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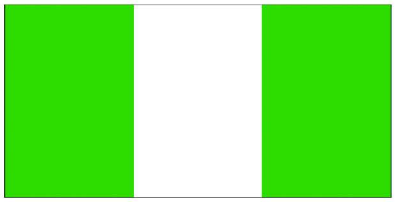
Debt Management Performance Assessment (DeMPA)

Nigeria



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THE WORLD BANK

Economic Policy and Debt Department (PRMED)
Poverty Reduction and Economic Management Network (PREM)

The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 15 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by a guide that provides supplemental information for the use of the indicators.

For additional information on the World Bank's Debt Management Technical Assistance Program, including more on the DeMPA Tool, please visit our website at: http://www.worldbank.org/debt

Abbreviations

BOF	Budget Office of the Federation
CBN	Central Bank of Nigeria
CS-DRMS	Commonwealth Secretariat – Debt Recording and Management System
DeMPA	Debt Management Performance Assessment
DfID	Department for International Development (UK)
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
FGN	Federal Government of Nigeria
FLAC	Fiscal Liquidity Assessment Committee
FSP	Fiscal Strategy Paper
MFPCC	Monetary and Fiscal Coordination Committee
MMD	Money Market Dealer
MoF	Ministry of Finance
MTDS	Medium Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
NPC	National Planning Commission
OAGF	Office of the Accountant General of the Federation
PDMM	Primary Dealer and Market Maker
PEFA	Public Expenditure Financial Accountability Framework
WAIFEM	West African Institute for Financial and Economic Management

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1. Executive Summary

A World Bank mission visited Abuja from March 26-30, 2012. The team comprised Lars Jessen (BDM, team lead), Mona Prasad and Tu Manh Doan (both PRMED), Olayinka Olufunke Babalola (AFTP3), and Baba Musa and Karamo Jawara (both WAIFEM). The objective of the mission was to undertake a comprehensive assessment of debt management operations using the Debt Management Performance Assessment tool (DeMPA). The main counterpart for the mission was the Debt Management Office, but we also met with government officials from various departments of the Ministry of Finance, the Central Bank, the Office of the Accountant General, the Office of the Auditor General, had conference calls with participants in the market for government securities, and met with the Department for International Development (DfID) (see Annex 1 for detailed list of meetings).

The first DeMPA in Nigeria was undertaken in 2008, and this assessment offered an opportunity to take stock of progress of debt management reforms in recent years[1].

Areas with very high scores include the managerial set-up, evaluation of debt management operations, as well as domestic and external borrowing practices. The assessment of these areas was very much in line with the 2008-assesment. There have been substantial improvements in management of operational risks, demonstrated by the availability of procedures manuals and in regarding to data security and back-ups, and in debt reporting.

There were only few areas where the development has been in negative direction. In the 2008 DeMPA the minimum score was given to the quality of the debt management strategy. In the current DeMPA that score was reduced, with the reasoning that there has been external market borrowing, but no guidelines exist for the foreign currency exposure. And it should be noted that a debt management strategy is currently being drafted. The other notable of a move in negative direction is the absence of external auditing of the debt management activities and policies.

One area that remains week is cash forecasting and cash management, where the requirements for the minimum score were not met.

[1] When comparing the two DeMPA's, note should be taken of the fact that there has been some adjustments to the criteria for individual performance indicators.

2. Background

2.1 Country Background and Macro Situation

The Nigerian economy has been growing at a fast pace in the last few years. Real gross domestic product (GDP) growth has averaged about 7 percent since 2008 and in the last quarter of 2011, the economy grew by 7.7 percent. This growth has largely been concentrated in the non-oil sector, which according to official government sources grew by 9.1 percent in the last quarter of 2011. Vision 20: 2020 is Nigeria's long-term development strategy, which is premised on Nigeria's vision of becoming one of the 20th largest economies in the world by the year 2020. The Jonathan administration has developed a medium-term plan, the Transformation Agenda, derived from Vision 20: 2020 which has identified 'key policies, programs and projects' which will receive funding priority over the next 4 years.

Paradoxically, the high level of GDP growth in the last few years has not translated to an increase in employment or a reduction in poverty levels. Unemployment increased from 20 percent in 2009 to an estimated 24 percent in 2011 while the National Bureau of Statistics recently released a poverty report indicating that the share of the population living in absolute poverty increased from 54.7 percent in 2004 to 60.9 percent in 2010. It is difficult to reconcile these figures and initial analysis indicates that the problem lies in Nigeria's weaknesses in the collection and analysis of statistics as well as the large size of the informal sector. Inflation is currently at 11.9% although the implicit goal is single digit inflation. External reserves currently stand at $35.6 billion.

Nigeria is largely a mono-product economy as the oil sector accounts for over 90 percent of exports and at least 70 percent of government revenues come from oil sources. To address pro-cyclicality in Government spending, a noticeable trend prior to 2003, an Excess Crude Account (ECA) was created as an oil reserve fund for saving oil revenues above the budget benchmark price. This reserve served as a cushion for the economy at the height of the global recession in 2009 as $22 billion had been accrued by late 2008. However, by 2010 Government spending increased quite significantly leading to the depletion of the ECA to $4.6 billion in December 2011. In October 2011, the Federal Government of Nigeria (FGN) formally created a Sovereign Wealth Fund (SWF) with a seed fund of $1 billion. Dialogue is however still on-going between the FGN and the state governors on the constitutionality of the SWF.

Issues surrounding the subsidy on petrol have taken centre stage in recent times. A general strike and protest followed the removal of the subsidy by the FGN on January 2012 which led to the price of petrol more than doubling overnight. The subsidy was partially restored with the price currently at $0.67 per liter (N97 per liter). The outlay on the fuel subsidy had grown rapidly in recent times, rising to about $11bn in 2011 (N1.7 trillion), much larger than the $7.4bn (N1.14

trillion) budgeted for capital projects by the central government. As a result, the 2012-2015 Medium-Term Expenditure Framework (MTEF) and 2012 Annual Budget initially submitted in December 2011 based on the premise that the subsidy on fuel would be eliminated in 2012, were re-submitted to reflect the partial restoration of the subsidy. As a result, the social programs and infrastructure projects, which were to be funded by the savings from the subsidy removal under the Subsidy Re-Investment and Empowerment Program (SURE) had to be significantly scaled back. The revised Budget and MTEF have been signed into law by the National Assembly and have been given Presidential assent.

Following the successful exit from the Paris and London clubs in 2006, there has been a strong reluctance to public borrowing. As a result, debt levels, especially external debt, remain low and not at risk of default. The total FGN debt to GDP ratio is estimated at 17.4 percent of GDP at the end of 2011. External debt to GDP was recorded as 2.4 percent while domestic debt had marginally grown to 15.1 percent of GDP. External debt is largely owed to multilateral institutions and was borrowed at highly concessional terms with the exception of the $500 million Eurobond issue. Domestic debt has been on the increase at the sub-national level mainly due to an increase in the issuance of local currency denominated bonds to fund infrastructure projects. Nigeria successfully issued its 10–year $500 million bond in the international capital market in early 2011. The rationale for the issuance, as stated by the FGN, was to set a benchmark yield curve for domestic investors intending to access international markets for funds and not necessarily to raise funds for Government. The issue was oversubscribed, and was priced with a yield of 7.0 percent and a coupon rate of 6.75 percent with Deutsche Bank and Citigroup as the lead book runners.

Contingent liabilities, both explicit and implicit, exist at Federal and State Government levels. Explicit contingent liabilities are mainly on account of guarantees in public private partnerships (PPPs) and Government sponsored special purpose vehicles that are not directly funded through the budget. For the FGN, an additional contingent liability is external borrowing by State Governments as the FGN borrows externally and then on-lends to States[2]. A further related contingent risk to the Federal Government's finances comes from the banking sector. A Distressed Asset Fund, the Asset Management Corporation of Nigeria (AMCON), recently purchased problematic assets for N1.7 trillion (US$ 11.3 billion) from distressed banks financed by a domestic bond issue guaranteed by the FGN. AMCON intends to redeem bonds through funds obtained from its operations; capital gains, sales of assets, asset returns, recoveries, sale of loans, investments in Intervened Banks, along with proceeds from the sinking funds contributed to by all the banks (0.3 percent of total assets) and the Central Bank of Nigeria. AMCON is currently in the process of refinancing its N1.7 trillion three-year bond with maturities of between 7 and 10 years, which come due next year. AMCON's ability to successfully execute this re-financing program will have an impact on the contingent liabilities of government. There

[2] The risk to the FGN is low as this is backed by an 'automatic intercepts'. In case of non-repayments by the states, the FGN has the power to directly debit the amount.

are currently no comprehensive data on other contingent liabilities therefore the extent of risks from contingent liabilities is unknown.

The DMO led a Debt Sustainability Analysis (DSA) in 2011, which included domestic debt incurred by States. The analysis concluded that Nigeria's medium-term debt outlook remains robust, with all debt burden indicators remaining well below recommended international thresholds under all scenarios. The 2011 DSA conducted by World Bank and International Monetary Fund staff, which however did not include state-level debt data, arrived at a similar conclusion. With technical support from the World Bank, IMF, and the West African Institute for Financial and Economic Management (WAIFEM), a draft medium term debt management strategy covering the period 2012-2016 is being prepared by the DMO. Much progress has been made with debt management at the state-level. All 36 states established their own DMOs in line with Sub national Borrowing Guidelines established by the Federal DMO. In addition, a number of states have passed debt management legislation in line with the DMO Act.

Nigeria is currently in the process of undertaking its first Public Expenditure Financial Accountability Framework (PEFA) assessment, which will include Public Investment Management Systems (PIMs), Fiduciary Risk Assessment (FRA) and Debt Management Performance Assessment (DeMPA). An inter-ministerial PEFA taskforce has been constituted by the FGN and interim assessment scores have been prepared and shared with the task force which is expected to provide feedback. The outcomes of the DeMPA will also feed into the PEFA plus report.

2.2 Debt Management Performance Assessment

The Debt Management Performance Assessment (DeMPA) tool comprises a set of 35 dimensions of sovereign debt management activities (and closely related areas), organized into 15 debt performance indicators (DPIs). It aims to measure sovereign DeM performance and capture the elements that are indispensable to achieving sound DeM practices. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building, the performance indicators do stipulate a minimum level that should be met. Consequently, if the assessment shows that the minimum requirements are not met, this indicates an area that normally would be considered a priority for reform or capacity building or both.

The DeMPA focuses on central government debt management activities and closely-related functions, such as the issuance of loan guarantees, on-lending, cash flow forecasting, and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt portfolio, including implicit contingent liabilities (such as liabilities of the pension system) or the debt of State Owned Enterprises (SOEs), if these are not guaranteed by the central government.

Each DPI has one or more dimensions linked to the subject of the DPI, and each dimension is assessed separately. The scoring methodology assesses each dimension and assigns a score of either “A”, “B”, or “C” based on the criteria listed. The evaluation starts by checking whether the minimum requirement for that dimension has been met, corresponding to a score of “C”. Meeting the minimum requirements is the necessary condition for effective performance under the dimension being assessed. If the minimum requirements set out in “C” are not met, then a score of “D” is assigned. In the cases where a dimension cannot be assessed, a score of “NR” (not rated or assessed) is assigned. The “A” score reflects sound practice for that particular dimension of the indicator. The “B” score is an intermediate score, falling between the minimum requirements and sound practices.

The performance assessment in this report is based on the Debt Management Performance Assessment (DeMPA) Tool, December 2009, World Bank.

2.3 Summary of performance assessment

Performance Indicator		Score
Governance and Strategy Development		
DPI-1	1. Legal Framework	C
DPI-2	1. Managerial Structure: Borrowing and Debt-Related Transactions	A
	2. Managerial Structure: Loan Guarantees	A
DPI-3	1. Debt Management Strategy: Quality of Content	D
	2. Debt Management Strategy: Decision-Making Process	C
DPI-4	1. Evaluation of Debt Management Operations	A
DPI-5	1. Audit: Frequency	D
	1. Audit: Appropriate Response	NR
Coordination with Macroeconomic Policies		
DPI-6	1. Fiscal Policy: Provision and Quality of Debt-Service Forecasts	C
	2. Fiscal Policy: Availability and Quality of Information on Key Macro Variables and DSA	A
DPI-7	1. Monetary Policy: Clarity of Separation between DeM and Monetary Policy Operations	B
	2. Monetary Policy: Regularity of Information Sharing	A
	3. Monetary Policy: Limited Access to Central Bank Financing	C
Borrowing and Related Financing Activities		
DPI-8	1. Domestic Borrowing: Market-Based Mechanisms and Preparation of a Borrowing Plan	A
	2. Domestic Borrowing: Availability and Quality of Documented Procedures	B
DPI-9	1. External Borrowing: Borrowing Plan and Assessment of Costs and Terms	C
	2. External Borrowing: Availability of Documented Procedures	D
	3. External Borrowing: Involvement of Legal Advisers	A
DPI-10	1. Loan Guarantees: Availability and Quality of Documented Policies and Procedures	D
	2. On-lending: Availability and Quality of Documented Policies and Procedures	A
	3. Derivatives: Availability and Quality of Documented Policies and Procedures	NR
Cash Flow Forecasting and Cash Balance Management		
DPI-11	1. Effective Cash Flow Forecasting	D
	2. Effective Cash Balance Management	D
Operational Risk Management		
DPI-12	1. Debt Administration: Availability and Quality of Documented Procedures for Debt Service	C
	2. Debt Administration: Availability and Quality of Documented Procedures for Data Recording and Storage	A
	3. Data Security: Availability and Quality of Documented Procedures for Data Recording and System and Access Control	A
	4. Data Security: Frequency of Back-Ups and Security of Storage	A
DPI-13	1. Segregation of Duties	A
	2. Staff Capacity and Human Resource Management	C
	3. Operational Risk Management, Business Continuity, and Disaster Recovery Plans	B
Debt Records and Reporting		
DPI-14	1. Debt Records: Completeness and Timeliness	C
	2. Debt Records: Registry System	A
DPI-15	1. Central Government Debt Data: Statutory and Mandatory Reporting Requirements	C
	2. Public Sector Debt Data: Statutory and Mandatory Reporting Requirements	NR
	3. Debt Statistical Bulletin: Quality and Timeliness	C

3. Performance Indicator Assessment

3.1 Governance and Strategy Development

DPI-1 Legal Framework

Dimension	Score
1. The existence, coverage and content of the legal framework	C

The Constitution, 1999, gives the National Assembly the power to make laws regulating all borrowing and issuance of guarantees of the Federation. The main laws guiding Federal Government debt management is the law establishing the Debt Management Office (DMO), and the Fiscal Responsibility Act.

The DMO Act, 2003, is focused on the establishment of the Debt Management Office, its roles, staffing etc. The Act calls for the preparation and implementation of a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels, as well as guidelines for managing the risks with respect to all loans. On borrowing authorization, the Act specifies that external loan agreements shall be executed by the Minister of Finance (section 20) after its terms and conditions have been approved by the National Assembly (section 21). The DMO is authorized, in collaboration with the CBN, to issue debt securities in the domestic debt market (section 23).

Similar to external loans, a guarantee agreement for external loans shall be executed by the Minister of Finance (section 22), after the terms and conditions of the guaranteed loan have been approved by the National Assembly.

The Fiscal Responsibility Act, 2007, Part IX, Debt and Indebtedness, sections 41 - 47, provides guidelines for new borrowing, purposes of such borrowing, as well as issuance of guarantees. Specifically, it is stated that “Government at all tiers shall only borrow for capital expenditure and human development, provided that, such borrowing shall be on concessional terms with low interest rate and with a reasonable long amortization period subject to the approval of the appropriate legislative body …” Also, it is stated that “subject to the approval of the National Assembly, the Federal Government may borrow from the capital market”, which allowed the Federal Government to issue a Eurobond in 2011.

The legislation is relatively unclear on the debt management objectives. The closest to debt management objectives is a provision in the DMO Act (section 6), where it is stated that the DMO should “prepare and implement a plan for the efficient management of the State’s debt obligations at sustainable levels compatible with desired economic activities for growth and development” (bullet C). As the debt level is mainly determined by the fiscal and budgetary

policy and outstanding contingent liabilities, this statement cannot serve as an anchor for debt management strategy development and evaluation of the debt management activities, which are the main purposes of having clear debt management objectives in the legislation. Furthermore, reference is made to managing risk (bullet f) "set guidelines for managing Federal Government financial risks and currency exposure with respect to all loans".

The legal framework for debt management provides clear authorization to borrow and issue guarantees, and the primary legislation specifies for which purposes the Federal Government can borrow. This implies that the criteria for a C score are fulfilled. The score cannot be higher, since the primary legislation does not specify clear debt management objectives, and there is no requirement for external audit of debt management activities, policies and operations.

DPI-2 Managerial Structure

Dimension	Score
1. The managerial structure for central government borrowings and debt-related transactions	A
2. The managerial structure for preparation and issuance of central government loan guarantees	A

As mentioned above, the DMO is established under the DMO Act, 2003, that provides clear roles and responsibilities of the debt management function. Section 6 is a detailed list of roles, and includes keeping debt records, preparation of debt service forecasts for the budget, the development and implementation of a debt management strategy, etc. The DMO Act provides flexibility regarding staffing and salaries, to the extent these are approved by the Board, and consultation with the National Salaries and Wages Commission has taken place.

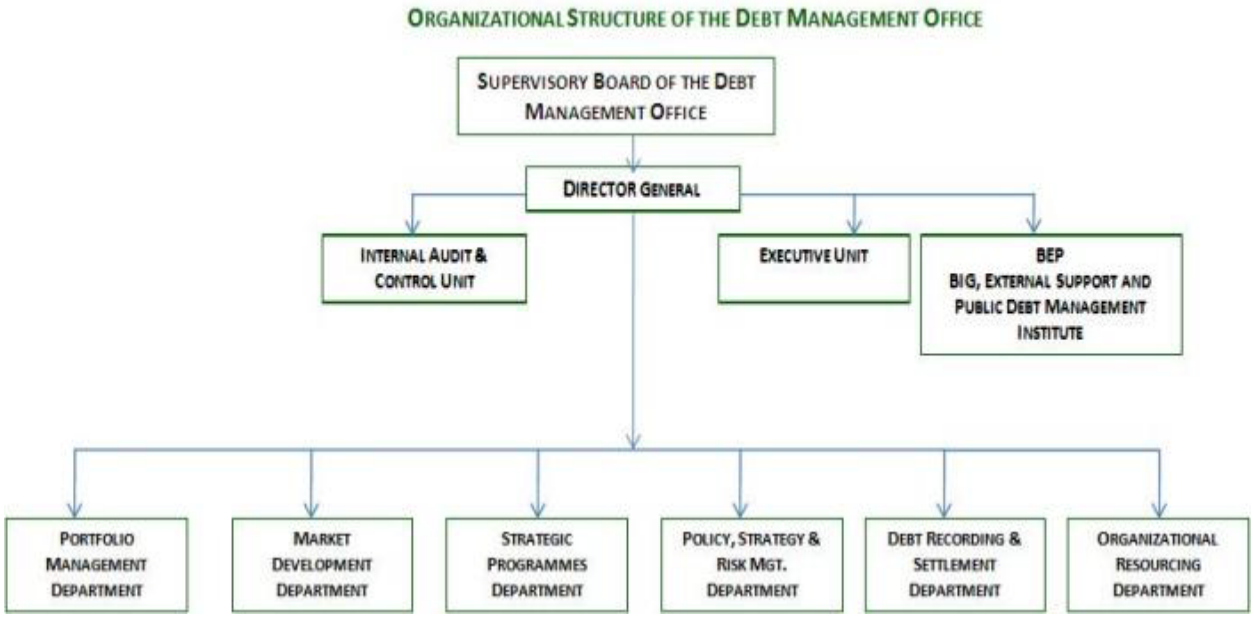
The responsibility for all borrowing and issuance of guarantees rests with the DMO.

A Supervisory Board, headed by the Vice President, and comprises the Minister of Finance, the Governor and senior civil servants, provides the overall guidance for the DMO. The Board plays a very important role regarding the activities of the DMO, including the formal approval of the medium term debt management strategy.

For domestic borrowing, a memorandum of understanding between the DMO and the Central Bank of Nigeria (CBN) specify the role of CBN in conducting the auctions of government securities, see DPI-7 for a further discussion of issues surrounding the auctions of T-Bills. For external borrowing, the formal leader of the negotiations of bi- and multilateral loans is the International Economic Relations Department of the MoF, but the DMO is always participating, and to the extent there are financial choices available, will be making that decision. Furthermore, there is regular information-sharing between the DMO and CBN through Monetary and Fiscal Policy Coordinating Committee (MFPCC) and the Fiscal Liquidity Assessment Committee (FLAC).

The DMO is organized according the functions, i.e. into front, middle, and back office. Also, there are departments that focus issues that cut across such a functional organization, including Organizational Resourcing, Special Projects, and Public Debt Management Institute.

Figure 1. Organization of the DMO[3]



Since debt management activities are steered by a formal debt management strategy and all borrowing activities are undertaken by the DMO without undue political interference, the requirements for an A score are fulfilled. Similarly, the score for the second dimension related to guarantees is A, since the DMO is preparing and issuing all guarantees.

DPI-3 Debt Management Strategy

Dimension	Score
1. Quality of the DeM strategy document	D
2. The decision making process, updating, and publication of the DeM strategy	C

Debt management decisions are guided by the Strategic Framework for Debt Management, 2008-2012. The document provides detailed information on the legal framework for debt management, the organization of the DMO, the macro-economic background, as well as broad policy objectives. There are specific sections on issues related to domestic borrowing, external borrowing, as well as on issues related to sub-national borrowing (including guarantees). The strategy is drafted by the DMO, and is approved by the Board before publishing on the website of the DMO. In addition, the sections on external borrowing, domestic borrowing, and issuance of guarantees and on-lending, are published as separate documents (guidelines).

[3] Compared to the organogram an additional department has been added, called Special Projects.

With reference to best international practice, the overall objectives for debt management are stated as ensuring timely funding at low cost, taking into account risk. This quite generic statement is then translated into "broad policy objectives". These objectives are very broad in nature, and goes beyond what would typically be included in a medium term debt management strategy, that has a focus on the composition and risk exposure of the debt. Examples of policy objectives include "Making public debt become a viable instrument for growth, development and poverty reduction", and strengthening the legal and institutional framework for debt management. But also include a specific objective of supporting the development of the domestic market for government securities.

While it is very clear that the Strategic Framework for Debt Management, 2008-2012 has played a central role in the continued development of debt management in Nigeria, it falls short when it comes to expressing the preferred direction for the risk exposure and composition of the debt. Specifically, there are no targets/preferred direction expressed for interest rate, refinancing, and exchange rate risk. It should be noted that work is underway on updating the strategy along these lines. The Policy, Strategy, and Risk Management Department has been working with an external consultant applying the World Bank-IMF Medium Term Debt Management (MTDS) Toolkit, and a draft strategy based on detailed analysis of cost and risk is being drafted.

While all domestic and external borrowing is covered by the strategy, the fact that it does not contain guidelines for the preferred direction of specific indicators for market risks means that the minimum requirements for the first dimension are not met, and the score is D.

On the second dimension, coordination with CBN is ensured through the membership of the Governor on the Board of the DMO, that is formally approving the strategy, and the strategy is publically available on the website of the DMO. The requirements for a score of C are therefore met. A higher score would require that the strategy is updated at least every third year.

DPI-4 Evaluation of Debt Management Operations

Dimension	Score
1. Level of disclosure—in an annual report or its equivalent—of government DeM activities, central government debt, evaluation of outcomes against stated objectives, and compliance with the government's debt management strategy.	A

The DMO publishes an annual report which contains information on debt management activities, outstanding central government debt stock and includes an evaluation of government debt management activities in comparison with the strategy. The report also contains information on debt sustainability analysis, risk management, borrowing plans and sub-national debt management. This report is submitted to the Supervisory Board which includes the Minister of Finance, to the National Assembly, and is publicly available on the DMO's website.

The requirements for a score of A are met.

DPI-5 Audit

Dimension	Score
1. Frequency of internal and external audit of central government debt management activities, policies, and operations, as well as publication of external audit reports.	D
2. Degree of commitment to address the outcomes from internal and external audits.	NR

The Audit and Compliance Unit (internal audit) of the DMO conducts financial audits and audits of activities, policies and operations of the DMO. All transactions - domestic as well as external - are audited, and the internal auditors intend to prepare quarterly reports (with a six-week lag) on transaction audits starting this year, in addition to the annual one. For domestic debt, activities and operations related to the auctions (held in Lagos) are audited by the internal auditor of the central bank. An annual report is prepared by internal audit and submitted to the Director General, and there is strong commitment to address observations/outcomes from these internal audits.

However, no external audit of activities, policies and operations of the DMO has taken place in the past 5 years. Hence, the minimum criteria for this dimension are not met, and the score is D.

The second dimension is not rated because we cannot assess commitment to addressing external audit observations when an external audit has not been conducted in the past 5 years.

3.2 Coordination with Macroeconomic Policies

DPI-6 Coordination with Fiscal Policy

Dimension	Score
1. Coordination with fiscal policy through the provision of accurate and timely forecasts on total central government debt service under different scenarios.	C
2. Availability of key macro variables and an analysis of debt sustainability, and the frequency with which it is undertaken.	A

The DMO provides annual forecasts of Federal government debt service and the outstanding stock of debt to the Budget Office (BOF). Both the domestic and external debt service forecasts are generated by the DMO from CS-DRMS and transmitted to the BOF during the preparation of the Fiscal Strategy Paper (FSP), Medium Term Fiscal Framework (MTFF) and ultimately the Annual Budget. The information flow between BOF and DMO is established, although not formally defined. While DMO indicated they undertake some sensitivity analyses based on interest and exchange rate shocks, these were assessed to be ad-hoc and not shared with BOF.

A DSA for Nigeria was prepared in May 2011 covering both domestic and external debt, the tenth time the DSA has been prepared by Nigeria's government. DMO leads the DSA which involves five key government institutions namely: DMO, National Planning Commission (NPC), BOF, National Statistic Office, and CBN. An observer from WAIFEM participates purely in an advisory capacity. The preparation takes place over 2-weeks workshop for all participants.

The regular and extensive information exchange between DMO and the BOF, including actual outcomes and forecasts of key macro variables, meets the minimum requirements for a score of C for the first dimension. A higher score is not warranted as the mission was informed that sensitivity analyses are done on an ad-hoc basis and not shared with the BOF. Having undertaken the DSA consistently over nine years without external assistance, the second dimension meets the requirements for a highest score of A.

DPI-7 Coordination with Monetary Policy

Dimension	Score
1. Clarity at separation between monetary policy operations and DeM transaction.	B
2. Coordination through regular information sharing on current and future debt transactions and the central government's cash flows with the central bank.	A
3. Extent of a limit to direct access of resources from the Central Bank.	C

CBN acts as agent to the DMO in the issuance of T-bills. The T-bills issued are in maturities of 91-, 182-, 364-days. The DMO issues T-bonds (3-, 5-, 7-, 10- and 20 years maturities) for meeting the government's funding need. The monetary policy and debt management transactions are formally separate. The market is kept well informed through the regular issuance of offer circulars in the print media.

There is an agency agreement (Memorandum of Understanding) between DMO and CBN signed in 2002. The clear separation between debt management and monetary policy transactions and the fact that the market is informed of those transactions qualifies Nigeria for score C for this dimension. Furthermore, the existence of agency agreement between DMO and CBN implies that the requirements for a B score are met[4]. The reason for not giving an A score is that the MoU is not made public.

[4] There were discussions with the authorities and within the DeMPA team on the scoring of the first dimension. While the MoF (DMO) is formally responsible for deciding the cut-off rate at T-bill auctions, in practice, the decision is taken by the CBN if market conditions are deemed 'normal'. If this is not the case, CBN will contact the DMO and have them make the decision on the cut-off rate. While a very strict interpretation of the requirements could point to this as mixing monetary policy implementation and debt management, practice in recent years show that CBN will always contact the DMO if they think the cut-off rate should be higher than what would constitute full subscription to the auction, and it was concluded that the first dimension fulfilled the requirements for a B-score.

For the second dimension, there is good information sharing between the government and CBN on the government's debt service flows through the weekly Monetary and Fiscal Policy Coordinating Committee (MFPCC) and monthly Fiscal Liquidity Assessment Committee (FLAC). The DMO and CBN, BOF, and OAGF are members of these committees. Since information on government debt service and cash flows is shared among relevant agencies on a weekly basis through the FLAC and MFPCC meetings, even though the forecasts are prepared with a monthly frequency, the requirement for score A on this dimension is met.

According to section 38 (1) of the CBN Act, 2007, the CBN may grant temporary advance to FGN. Overdrafts in the CBN should be returned "as soon as possible", and no later than the end of the end of year. The ceiling of this CBN advance to FGN is 5 percent of previous years government budget revenues. Since there is a limit on the size of financing from the CBN, the requirement for a C score is met. However, the fact that the tenor of such overdrafts can exceed three months means that the score cannot be higher.

3.3. Borrowing and Related Financing Activities

DPI-8 Domestic Borrowing

Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt, the publication of a borrowing plan for T-bills and T-bonds, and the preparation of an annual plan for aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets.	A
2. The availability and quality of documented procedures for local currency borrowing in the domestic market.	B

The domestic debt market operations of the government are transparent and predictable. The government uses market-based instruments (issued through competitive auctions) to meet its domestic borrowing requirement. The instruments used include T-bills with a T+1 settlement cycle and T-bonds with a T+2 settlement cycle. T-bills are typically issued for 91, 182 and 364 days by the CBN, which acts as an agent for the government. These T-bills are exclusively used for fiscal purposes. When the CBN issues short-term bills for monetary policy purposes, they are called OMO bills. There are 20 money market dealers (MMDs) who subscribe to T-bill primary issuances. The quarterly T-bill issuance calendar is shared with MMDs prior to every quarter. For example, the quarterly issuance calendar for April-June 2012 was shared (in hard copy) in the month of February. The issuance calendar for T-bills (for Q2 2012) was posted on the CBN website while the team was in Abuja. In addition to the existing 3-, 5-, and 10-year T-bonds, the government introduced 20-year bonds in 2008 in an effort to further lengthen maturities, and to support the development of the domestic market. There are 21 primary dealers and market makers (PDMMs) who subscribe to T-bond primary issuances. The T-bond issuance calendar is also shared with PDMMs in a manner similar to MMDs, a month in advance and is posted on the DMO website. There are no retail issuances.

At the beginning of the financial year, the DMO prepares an annual borrowing plan covering all domestic borrowings through T-bonds and T-bills. This plan contains indicative amounts and instrument details. The annual borrowing plan is shared with the PDMMs and MMDs at the beginning of the year at the time of consultations. However, it is not made publicly available. What is made publicly available is the quarterly borrowing plan for the forthcoming quarter, at least a month in advance, containing information on instruments and an indicative range of amounts. The Bond Market Steering Committee helps to coordinate activities related to domestic borrowings.

Nigeria meets the requirements for a score A on the first dimension.

On the second dimension the terms and conditions, borrowing procedures and criteria for access to the primary market are publicly available for T-bills and T-bonds in the print media. For T-bonds, this information is also available on the DMO website. However, it is not available for T-bills on either the DMO or the CBN website. Hence, on this dimension, the country meets the requirements for a score B.

DPI-9 External Borrowing

Dimension	Score
1. Degree of assessment of the most beneficial/cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity).	C
2. Availability and quality of documented procedures for external borrowings.	D
3. Availability and degree of involvement of legal advisers before signing of the loan contract.	A

Most external borrowing is on concessional terms from multilateral and bilateral lenders. The DMO ensures that every loan meets with the 35 percent concessionality (as part of the requirement for external borrowing guideline). There is only one exception in which the federal government borrowed $500million from the international capital markets, and in that case, the parliamentary approval was sought before the loan was taken in line with fiscal responsibility law.

The “External and Domestic Borrowing Guidelines for Federal and State Governments and their Agencies (with an Appendix on Processes & Control Measures)” requires that the Minister of finance must receive all external borrowing proposals of the federal, state and local governments and their agencies/parastatals for the next fiscal year not later than 180 days preceding that year for incorporation into the next years public sector external borrowing program. On an annual basis, there is formal assessment of the most cost-effective terms and conditions for external borrowing which forms part of the budgetary process. No approval is given without appropriate cost-benefit analysis of the loan as well as feasibility studies carried out on the viability of the project/program. During the annual DSA, the financing group, analyzes key elements of

donor/creditor external financing policies in order to evaluate the possible future cost effective resource mobilization. Considering the above procedure, the requirement for score C is met for this dimension. However, since the borrowing plan is not updated during the year, the score cannot be higher.

On the second dimension, the DMO has issued External Borrowing Guidelines (2008 – 2012). This publication stipulates the borrowing guidelines for both loan guarantees and on-lending of borrowed funds. Consequently, there are formal documented guidelines for the approval and issuance of securities and loans.

The back office of the DMO prepare terms sheet, which is used as the basis for recording the financial terms of the loan transaction after negotiation. These term sheets are usually filled and approved by a superior officer before the loan terms are entered into the CS-DRMS. The term sheets are filled 2 to 3 days after DMO receives copies of signed loan agreement. The DMO participate throughout the negotiations, however, the office sometimes; do not attend the signing ceremony of the loan agreements. In such cases, the loan agreements take more than one week before DMO receives copies. However, DeMPA requires that the term sheet should be prepared by the debt manager who participates in the loan negotiation and not the back office, the requirement for the minimum score C is not met.

The DMO's legal adviser is involved in the process of loan contracting at the onset of the preparation of the loan (pre-negotiation stage). In addition, legal advisors from the DMO, MoF and Ministry of Justice participate in the debt contracting process at the negotiating stage as part of a working group that negotiates the legal terms and conditions of the loan directly with the creditors. Since, there is involvement of a legal adviser at pre-negotiation stage, the requirement for score A is met on this dimension.

DPI-10 Loan guarantees, On lending and derivatives

Dimension	Score
1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees	D
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds	A
3. Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives	NR

The National Debt Management Framework, and External Borrowing Guidelines and Sub National Borrowing Guidelines stipulate the guidelines for both loan guarantees and on-lending of borrowed funds.

The DMO have prepared a framework for issuance of sovereign guarantees. The document covers the scope of guarantees limits, eligibility criteria, risks analysis such as credit risk, market

risk, operational risk, project level risk and entity risk etc. The document provided detailed procedures for both the approval and issuance of guarantees, and as such would qualify for a high score, likely an A. However, since the document is only in draft, the score at the time of the DeMPA assessment cannot be higher than D for the first dimension.

The On-lending Credit Policy and Procedures Manual provide detailed guidelines for on-lending, including regarding the credit risk assessment that is required before a loan is on-lent. The DMO policy on on-lending requires that: DMO should establish limits for on-lent loans; i.e. set portfolio limits, single obligor limits, sector limits, etc;, determine and charge appropriate fees as approved by the DMO's Board. In addition the DMO shall ensure beneficiaries will provide audited annual financial statements for the past five years, financial forecasts for the tenor of the loan and a feasibility study on the project; and beneficiaries are required to provide relevant financial information on the use of funds, disbursements, accounting, and degree of implementation of the project financed, and conduct regular consultations with DMO; and monitor the use of the loan. With the availability of documented procedures for approval and issuance of loan guarantees in place, the minimum requirement for the score C is met. Also, since there are policies and procedures in place for assessing the credit risks, the requirement for sore B is met. The requirements for score A on this dimension is also met because, the procedures manual requires the borrowing agency to put in place a collateral arrangement such as sinking fund to hedge against potential default. Derivative transactions are not undertaken by the Federal Government of Nigeria at present and thus this dimension is not scored.

3.4 Cash Flow Forecasting and Cash Balance Management

DPI-11 Cash Flow Forecasting and Cash Balance Management

Dimension	Score
1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts.	D
2. Effectiveness of managing the aggregate cash balance in government bank account(s), including the integration with the domestic borrowing program.	D

Cash forecasting and cash management is the responsibility of the OAGF. There is regular exchange of information regarding actual and expected flows of revenues and expenditures through MFPCCand FLAC, and both have participation from MoF and CBN.

Cash forecasts are prepared on a monthly basis for a rolling 12-monthly horizon. There is no follow-up/performance assessment of their precision, and it was the impression of the team that the forecasts play a limited role in the planning of domestic borrowing. Since the requirement for the minimum score is monthly forecasts with a weekly granularity, the score for the first dimension is D.

The second dimension is related to the management of excess cash balances, and whether the government is earning a market-based return on these. Due to the low quality and granularity of the cash forecasts, no efforts are made to effectively manage the cash position. The score for the second dimension is D.

It should be noted that reforms are underway that will include the establishment of a Treasury Single Account. In combination with an effective management information system, this should facilitate improvements in this area in coming years.

3.5 Operational Risk Management

DPI-12 Data administration and data security

Dimension	Score
1. Availability and quality of documented procedures for the processing of debt service	C
2. Availability and quality of documented procedures for debt data recording and validation, as well as storage of agreements and debt administration records	A
3. Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system	A
4. Frequency and off-site, secure storage of debt recording and management system backups	A

The DMO uses the CS-DRMS for recording of external and domestic debt. In addition to the CS-DRMS manual, there is a procedures manual for recording of debt that has been produced by the back office (First in 2008 and updated in October 2010 and January 2012). The manual describes the procedures for recording and processing payment notifications with internal records before a payment is made. It has procedures for checking payment notifications with internal records before the payment is made and procedures for the authorization of internal payment order. Payment orders are prepared manually and are subject to more than two-person authorization process. So are the checks or input/authorization related to recording of transactions in the CS-DRMS, and all payments are made on the due date.

There is a clear organizational separation between responsibilities at DMO, in addition, accurate and timely processing and controlling of payments are made and there are strong controls and good procedures for settlement of transactions and for the maintenance of the loan records, including for access to the debt recording system. Payments are subject to several checks at DMO, OAGF and CBN. All loan agreements are filed and stored in secure fireproof cabinets with restricted access. The most recent loan agreements are stored in the office of director of the Recording and Settlement Department (back office) in a secure and fire-proof steel cabinet. The other loan agreements are kept in the registry room with restricted access, in two fire-proof heavy steel cabinets. Each of those cabinets requires keys and combination of passwords to

access the files. There are scanned copies of the loan agreements stored electronically. In addition, copies of the loan agreements are kept with the front office of DMO, the Ministry of Finance and OAGF.

ComSec keeps a copy of the database, and in 2012 ComSec and the DMO conducted a data reconciliation with the creditors to ensure that both databases were in line with the creditors figures. The data in the CS-DRMS is secured with audit trails. Back-ups are taken daily at 5.00 pm. There is also weekly back up which is taken to Galaxy Backbone[5] (secured location outside the DMO). In addition, the Galaxy Backbone also keeps backups of the files in a location outside of Abuja.

The first dimension meets the minimum requirements for score C. The requirements for the higher score B are not met because the payment orders are not prepared electronically.

The second dimension fulfills the requirements for a C score because there are procedures manuals for debt data, recording and validation, which require that data is checked by more than 2 persons before the entries are deemed to be completed. In addition, all loan agreements are filed and stored in secure fireproof cabinets with restricted access. Since the procedure manual is updated annually the requirement for score B is met. The requirement for A is met because external debt data was validated with the creditors and ComSec in 2012, and at CBN, external auditors conducts independent confirmation of domestic investors at least twice a year.

On the third dimension, there are documented procedures for controlling access to the debt recording and payment system and the procedures are updated whenever staff changes occur (by the IT administrator). In addition, the system produces audit trails indicating respective staff that accessed the system. The score for this dimension is A.

With regard to the fourth dimension, the CS-DRMS, daily backups are taken. In addition, weekly backups are taken and maintained and transferred to Galaxy Backbone (location outside DMO) on separate backup tapes. The Galaxy backbone is a private secured back up provider which is secured location where the backups are protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these backups. DMO has also tested the effectiveness of its disaster recovery plans. Since the DMO make backups daily and stored in a secure filing system before they are moved to the Galaxy Backbone at the end of the week, the requirement for score “A” is met.

[5] Galaxy Backbone Plc is a public enterprise of the Federal Government incorporated in 2006 with the primary mandate of setting up and operating a unified Information and Communication Technology (ICT) infrastructure platform that addresses the connectivity, transversal and other technology imperatives for the Federal Government.

DPI -13 - Segregation of Duties, Staff Capacity, and Business Continuity

Dimension	Score
1. Segregation of duties for some key factors as well as the presence of a risk monitoring and compliance function	A
2. Staff capacity and human resource management	C
3. Presence of an operational risk management plan, including business-continuity and disaster-recovery arrangements	B

The debt service section of the back office prepares and processes payments on debt, while the debt recording section of the back office is responsible for recording the actual debt service transaction. At the end of each payment cycle, the debt settlement section, the debt recording section and the internal audit section all of the DMO, as well as the CBN and the OAGF undertake a reconciliation process to ensure that payments are made according to CS-DRMS forecasts, and creditors' requests.

There is clear organizational and physical separation between the units in DMO responsible for loan negotiation and contracting (front office), those responsible for arranging and affecting payments (CBN based on a request generated by the OAGF which gets an invoice from the debt settlement unit of the DMO), and those who record these transactions (back office). Data entries and checking of data are done by two different people in the department who belong to two different units of the back office. Hence, they are organizationally separate. There is also a separate unit responsible for risk monitoring and compliance, which is the monitoring and compliance unit under the middle office. Hence, the all requirements for a score of A are met.

The DMO has sufficient and adequately trained staff. There is 129 staff in DMO and over the past year, special emphasis has been given to training needs of the employees, especially for those in the middle office. The DMO has hired the services of an advisor financed by DfID and one of his responsibilities is to train middle office staff on various skill sets. DfID is also providing training to enhance econometric skills (e-views and MATLAB). Training needs are determined based on performance appraisals and business requirements. There are formal job descriptions which are reviewed and updated based on business needs. In terms of turnover, around 1 employee leaves every 2 months. The DMO has introduced a number of training programs as an incentive to retain staff. For the second dimension the requirements for a score of C are met.

While the DMO has code-of-conduct and conflict-of-interest guidelines, the latter was prepared only in January 2012. Hence, it has not been reviewed or updated and as a result we cannot assess the fulfillment of the requirements for a score of B. The code-of-conduct guidelines were last reviewed in 2009.

There is a written business continuity and disaster recovery plan, which is tested every month. The disaster recovery plan specifies Galaxy Backbone Plc (GBB) as the off-site storage

facility.Hence, the requirements for score B are met. However, there are no documented guidelines for operational risk management and hence the requirements for score A are not met. However, the DMO is working with the external consultant to draft such guidelines.

3.6 Debt Records and Reporting

DEPI-14 Debt records

Dimension	Score
1. Completeness and timeliness of central government debt records	C
2. Complete and up-to-date records of all holders of government securities in a secure registry system	A

All the recording of external and domestic debt is done by the DMO. CS-DRMS is used for recording, monitoring, and accounting for external and domestic debt. The DMO has complete debt records with two weeks lag for central government domestic and external debt and guarantees as well as for all debt related transactions, including debt restructuring. Based on the information from the back office and from spot-checks of system data, it is clear that there has been substantial improvements in this field since the last DeMPA. The processes and procedures in place in the DMO would clearly argue for the highest score for the first dimension. As an example, al new loans are entered into the debt recording system within a few days after the signing of the contract. However, based on meetings with the International Economic Relations Department of the MoF as well as the legal advisor of the DMO, it was clear that there are often delays in capturing information related to disbursements. The score for the first dimension is therefore C, indicating that there are complete debt records within a three-month lag. The team was not able to get evidence supporting the requirements for a B-score, i.e. complete debt records within a two-month lag.

CBN is responsible for the settlements of domestic debt transactions. CBN has an electronic registry that was developed in-house on their core IT software. The system has up-to-date and secure records of all holders of government securities. It has access controls, audit trails, and is subject to semi-annual audits. The authorities reported that the CBN registry has been audited both internally and externally. The external audit of the registry system is part of the yearly audits of the CBN, which are performed by recognized private audit firms. According to the CBN, the auditors look into the registry system specifically. Moreover, all the transactions are backed up on a daily basis. There are both on-site and off-site backups. Overall, the requirements for the highest score are met for this dimension.

DPI-15 Debt reporting

Dimension	Score
1. Meeting statutory and contractual reporting requirements of central government debt to all domestic and external entities	C

2. Meeting of statutory and contractual reporting requirements for total non financial public sector debt and loan guarantees to all domestic and external entities	NR
3. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt	C

In terms of publication of central government debt, DMO prepares a quarterly debt bulletin which is shared with the other government agencies; in addition, it produces annual report which contains government debt information. The quarterly bulletin provides information on central government debt stocks by creditor classification for external debt only and by instrument for domestic debt, but interest-rates are not stated. The quarterly bulletin is not published. However, the DMO is required (Section 18 of the DMO Act) to produce an annual report which contains information on debt stock (by creditor, instrument, currency, interest rate basis, and residual maturity); debt flows (principal and interest payments); as well as debt ratios/indicators. The statutory reporting requirements are fulfilled as exemplified by the timely submission of high-quality data to the World Bank Debtor Recording System.[6]

The first dimension fulfills the requirements for a C score because of the compliance with statutory and contractual reporting requirements, with debt data that are within two three months of the reporting period, see DPI-14.

The second dimension is not rated even though a complete record of total nonfinancial public sector debt is captured. The authorities at the DMO showed the DeMPA team records of the external and domestic debt for the nonfinancial public sector as at end-December 2011 with debt data that are within three months of reporting period. This information is published on the website, and as such would qualify for the highest score. However, since the focus of the second dimension is the requirement to publish such a report, and since such requirements are not in place, the dimension is not scored.

On the third dimension, DMO publishes government's domestic and external debt in its annual report as well as on its website with debt data that are six months old from the date of publication. The reports contain information on the stock and composition of total public debt, and interest rate structure, the costs of servicing the debt, as well as residency classification of the debt. Therefore, a score of C is given. The requirement for a B score would be that the debt data in the report are not more than three months old from the date of publication.

[6] As evidence that debt reporting has improved, Nigeria's rating related to the delivery of quality data on a timely basis to the World Bank's Debtor Recording System has improved from 2 for 2010 data, indicating minor issues with the reports, such as missing or unidentifiable loan numbers or various inconstancies with the reported data, to a preliminary score of 1 for the 2011, indicating that there are no issues with the data.

Annex 1: Meetings

Monday, March 26, 2012	9.30 – 5: 30 A.M	Debt Management Office (DMO
Tuesday, March 27, 2012	9.30 – 12 NOON	Budget Office of The Federation
	1.00 – 3.00 P.M.	Central Bank of Nigeria (CBN) - Monetary Policy Dept.), Research Dept.), and Financial Policy & Regulation Dept.
	3.30 – 4.30 P.M.	Office of The Accountant-General Of The Federation
	4.30 – 5.30 P.M.	Office of The Auditor-General
Wednesday, March 28, 2012	9.30 – 12.15 P.M	Debt Management Office (DMO)
	2.00 – 3.00 P.M.	Central Bank of Nigeria (CBN) - Financial Markets Dept., Banking & Payments System Dept. & IT Dept.
	3.30 – 4.15 P.M.	Market participants dealing in Govt debt: United Bank for Africa PLC (UBA)
	4.15 – 4.45 P.M.	Market participants dealing in Govt debt: Citi Bank PLC)
	4.45 – 5:30 P.M.	Market participants dealing in Govt debt: ARM Pension Managers in Govt debt
Thursday, March 29, 2012	9.30 – 10.30 A.M.	Debt Management Office (DMO) - PEFA Task Force (DMO)
	10.30 – 11.30 A.M.	Ministry of Finance (International Economic Relations Dept. IER)
	11.00 – 12.00 A.M.	World Bank Country Manager and Lead Economist
	2.00 – 5.00 P.M.	Debt Management Office (DMO), Directors
Friday, March 30, 2012	9.30 – 12.30 P.M.	DMO Wrap-Up meetings with DG DMO, Directors and Heads of Department
	12.30 – 2.00 P.M	DMO middle office, MTDS meetings