
	2nd Transfer		10,000,000	
	Loan from FGN Bond		17,830,263	
	Loan from FGN Bond		20,284,550	
	Loan from FGN Bond		8,248,236	
	World Bank Contribution - Study Tour		12,085,178	
	DFID Contribution - Study Tour		2,843,804	
	Miscellaneous Receipts			
			71,292,031	3,205,123,163
15b.	**DEBT CONVERSION TAKE OFF GRANT**			
	Loan from FGN Bond		-	29,265,000
			71,292,031	3,234,388,163
15c	**SPECIAL ITEMS:**			
	Receipt from FMF for fiscal Responsibility Bill		3,153,110	-
	Receipt for FAAC (Balance on Debt Conversion take -off grant)		5,097,088	-
	Receipt for FAAC for Study Tour		1,432,481	-
	Receipt from SEC for Technical Roundtable		2,359,940	-
	Receipt for World Bank for Study Tour		8,248,236	-
	Receipt from FGN Bond for Study Tour		42,424,130	-
	Receipt for FAAC (1st & 2ndState Debt Reconciliation Allocation		5,265,480	-
	Various Receipts		7,692,597	-
			75,673,063	-

CONTINUED

	NOTES	2005 N	2004 N
16 OTHER INCOME (BANK INTEREST)			
UBA I		-	-
ZENITH I		-	-
CBN (FGN Bond Floatation)		-	161,5 14
CBN (Capital)		-	-
UBA II		208	-
Zenith II (Miscellaneous Account)		-	-
		208	161,514
17 EXPENDITURE- FGN BOND FLOATATION			
Printing		4,751,250	1,240,689
Telephone		-	1,647,677
Local Travel and Transport		6,052,400	17,056,337
Training & Seminars		2,838,811	3,255,681
Bank Charges		3,060	830,354
Advisory, Con sultancy Services		-	588,425
Listing Fees		20,000,000	800,000
Registration Fees		-	8,000
Commission		4,555,000	10,128,121
Entertainment		1,700,263	359,800
Advertisement		34,055,656	2,268,252
Public Service Reform Publicity		9,344,107	-
International Travel & Transport		43,425,712	-
Transfer to Debt Conversion Fund		48,114,813	-
Miscellaneous		71,400	-
Int'l Travels (Advocacy)		24,184,495	-
		199,096,967	38,183,3 43

NOTE

Total expenditure was N211,580,498 less the asset element which amounted to N12,483,531 expended on Motor Vehicles and has been captured in the Fixed Asset Schedule - **See Note 2**.

DEBT MANAGEMENT OFFICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

CONTINUED

	NOTES	2005	2004
		N	N
18 EXPENDITURE- PERSONNEL EMOLUMENT			
Basic Salary		96,261,037	72,311,355
Regular Allowances		94,083,606	153,122,282
Non - Regular Allowances		1,919,466	12,378,721
		192,264,110	237,812,358
19 EXPENDITURE - OVERHEADS			
Local Travels		11,934,151	-
International Travels & Transport		49,431,837	-
Local Travels & Transport		345,500	6,522,663
International Travels & Transport		5,608,305	-
Telephone Charges		5,605,764	4,828,625
Internet Access Charges		537,559	1,418,926
Office Materials & Supplies		3,966,422	5,380,979
Library Books & Periodicals		2,105,798	1,442,099
Computer Materials & Supplies		1,873,517	-
Printing of Non Security Documents		7,094,178	-
Printing of Security Documents		1,522,481	-
Other Materials & Supplies		1,899,829	-
Maintenance of Motor Vehicles		1,608,869	-
Maintenance of Office Furniture		1,003,446	6,637,401
Maintenance of Building - Office		1,825,690	-
Maintenance of Building - Residential		1,522,481	-
Maintenance of Other Infrastructures		1,222,980	-
Maintenance of Office Equipments		657,388	-
Maintenance of Computer & IT Equipments		538,650	-
Maintenance of Plants/Generators		87,000	-
Other Maintenance Services		625,050	-
Local Training		7,772,350	19,016,846
Intl Training		6,909,901	-
Security Services		422,632	-
Cleaning & Fumigation Services		1,775,000	-

CONTINUED

	NOTES	2005 N	2004 N
Residential Accommodation Rent		6,508,583	-
Financial Consulting		1,777,173	1,400,221
Information Technology Consulting		2,773,745	-
Legal Services		447,300	300,000
Bank Charges		24,675	-
Insurance Charges/Premium		1,373,147	-
Motor Vehicles Fuel Cost		80,000	2,248,579
Refreshment & Meals		2,909,930	-
Honorarium & Sitting Allowance Payments		1,454,793	-
Publicity & Advertisements		15,301,358	7,917,485
Medical Expenditure		700,530	-
Postages & Courier Service		260,008	-
Welfare Packages		5,040,300	-
Subscriptions to Professional Bodies		444,200	-
Other Miscellaneous Expenses		5,887,413	12,815,943
Unretired Advances		96,000	-
Service Wide (Recurrent Adjustment)		-	6,000,000
Domestic Debt Take off Grant		-	4,201,749
Paris Club Bilateral Agreement			14,355,839
Paris Club Debt Restructuring		-	6,190,440
Commercial Debt Restructuring		-	14,295,063
		161,453,452	109,973,161

NOTE:

The total expenditure was N177,442,990 Less the asset element which amounted to N15,989,538, expended on Office Equipments and Computer and has been captured in the Fixed Asset **Schedule See Note 2.**

20 **ADDITIONAL RELEASE FROM BUDGET OFFICE**

	2005 N	2004 N
Rent Arrear (Office)	14,624,900	-
Civil Service Reform (Study Tour)	8,403,852	-
	23,028,752	-

DEBT MANAGEMENT OFFICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

CONTINUED

	NOTES	2005 N	2004 N
21 AMOUNT RETURNED TO CHEST			
Capital		115	-
Overheads		20,692	48,748
Personnel Emolument		25,169	43,140
		45,976	91,888
22 SPECIAL ITEMS: DEBT CONVERSION			
Payment of 2nd Tranch of Principal and accrued Interest of Russian Debts Purchased		-	3,126,009,290
International Travels		17,496,405	-
Motor Vehicle Repairs		101,650	-
Bank Charges		5,192	-
Local Transport		260,000	-
Advertising		1,909,690	-
Professional Fees		1,256,000	-
Office Materials		387,150	-
Newspapers & Periodicals		81,158	-
Stationeries		877,770	-
Telecommunications		1,241,626	-
Repairs and Maintenance		2,899,578	-
Training and Seminars		4,720,390	-
Miscellaneous Expenses		200,000	6,865,926
		41,913,754	3,132,875,216

NOTE:

Total Expenditure was N42, 513,754 Less the Asset element which amounted to N600, 000 expended on furniture items and has been captured in the Fixed Asset **Schedule See Note 2.**

CONTINUED

	NOTES	2005 N	2004 N
22a SPECIAL ITEMS: MISCELLANEOUS ACCOUNT			
Advertisement & Publicity		1,257,500	-
Bank Charges		237,130	-
Entertainment		1,279,900	-
Intl Travel (Study Tour)		45,478,566	-
Local Travels		214,000	-
Repairs & Maintenance		3,446,319	-
Miscellaneous		2,456,991	-
Training and Seminar		226,200	-
Post and Telephone		603,276	-
Printing		78,938	-
Advisory & Consulting Services		463,000	-
Technical Roundtable		2,359,940	-
World Bank Contribution to Study Tour		8,248,236	-
		66,349,996	-
23 CBN FGN BOND ACCOUNT			
The Balance in this Account is made up of the :following			
Special items: Project monitoring funds (Debt Conversion Programme Redemption Proceeds)		-	79,113,873
			-
Balance of FGN Bond Flotation Account		25,716,300	4,972,844
		25,71	84,086,717

24 STOCK OF STATIONERY

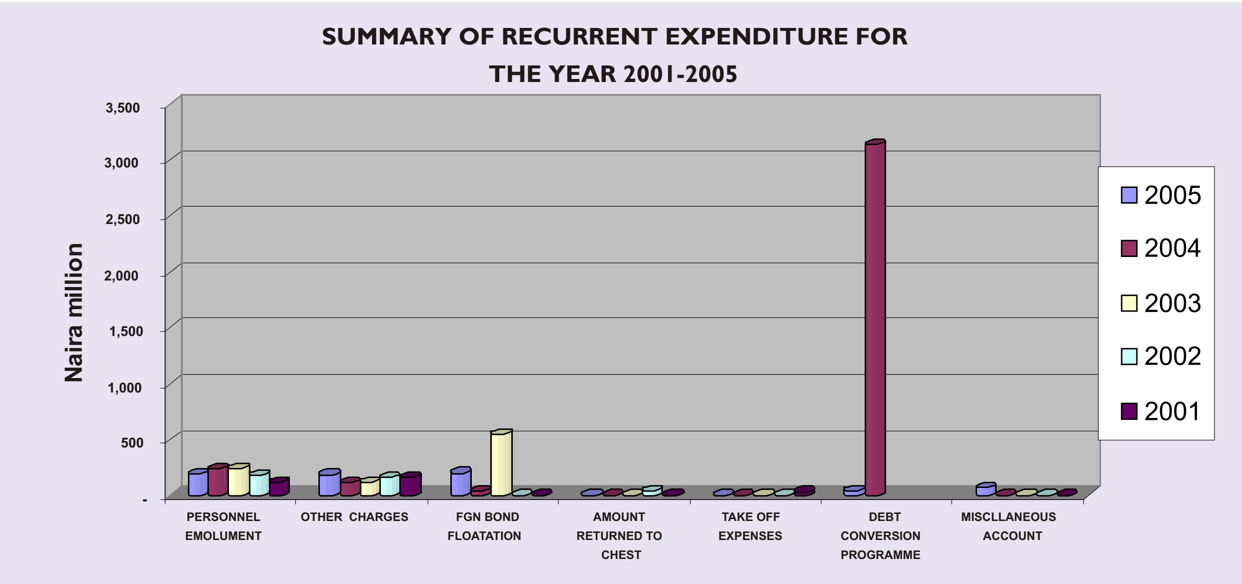
The stock of unused assets and unconsumed stationery as at 31st December, 2005 was N9,673,097. This has been wholly charged to overhead expenses and fixed assets since the account is prepared on cash basis.

FINANCIAL STATEMENT OF ACCOUNTS

6.2.7 Annexure to the Financial Statements

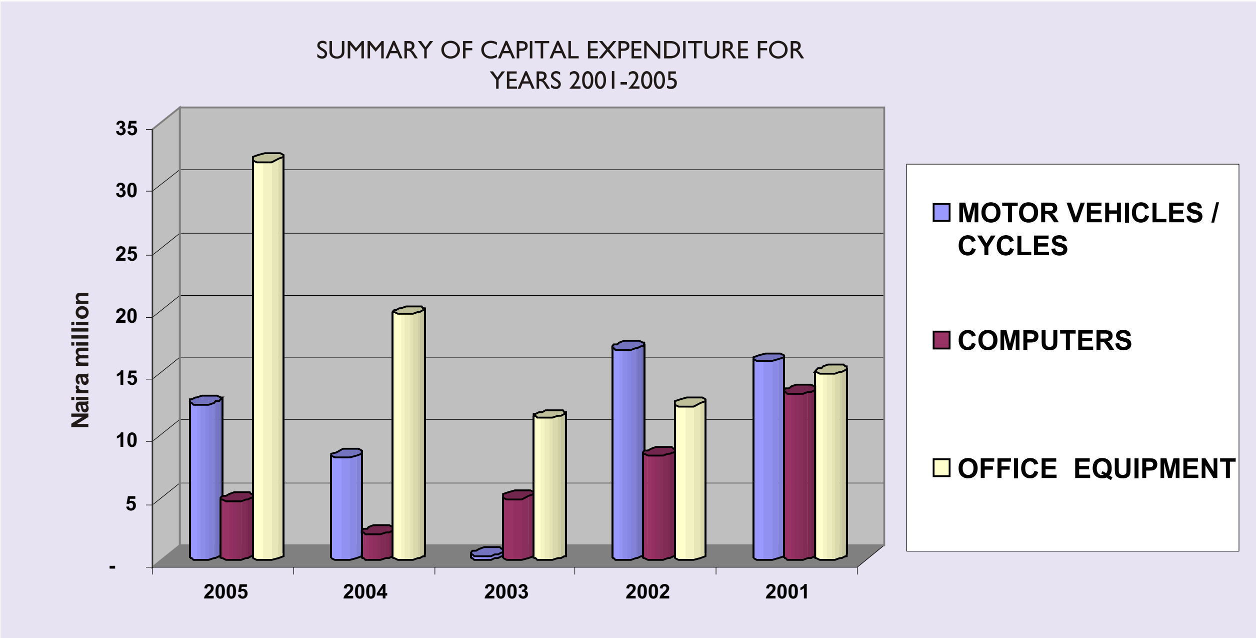
ANNEXURE I
DEBT MANAGEMENT OFFICE

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



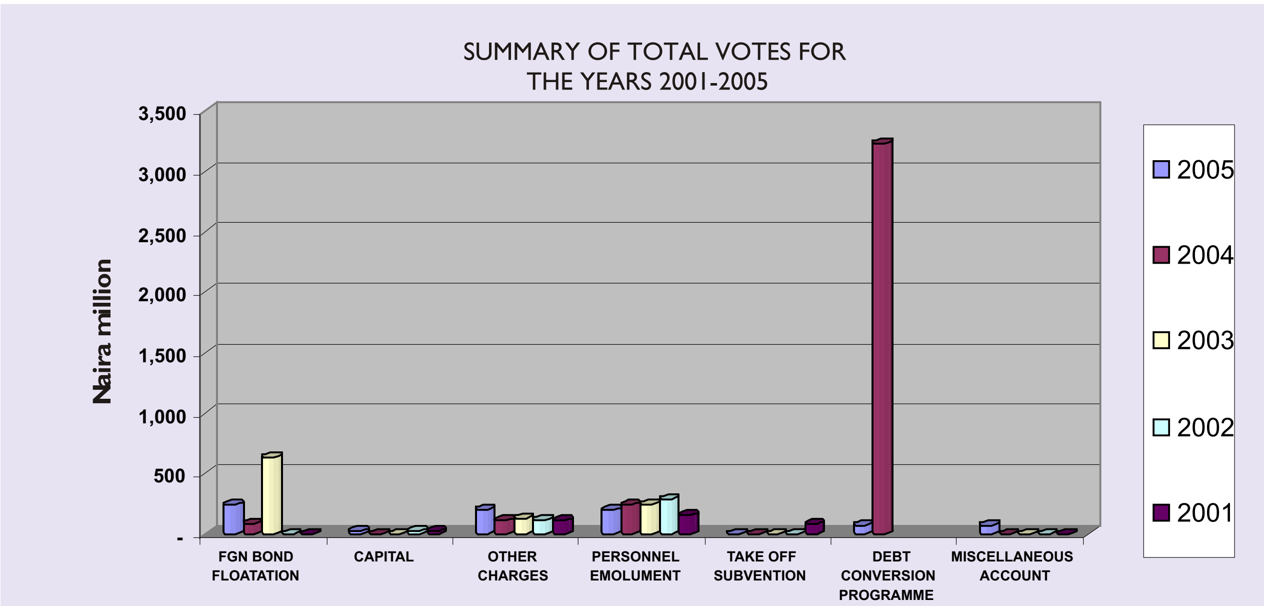
ANNEXURE I CONTINUED
SUMMARY OF CAPITAL EXPENDITURE FOR THE YEARS 2OO1 - 2005

	2005	2004	2003	2002	2001
MOTOR VEHICLES / CYCLES	12,483,531	8,228,325	340,000	16,828,141	15,893,684
COMPUTERS	4,698,500	2,091,000	4,907,320	8,364,840	13,334,632
OFFICE EQUIPMENT	31,890,923	19,697,098	11,377,986	12,371,462	14,897,779
	49,072,954	**30,016,423**	**16,625,306**	**37,564,443**	**44,126,095**



ANNEXURE I CONTINUED
SUMMARY OF TOTAL VOTES FOR THE YEARS 2OO1 - 2005

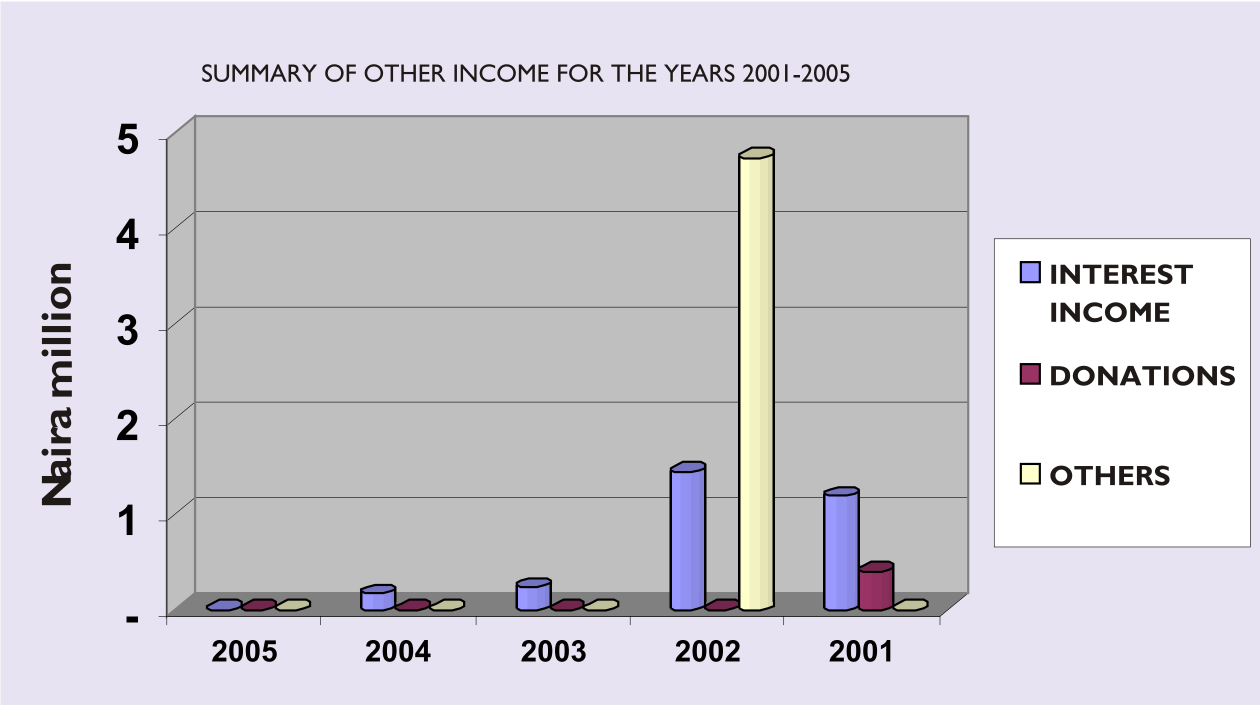
	2005	2004	2003	2002	2001
FGN BOND FLOATATION	237,296,798	86,892,104	631,487,000	-	-
CAPITAL	20,000,000	-	-	20,269,682	19,708,010
OTHER CHARGES	200,490,562	110,021,909	132,497,333	111,996,800	105,000,000
PERSONNEL EMOLUMENT	192,303,988	237,855,498	246,369,999	287,431,738	150,000,000
TAKE OFF SUBVENTION	-	-	-	-	80,000,000
DEBT CONVERSION PROGRAMME	71,292,031	3,234,388,163			
MISCELLANEOUS ACCOUNT	75,673,062	-	-	-	-
	797,056,441	**3,669,157,674**	**1,010,354,332**	**419,698,220**	**354,708,010**



A N N E X U R E

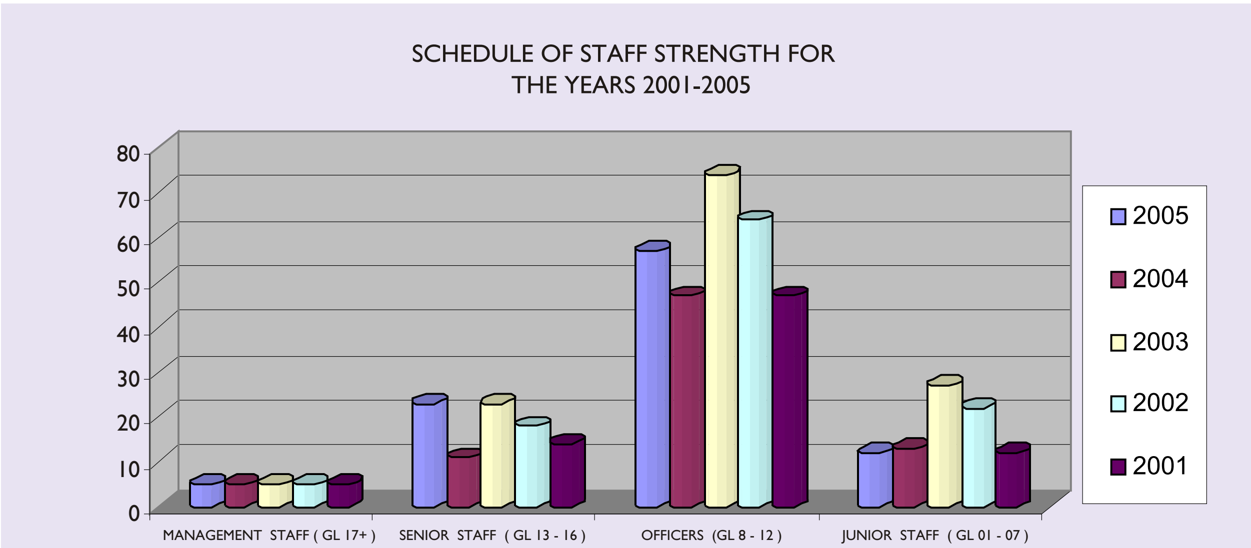
ANNEXURE I CONTINUED
SUMMARY OF OTHER INCOME FOR THE YEARS 2OO1 - 2005

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



ANNEXURE II DEBT MANAGEMENT OFFICE
SCHEDULE OF STAFF STRENGTH FOR THE YEARS 2001 - 2005

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



ANNEXURE III

DEBT MANAGEMENT OFFICE

SCHEDULE OF FIXED ASSETS

(LESS ACCUMULATED DEPRECIATION)

	MOTOR VEHICLE & CYCLE N	COMPUTER N	OFFICE EQUIPMENT N	TOTAL N
FIXED ASSETS				
(CAPITAL EXPENDITURE)				
COST AS AT 01/01/05	41,076,245	28,697,792	58,344,325	128,118,362
ADDITIONS	12,483,531	4,698,500	31,890,923	49,072,954
DISPOSAL	-16,584,056	-840,000	-1163800	-18,587,856
	36,975,720	32,556,292	89,071,448	158,603,460
DEPRECIATION				
AS AT 01/01/05	30,527, 965	22,584,622	27,831,714	80,944,301
CHARGE FOR THE YEAR	9,243,930	8,139,073	17,814,290	35,197,293
DISPOSAL	-11,770,399	-840,000	-931,040	-13,541,439
	28,001,496	29,883,695	44,714,964	102,600,155
NET BOOK VALUE 31/12/05	8,974,224	2,972,597	44,356,484	56,003,305
NET BOOK VALUE 31/12/04	10,548,280	6,113,170	30,512,611	47,174,061

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

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

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

ANNEXURE

ANNEX
A. DFID Capacity Building Support for the DMO

A.1.1 Introduction

The United Kingdom's Department for International Development (DFID) continued to provide capacity building support to the Nigerian Debt Management Office (DMO) during 2005. DFID's intervention has been phased to cover a period of five years. It commenced with a support for the formation of the DMO as a separate entity to consolidate all debt management activities that were being executed by different departments of government to be performed by a single office with the required competences, credibility, and authority. This was aimed at fostering professionalism, creativity, innovation, effectiveness and efficiency in public debt management in Nigeria.

A.1.2 The Support Project

The support project covers capacity building for the DMO in all its ramifications, from the provision of critical operational equipment to staff training and management development, as well as providing capacity for overall public debt management. The implementation of the Support Project was graduated in phases.

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

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

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

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

- *Stage One*: aimed at accomplishing the objectives set in the Inception Report within a period of eighteen months commencing March 2004 and ending in August 2005; and
- *Stage Two*: intended at allowing flexibility that permits a detail stock taking at the termination of the first stage of programme implementation through an output-to-purpose review to determine accomplishments and define further work during the succeeding years beyond August 2005.

A.1.3 Goal

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

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

- Establishment of governance arrangements for the DMO, including accountability and performance indicators;
- Support for internal operations (business processes) within the front-middle-back office structure;
- Attainment of public debt management objectives, debt management strategy, formulation of guidelines on government guarantees, on-lending and sub-national debt, as well as design of an effective risk management framework for the DMO;
- Enhancement of domestic debt capacity;
- Conduct of regular analyses of debt Sustainability;
- Establishment of stronger relationships with existing and potential entities involved in issuing and holding FGN (Federal Government of Nigeria) debt, such as institutional investors like pension funds and insurance companies; and

- Fostering greater awareness on the part of key DMO stakeholders on the roles and functions of the DMO and the contributions it is making towards achieving a sustainable debt position for Nigeria.
- In isolating these key indicators, the first four are based on the IMF/World Bank Guidelines on Public Debt Management symbolizing international good practice. The final two indicators dealing with debt sustainability and key external relationships for DMO are based on the contextual environment of the Nigeria DMO. Both contexts provide basis for customisation and best practice that provide the DMO the opportunity to aspire to achieve world-class standards in its operations and relationships.

A.1.4 Objectives

The objectives for the Support Project were espoused in an Inception Report written at the termination of the Inception Phase on completing the diagnostic study. The following seven points were identified as the key objectives for the support programme, which guide project implementation during the subsequent phases of support activity. The related activities connected to achieving the stated objectives are enumerated in a separate logical frame summarised in tabular form:

1) Putting external governance arrangements for the DMO in place;
2) Establishing an organizational structure, management system, and standards consistent with DMO's organizational purpose as prescribed by its governing legislation, international standards, and the ongoing Civil Service Reforms in Nigeria;
3) Establishing a reliable database on total public debt management;
4) Managing and controlling Nigeria's public debt portfolio in line with international standards;
5) Establishing permanent capacity to lead Nigerian debt sustainability analyses, debt strategy, and debt relief negotiations;
6) Developing a good understanding of the needs of entities involved in issuance and holding of government debt instruments; and
7) Getting key DMO stakeholders to be well informed on the principles underlying sound debt management and DMO activities.

A.2 Contributions of the DFID Support Project During 2005

The DFID Support Project managed by Crown Agents continued to provide capacity building assistance to the DMO during 2005. Part of the support it provided included continued staff training and management development, technical assistance in debt data recording, data validation and debt settlement. The Project also provided assistance for the development of the analytical skills of the middle office by exposing its staff to a good understanding of the CS-DRMS and the techniques of Portfolio Review. It has also continued to provide support in Institutional Development.

During the year under review, the Project procured, installed, and licensed vital information technology and information systems including computers, printers, photocopiers, laptops, servers, as well as an elaborate Accounting, Personnel and Payroll (APP) software (supplied and installed by SAP South Africa) which integrates DMO's accounting and human resource functions using common databases.

On a wider scale, the Project strengthened the DMO in its broader activities that contribute to the ongoing economic and institutional reform of the Federal Government and the implementation of NEEDS by organizing and funding study tours to nations that succeeded with the implementation and management of sub-national debt and fiscal responsibility legislation. Accordingly, it sponsored study tours for the DMO and some of its key stakeholders to Argentina, India, and Brazil during the year under review.

The year 2005 was a landmark for the DFID Support Project as the first stage of the Implementation Phase ended in August. In line with DFID's philosophy of ensuring value-for-money and of relating outputs to targets, the Project conducted an Output-to-Purpose

ANNEXURE

Review in June to evaluate the performance of the Project from the perspective of the Project's key stakeholders relative to its intended goals and objectives. It used the outcome of this study to plan further work for the second phase of its Implementation Plan, which led to the development of the new programs of the Project currently being implemented.

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