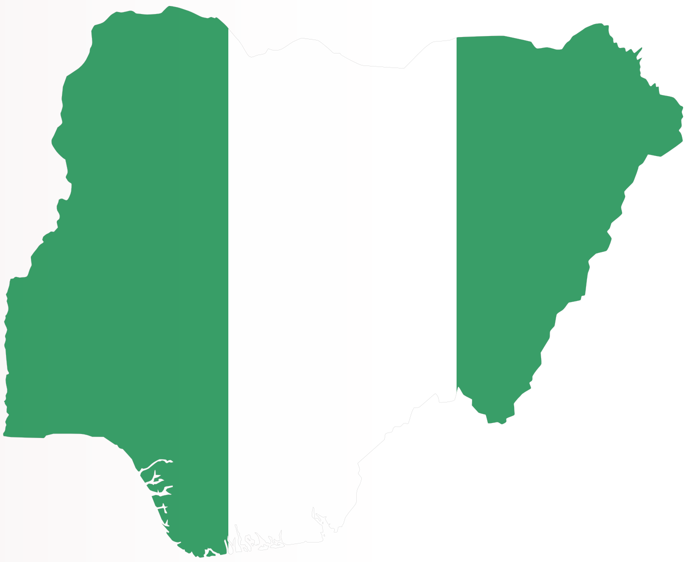
DOMESTIC DEBT MANAGEMENT IN AFRICA: THE CASE OF NIGERIA



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1. Introduction

The need for in-depth analysis of domestic debt in Nigeria inevitably takes one to a review of the socio-economic and political challenges that have bedeviled the whole of the West African sub-continent. Through the spectrum of history, one constant phenomenon pervasive in Nigeria and her neighbours since the end of colonial rule has been endemic poverty. Nigeria's economic sustainability in the twilight of colonial rule through to the early years of post-independence was rested principally on income generated from production of primary products. These were mainly agricultural products like groundnuts, cocoa, rubber and palm oil in the Northern, Western and Eastern Regions respectively. These and some mineral resources like coal and bauxite provided income through domestic and international trade. Apparently, the colonial administration encouraged Nigeria to focus on regional areas of economic advantage. Thus, there were groundnut pyramids in the Northern Region, the flourishing cocoa business in the Western Region and the oil palm and rubber plantations of the Eastern Region. All contributed immensely to the low level of indebtedness of the early 1960s and facilitated a modicum of structural development. Although the foundation for domestic debt and borrowing to augment resource gaps was laid with the establishment of the Central Bank of Nigeria in 1958, the issue of debt was not in the front burner in those early post-independence years.

Fewer words have generated more concern in public financial management discourse than "debt". As a financial obligation owed one party by another, a debt is a burden on the debtor---- even at nominal value--- until full repayment is made. Yet it is not unusual for debt to serve as a tool for bridging a funding gap for a country with funding deficit like Nigeria. Even at the micro-economic level, corporate organisations as well as individual households resolve immediate needs and plan for growth through the instrumentality of debt whenever scarce resources are challenged by unlimited wants. It is this basic economic principle that many sub-Saharan African countries, including Nigeria, have exploited over the years to justify their penchant for debt acquisition which has today become a worrisome issue to many civil society activists concerned enough to consider the lot of future generations who might have to pay back accumulated debt of their forebears. This research project is an outcome of such civic concern. This research couldn't have come at a more auspicious time than now that anxiety is being expressed among the civil populace about Nigeria's escalating domestic and external debt while high-ranking public officers in the category of the Minister of Finance are arguing that Nigeria's debt burden is still within a tolerable limit. At the forefront of the argument with negative perception of the scenario are operators in the mass media and the organized civil society. A case in point was Tayo Oke's conclusion in *The Punch* newspaper of April 30, 2019 that "…for our finance minister to simply look at the relatively low funding gap and conclude as some economists do, that we scan still borrow even more, is foolhardy, to say the least."

This research project which is implemented by Africa Network for Environment and Economic Justice (ANEEJ) at the instance of African Forum and Network on Debt and Development (AFRODAD), is aimed at in-depth analysis of Nigeria's domestic debt, domestic debt and development financing, evaluation of the institutional framework guiding the management of domestic debt and how they affect national debt strategy. Efforts will also be made to make recommendations on appropriate measures for addressing domestic debt burdens in Nigeria.

2. Methodology

This research effort draws data mostly from desk research. However, structured interview and a Focus Group Discussion where civil society activists on debt and development, legal practitioners and business development experts were gathered to look at the issue equally augmented and provided qualitative data to the desk research. It can be argued that there is a plethora of data on the issue of Nigeria's external debt. This is mainly because these data are in the public domain not just in Nigeria but all over the cyber world. The same cannot be said of the data for domestic debt. Data about domestic debt of the Federal Government of Nigeria (FGN) can quite often be accessed through statutorily created organs like the Debt Management Office, the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), the Federal Ministry of Finance, Fiscal Responsibility Commission etc. all of which have their websites and are required so to do by the new standard of operation in Nigeria. At the subnational level, availability of data on domestic debt are not so accessible because debt contraction between state parties and creditors are sometimes bilateral and are not as openly conducted. Thus, data on domestic debt from subnational level are mostly those that were obtained from statutory organs with sometimes measured oversight functions on state finances and are not comprehensive.

3. Literature Review

It is appropriate to start this literature review by doing a conceptual analysis of domestic debt and what it is supposed to imply in this discourse. Countries as well as corporate organisations and individuals have options when it comes to financing needs with scarce resources. Such resources may be internally or externally generated depending on current capability. Where the government generates the resource from creditors within the country, it forms part of the total debt albeit a domestic one. Domestic debt will include federal, state and local governments transferred obligations to its citizens and corporate firms within the country. Crowding out arises when government borrows heavily from the domestic market creating scarcity of same for other local entrepreneurs who also need loans. With crowding out, shortages of loanable funds ultimately drive interest rate up leading to reduction of private borrowing and hence, limiting private investment[i].

For Less Developed Countries still using foreign aid, the danger of being trapped in a vicious circle is real. These countries will find it difficult to exit from donor dependency thereby endangering their own development because most donor countries are likely to reduce financial support in the wake of the global financial crisis. Domestic debt markets can also strengthen the money and financial markets, boost private savings and stimulate investment. Government securities are an important instrument for the conduct of indirect open market operations and also for use as collateral in the interbank market which helps banks manage their liquidity effectively thereby reducing the Central Bank's need for frequent interventions. In addition, Central Banks operating in well developed markets do not have to rely on direct controls which distort financial sector decisions (Gulde et al. 2006). Moreover, yields on government securities can be used as a benchmark for the pricing of private sector debt thereby promoting the development of a corporate bond market (Fabella & Mathur, 2003).

Domestic debt instruments also provide savers with an alternative attractive avenue of investment and can therefore help in bringing in money from the non-monetary sector to the formal financial system (IMF, 2001). The benefits go beyond savings mobilisation and extend to the deepening of the financial market, widening of the tax base and improved perceptions of currency and country risk (Abbas & Christensten 2007). Since banks in many developing countries face an inherent risk and sometimes unpredictable business environment, they may be reluctant to engage with the private sector. However, holdings of government securities provide banks with steady and safe income and may therefore compensate for the poor environment and encourage lending to riskier sectors (Kumhof & Tanner, 2005). In the long term, increasing domestic financing will help governments build a track record to access international markets as research has shown that countries that have successfully issued sovereign bonds on international markets have typically had a long prior experience with issuing domestic government bonds in their domestic markets (Akahn, 2005).

Oshadami (2006) views domestic government debt as debt instruments issued by the Federal government and denominated in local currency. In principle, state and local government can also issue debt instrument but limited in their ability to issue such. Debt instrument consist of Nigerian Treasury certificates, Federal government development stocks and treasury bonds. Out of these, treasury bills, treasury certificates and development stocks are marketable and negotiable while treasury bonds; ways and means advances are not marketable but held solely by the Central Bank of Nigeria. Odozi (1996), conceives domestic debt as the gross liability of government and properly considered should include federal, state and local governments transfer obligations to its citizens and corporate firms within the country. Consequently, the Central Bank of Nigeria as banker and financial adviser to the Federal government is charged with the responsibility for managing the domestic public debt.

Oyedeji (1985) considers debt as the resource or money in use in an organization which is not contributed by its owner or does not in any way belong to them. It is a liability represented by a financial instrument or other formal equivalent. In modern law, debt has no precisely fixed meaning and may be regarded essential as that which one person legally owes to another or an obligation that is enforceable by legally action to make payment of money. When a government borrows, the debt is a public debt. Public debts either internal or external are debts incurred by the government through borrowing domestic investments. Debts are classified into two i.e. reproductive debt and dead weight debt. When a loan is obtained to enable the state or nation to purchase some sort of assets, the debt is said to be reproductive e.g. money borrowed for acquiring factories, electricity refineries etc. However, debt undertaken to finance wars and expenses on current expenditure are dead weight debts.

Likita (2000) perceives debt as a contractual obligation of owing or accumulated borrowing with a promise to pay back at a future date. Every economy requires an amount of capital to generate production and sustain development: capital, being a factor of production is particularly important but relatively scarce, and the dearth of capital is much more prevalent in developing countries which Nigeria happens to be among. Lipsey (1986) links economic growth as the positive trend in the nation’s total output over a long period of time. This implies a sustained increase in Gross Domestic Product (GDP) for a long time. Schiller (1999) opines that economic growth is an increase in output (real GDP), an expansion in product possibility curve.

Schiller (1999) views was not different from Dolan and Lindsey (1991) who sees economic growth as most frequently expressed in terms of increase in Gross Domestic Product (GDP), a measure of the economy’s total output of goods and services. This GDP as a measure of economic growth, like any other economic quantitative must be expressed in real terms. That is, it must be adjusted for the effects of inflations as for it to provide a meaningful measure of growth overtime. Empirical Review between

Domestic Debt and Economic Growth More recently, Maana, Owino and Mutai, (2008) conducted a study on the impact of domestic debt in the Kenyan economy using the Barro growth regression model. The results indicate that although the International Journal of Social Sciences and Humanities Reviews Vol.6 No.1, February, 2016; p.40 – 50, (ISSN: 2276-8645) 43 composition of Kenya's public debt has shifted in favour of domestic debt, domestic debt expansion had a positive but not significant effect on economic growth during the period.

In a study conducted by James (2006), the author discovered that public debt has no significant effect on the growth of the Nigeria economy because the fund borrowed were not channelled into productive ventures, but diverted into private purse. The scholar suggested further, that, corruption must be tackled to the latter if the gains for debt forgiveness granted to Nigeria were to be realized. Oshadami (2006) concluded that the growth of domestic debt has affected negatively the growth of the economy. This situation is premised on the fact that majority of the market participants are unwilling to hold longer maturity and as a result the government has been able to issue more of short term debt instruments. This has affected the proper conduct of monetary policy and affected other macroeconomic variables like inflation, which makes proper prediction in the economy difficult. Adofu and Abula (2010) investigated the relationship between domestic and economic growth in Nigeria for the period 1986-2005. Their findings showed that domestic debt has affected the growth of the Nigerian economy negatively and recommended that it be discouraged. They suggested that the Nigerian economy should instead concentrate on widening the tax revenue base. Were (2001) in her study of Sub-Saharan Africa (SSA) stated that SSA is still plagued by its heavy external debt burden compounded by massive poverty and structural weaknesses of most of the economies, which has made attainment of rapid and sustainable growth and development difficult. The reviewed empirical studies above show a mixed impact of domestic debt on economic growth. A number of studies are of the view that domestic debt impedes the economic growth while other studies prove otherwise. But what is clear is that different economic environment dictates the robustness or otherwise of the performance of domestic debt on economic growth.

4. Analysis of Domestic Debt: Composition and Key Debt Indicators

Composition of the Nigeria's Debt Instruments and Holders – Money Market Institutions

The composition of the domestic debt instruments are as follows:

- Treasury Bills
- Treasury Bonds
- Treasury Certificate
- Development Stocks
- Others

While the ownership structures are dominated by operators in the banking industry viz:

- The Central Bank of Nigeria
- The Commercial Banks

- The Merchant Banks

- The Minor holders of the Non-Bank public.

A brief definition and features of these components is necessary:

Money Market

This is the channel through which short term debt instruments are traded. This is the money market in Nigeria. It came into being through the first issue of treasury bills in April, 1960. Dealers in this market include:

- Central Bank of Nigeria is the lender of last resort, commercial banks, merchant banks, acceptance houses,
- Insurance companies,
- Discount Houses and bill brokers and
- the Federal and State governments.

The money market is noted for facilitating the raising of short-term funds for the deficit sectors of the economy from the surplus sectors. The most important instruments are the Treasury Bills, Certificates, and Banker's acceptances, Commercial papers, Certificate of Deposit and the Repurchase Agreement.

- The Central Bank of Nigeria (CBN)

The Central Bank of Nigeria is the apex regulatory authority of the Nigerian financial sector. It was established by the Central Bank of Nigeria Act of 1958 and commenced operations on 1st July, 1959. Among its primary functions include a promotion of monetary stability and a sound financial sector and acts as a banker and financial adviser to the federal government as well as lender of last resort to other banks. It also

promotes the growth and development of other financial institution.

- The Commercial Banks

The primary role of the commercial banks is to intermediate funds between the surplus and the deficit economic units in the economy especially at the retail segment of the market. It mobilizes savings, stimulate investment and economic growth through their lending operations, assist in resource allocation and promote domestic and international trade and payment systems.

- Merchant Banks

Merchant banks are essentially wholesale bankers as opposed to commercial banks that are retail bankers. They are important components of the banks and other financial institutions. Merchant banks connote a bank whose business includes receiving deposits on deposit accounts provision of finance, consultancy and advisory services relating to corporate and investment matters other are medium and long

term financing, equipment leasing, debt factoring, investment and fund management, issue and acceptance of bills and the management of Unit Trust.

Tools of Trade in the Money Market

- Treasury Bills

This is an unconditional promise by the federal government to pay the holder of the bill a specified amount of maturity. The federal government this, uses this debt instruments to borrow for a short period of about three months pending the collection of its revenue from direct and indirect taxes inclusive. They are issued for short term periods, normally 90 days. The first issue was made in 1960 and was specifically designed to the FGN with short term loan through the Central Bank.

- Treasury Certificate (TC)

Treasury Certificates are more recent development in the Nigerian money market than treasury bills and call money. They were introduced in 1968 to bridge the gap in the federal government financing through treasury bills and development stock, it matures between one to two years. It is eligible for rediscounting at the secondary market. The Treasury certificate has played a major role in the development of the market in assisting the secondary market in closing the financing gas as stated especially during the civil war years.

Following the emergence of oil boom, the treasury certificate was suspended

5. Major Trends in Nigeria's Debt

While it is justifiable that a developing country like Nigeria will pursue its development goals by seeking resources to fill capital gaps for the benefit of her citizens, the rate at which it has gone from a less indebted country immediately after the Paris Club debt forgiveness of 2005 to the current level of N24.39tn is amazing. This is because, as recent as 2007--- in the final year of President Olusegun Obasanjo ---- Nigeria had just N0.5tn deficit, about 2.9% of the country's Gross Domestic Product. Today, in the first half of 2019, the Federal Government's deficit has escalated to 24.39tn which is close to 20% of her GDP.This problem of debt remains one of the major economic policy issues confronting developing economies like Nigeria. According to *Business Day Newspaper*, 17th August, 2015, records revealed that Nigeria's domestic debt stood at about N7.42 trillion at the end of June, against N7.18 trillion at the end of 1st quarter, 2014, representing a 3.3 percent increase at the end of first half of the year. The latest increase in the local debt profile was attributed to the bond issuances by the Debt Management Office, amounting to over N200 billion, while it has in the last five months cumulatively recorded about N385 billion, even as plans to raise more are in advance stages. The current rising domestic debt profile in Nigeria is indeed a cause for concern more so, because critics believe that much of the borrowed funds are diverted to fund unproductive ventures. While some state governments borrow to pay salaries and other recurrent overheads, with a bloated bureaucracy that should actually be pruned, luxurious lifestyle of our ruling elites that needs to be fungal.

According to Soludo (2003), the country was on the wrong side of the debt-laffer-curve, with debt crowding out investment and growth. After the relief, what could still be crowding out investment and growth in Nigeria queries the Human Development Index (HDI) of the United Nations Development Programme (UNDP) in 2011 which ranked Nigeria 156 out of 187 countries of the world in terms of her level of income and economic growth. The report also revealed an HDI of 0.429 in 2005, 0.45 in 2010 and 0.459 in 2011. According to *This Day* Newspaper dated August 4, 2015 by James Emejo, citing the Debt Management Office (DMO), Nigeria's total public debt portfolio rose by 0.41 percent to N12.06 trillion in March. Of the total debt stock, its external component accounted for $10.31 billion (N2.03 trillion) in the period in review compared to $9.46

billion in March 2015. However, the Federal Government's portion of the domestic debt stock stood at $8.39 billion (N42.63 trillion) while that of the 35 states and the Federal Capital Territory (FCT) was put at N1.69 trillion ($10.85 billion) during the period in review. Altogether, the domestic debt stock is valued at N10.08 trillion. According to statistics obtained from DMO website, in dollar terms, the country's public debt stock stood at $63.80 billion as at June 30, 2015.

Selected Macroeconomic Indicators, 2013 - 2017

Description	2013	2014	2015	2016	2017
Real GDP Growth Rate (%)	5.49	6.22	2.79	-1.58	0.83
CPI Inflation (end-period) (%)	12.0	8.0	9.6	18.55	15.37
Budget Deficit (% of GDP)	1.9	1.9	1.09	2.14	2.18
External Reserves (US$' billion)	43.83	34.25	28.29	26.99	39.35
End-Period Exchange Rate (₦)	155.57	168	197	305	306
Total Public Debt-to-GDP Ratio (%)	12.65	12.65	13.02	16.27	18.20
Benchmark Crude oil price (US$)	79	77.5	53	38	44.50
Equities Market Capitalization (₦' trillion)	13.23	11.47	9.65	9.26	13.62
Bond Market Capitalization (₦' trillion)	5.85	5.38	7.14	6.93	9.29

6. Main Sectors for Domestic Debt Expenditure

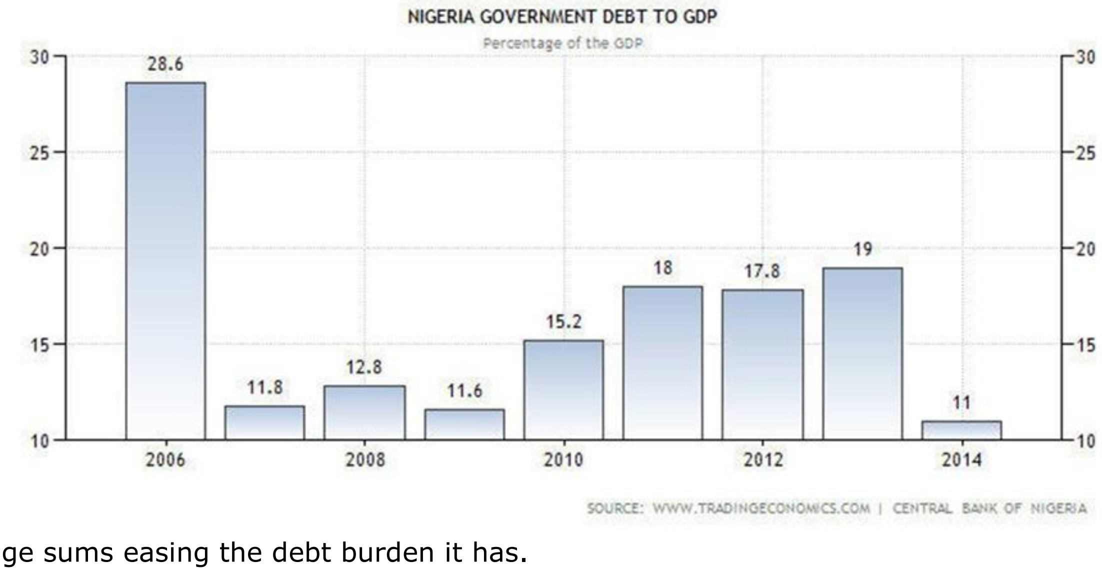
The main sector of domestic debt expenditure is road construction. For example, the the proceeds of the N100bn sukuk bond of 2017 was used for the financing of 25 road projects being handled by the Federal Ministry of Power, Works and Housing across the country. At the sub-national level, not much transparency is in place to confirm the focus of domestic expenditure. Debt contraction at this level is usually bilateral between the local creditors and the State governments. In such instances, the Federal Government's guarantee may not be considered necessary and the utilisation of the debt may be for anything ranging from payment of recurrent expenditure like salaries and wages to capital expenditure or even settlement of another debt on recurrent expenditure in clear violation of Section 41(1)(a) of the Fiscal Responsibility Act, 2007 that debt should be contracted only for human and capital development. In broader terms, many of the contracted debts went into deficit financing of fiscal budgets.

7. Domestic Debt and Development

As much as contracted debt is considered an obligation owed to another, it also provides a funding opportunity for financing areas of needs to enhance development. This is especially so where the benefit that will be derived from the focus of finance surpasses the cost of debt in the long-term analysis. It is for this reason that debts procured for development are expected to be concessional at a negotiated very low interest rate with a long-term period for repayment. If the debt is negotiated and obtained on such liberal terms, it provides opportunity for acquisition and utilisation of asset or infrastructure that not only contributes to social development but can as well pay for itself if it has potentiality for income generation as in the case of road construction where toll-gates are erected and fees are collected from users. Quite a number of projects have been financed by the Federal and State governments in this manner.

In its 2017 Annual Report and Statement of Account, the Debt Management Office explained that the introduction of new products in the Domestic Market was part of the strategy for deepening the FGN securities market (by broadening and diversifying the investor base) and promoting financial inclusion. It stated that the DMO successfully introduced three (3) new debt instruments in the domestic capital market. The new products were: Federal Government of Nigeria Savings Bond (FGNSB), Sukuk and Green Bonds. The FGNSB which is primarily for retail investors was first issued in March 2017. By the end of 2017, the sum of N7,197.37 million had been raised from over 9,866 subscribers. The debut Sovereign Sukuk of N100 billion was issued in September 2017 for the purpose of promoting financial inclusion, while also borrowing for targeted capital projects only. The proceeds of the Sukuk, the DMO stated, were deployed to the construction and rehabilitation of 25 Road Projects across the country. The Green Bonds for N10.69 billion were issued in December 2017 to finance environmentally friendly Projects consistent with the Paris Agreement on Climate Change to which Nigeria is a signatory.

Eghweree et al (2015) stated that debt becomes a burden when the debtor on regular basis fails to repay borrowed capital or associated service charges incurred from the creditor(s). They argued that while an individual can be entangled in debt overhang, debt as a burden can be more perceptible in a country because of the effect on both national life and development. They argued further that although available data revealed very little about the exact impact of debt overhang on Nigeria's parlous development situation, the nation no doubt spent



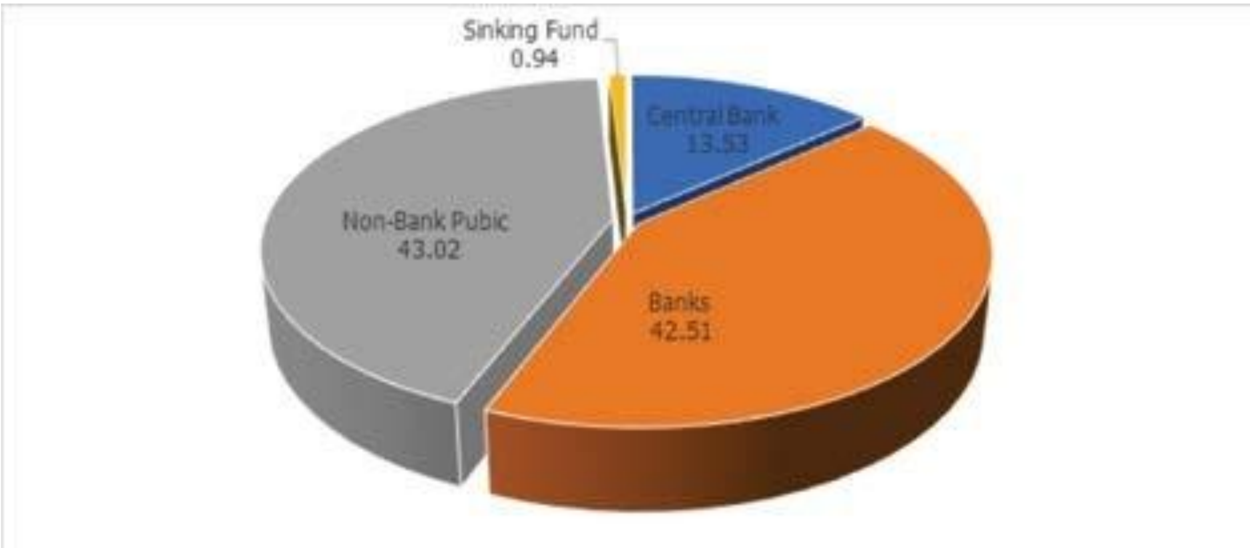
huge sums easing the debt burden it has.

It is therefore difficult for an indebted country to boast of sustainable development when a substantial part of its income goes to service debts.

The situation is worse at sub-national level where it is difficult to ascertain that the utilisation of acquired domestic debts have been directed at declared development projects. Domestic debts at this level which are sometimes bilateral between the State government and the banks could be used for financing recurrent expenditure like staff salaries and wages in clear contravention of section 41(1)(a) of FRA, 2007. When this is so, development is undermined further by such unwholesome debts. It is for this reason that some have argued that there are good debts and there are bad debts. Bad debt here is not in the financial accounting terminology which refers to irrecoverable debt, but one that refers to debt which has not financed a capital or human development project.

The main creditors of Nigeria's domestic debts are:

- - The Central Bank of Nigeria
- - The Commercial Banks
- - The Merchant Banks
- - The Minor holders of the Non-Bank public.



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corresponding period of 2016, representing an increase of N1,531.28 billion or 13.85 percent. It stated that the increase was due to new borrowings to fund the 2017 appropriated budget deficit and the refinancing of maturing debt obligations. The Domestic Debt Service as at end of December 2017 was to N1,476.22 billion, compared with N1,228.761 billion expended as debt service in 2016. It added that all FGN Bond issuances in 2017 were oversubscribed, indicating that demand for FGN bonds has remained strong with a well-diversified and growing investor base.

The securitized Federal Government's Domestic Debt Stock outstanding was N12,589.49 billion as at December 31, 2017, compare to N11,058.20 billion as at December 31, 2016, representing an increase of N1,531.28 billion or 13.85 percent (See Table below). The growth was as a result of more issuances of FGN securities used to finance the 2017 appropriated budget deficit, and refinance matured securities. These securities were FGN bonds and new issuances of FGN Savings Bond, Sovereign Sukuk and the Green Bond. Figure 5.1 reflects the position as at December 31, 2017. The FGN's Domestic Debt stock comprised FGN bonds (69.23 percent), Nigerian Treasury Bills (NTBs) (28.43 percent) and Treasury Bonds (1.40 percent). Others are FGN Savings Bond (0.06 percent), Sovereign Sukuk (0.79 percent) and Green Bond (0.08 percent).

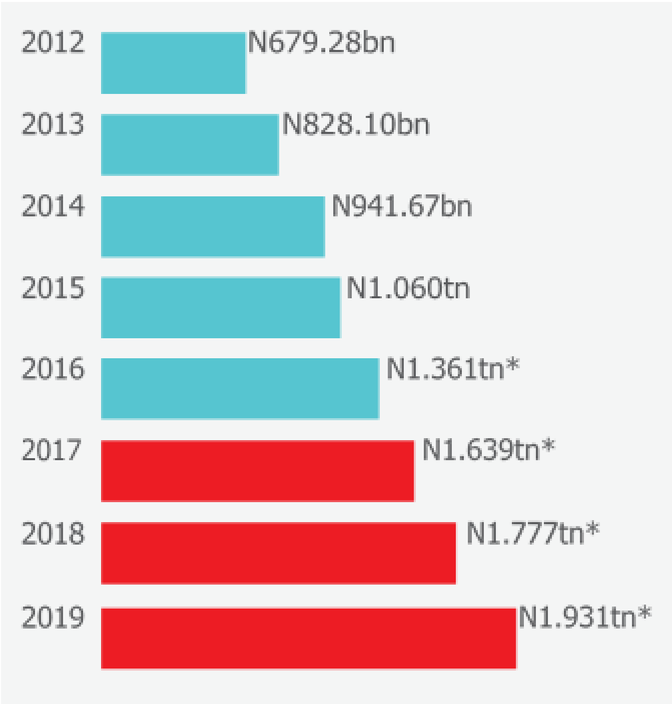
9. Nigeria: Trend in Domestic Debt Outstanding by Instruments, 2013-2017 (N' Billion)

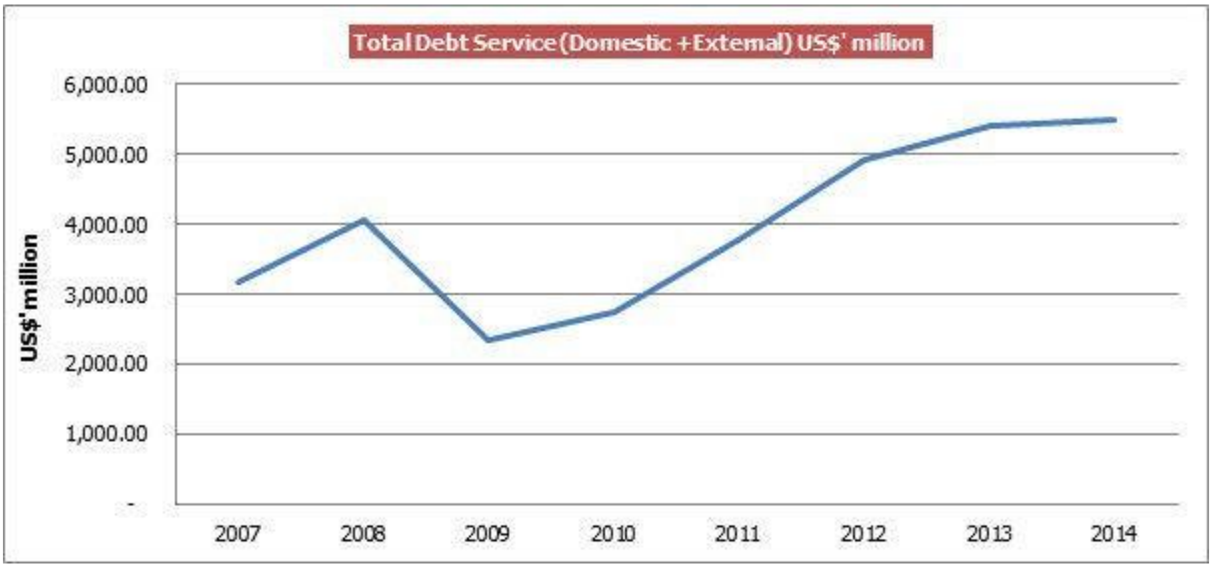
Instruments	2013	2014	2015	2016	2017
FGN Bonds	4,222.03	4,792.28	5,808.14	7,564.94	8,715.81
NTBs	2,581.55	2,815.52	2,772.87	3,277.28	3,579.80
Treasury Bonds	315.39	296.22	255.99	215.99	175.99
FGN Savings Bond	-	-	-	-	7.2
Sovereign Sukuk	-	-	-	-	100
Green Bond	-	-	-	-	10.69
Total	**7,118.97**	**7,904.02**	**8,837.00**	**11,058.21**	**12,589.49**
as a % of Total					
FGN Bonds	59.31	60.63	65.73	68.41	69.23
NTBs	36.26	35.62	31.38	29.64	28.43
Treasury Bonds	4.43	3.75	2.90	1.95	1.40
FGN Savings Bond	-	-	-	-	0.06
Sovereign Sukuk	-	-	-	-	0.79
Green Bond	-	-	-	-	0.08
Total	**100**	**100**	**100**	**100**	**100**

Source: DMO

The table above shows that the stock of FGN's Domestic Debt has been on the increase in the past five years, from N7,118.97 billion in 2013 to N12,589.49 billion in 2017. This development was largely attributed to the use of domestic debt to fund rising budget deficit and refinancing of maturing domestic debt obligations. The composition of the domestic debt portfolio was in line with the country's Debt Management Strategy of issuing more of longer tenored instruments so as to mitigate refinancing risk. Further analysis showed that the stock of FGN Bonds and NTBs rose from N4,222.03 billion and N2,581.55 billion in 2013 to N8,715.81 billion and N3,579.80 billion in 2017, respectively. The stock of Treasury Bonds maintained a downward trend from N315.39 billion in 2013 to N175.99 billion in 2017, as a result of the gradual redemption of the instrument over the years. In 2017, FGN Savings Bond, Sovereign Sukuk and the Green Bond were introduced into the domestic debt market with values of N7.2 billion, N100.00 billion and N10.69 billion, respectively.

10. Trends in FGN's Domestic Debt Service, 2013-2017 (₦' Billion)





Source: http://www.dmo.gov.ng/

From the above graph, the rising cost of servicing debt which came down in 2009, rose again in 2010 and sustained its upward movement in the subsequent years. Domestic debt service alone in 2016 and 2018 were ₦1,228,761,211,867.72 and ₦1,797,988,616,735.65 These translate to 20.13% and 24.12% of the total budgets respectively.

11. Administrative and institutional frameworks on domestic debts

Part X of the Fiscal Responsibility Act 2007 (Act 2007) empowers the FGN to borrow for only capital expenditure and human development at not more than 3% interest rate with long amortization period and an approval of the appropriate legislative body. Section 41(1)(a) of that Act 2007 specifically stated thus: "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 reasonably long amortization period subject to the approval of the appropriate legislative body where necessary, and (b) Government shall ensure that the level of public debt as a proportion of national income is held at a sustainable level as prescribed by the National Assembly from time to time on the advice of the Minister."

The Fiscal Responsibility Commission is saddled with the task of monitoring and ensuring compliance with the provisions of the relevant provisions of the Act. In its 2014 report[ii], the commission stated that apart from the fact that there was no clear evidence to show that the loans were obtained on concessional interest rate of 3% or less, the outstanding external debt of the Federal and State governments were for capital expenditure and human development and they were on reasonably long amortization periods of not less than 10 years. However, the same could not be said of domestic debt as there were no clear indications that all tiers of Government were borrowing for only capital expenditure and human development on 3% interest rate with the approvals of the appropriate legislative body. It concluded that government from domestic sources should be rationalized.

The Debt Management Establishment Act 2003 created the Debt Management Office (DMO). Its mission is to manage Nigeria's debt as an asset for growth, development and poverty reduction, while relying on a well-motivated professional workforce and state-of-the-art technology. The DMO's responsibility with regards to domestic debt is categorically stated in Part VII, Section 23(b) of the Debt Management (Establishment) Act 2003, is empowered to, among other things, collaborate with the Central Bank of Nigeria and the Accountant-General of the Federation to determine any other form of securities that may be created, issued or floated to achieve the domestic debt management objectives of the Federal Government.

S.24 of the DMO Act also states that all "banks and financial institutions requiring to lend money to the Federal, State and Local Governments or any of their agencies shall obtain the privy approval of the Minister."

According to the FRC, the debt stock of the States and the FCT is usually more of domestic debts which are obtained from commercial banks. This is due to the restriction on accessing internal credit market under section 47(3) of FRA 2007 which provides that no State, Local government, or Federal Agency shall, on its own borrow externally as Federal Government guarantee is required.

In additions to the DMO and the FRA, and the legislative provisions supporting them, other institutions are the Federal Ministry of Finance, the Central Bank of Nigeria (CBN) both of which have the Minister and Governor serving as Vice-Chairman and member respectively. Thus it can be argued that there is sufficient legal framework and institutional structure to ensure effective management of debt in Nigeria.

12. Domestic Debt Management Strategy

The focus of the Domestic Debt Management Strategy is to reduce the stock of short-term debt (NTBs) by refinancing maturing NTBs with external financing and FGN Bonds to reduce the cost of borrowing and lengthen the maturity of the Debt Stock.

The Strategy also provides for the introduction of new FGN debt instruments into the domestic capital market.

The strategy is aimed at achieving a domestic debt portfolio mix of 75:25 for long-term to short-term debt, in order to reduce refinancing risk and borrowing costs as short-term interest rates have become higher than long-term interest rates over a long period.

13. Sub-national Debt Management Strategy

The DMO is saddled with the responsibility of building on the successes recorded in strengthening the public debt management institutions, legal frameworks and strengthening capacities in the 36 States and Federal Capital Territory. This is to ensure that Sub-national governments subscribe to sound public debt management practices required to achieve public debt sustainability and macroeconomic stability for the country as a whole.

The legal framework for public debt management in Nigeria is clearly specified in various legislations. These legal and regulatory provisions prescribe public debt issues such as authority to borrow and approval process for new borrowing, amongst others.

14. Legal Framework for Public Debt Management

- The Constitution of the Federal Republic of Nigeria, 1999 (as amended)

The Constitution grants the National Assembly (NASS), the exclusive powers to make laws that regulate domestic and external borrowing in the country, as stated in items 7 and 50 of the Exclusive Legislative List under the Second Schedule to the 1999 Constitution. Pursuant to this constitutional authority, the NASS enacted the DMO (Establishment, etc) Act, 2003 (DMO Act), and the Fiscal Responsibility Act, 2007 (FRA). The DMO Act is the legal instrument that created the DMO and specifies its mandate and responsibilities, while the FRA covers public financial management with regulations on the Total Public Debt, authorisation for borrowing by all tiers of Government and use of borrowed funds, amongst others.

The NASS also has the statutory mandate to approve, through appropriation, all domestic borrowings by the Federal Government and by Resolution, all external borrowing by all tiers of Government. This means that the Federal Government of Nigeria (FGN) can only borrow (domestic and external) after the prior approval and Resolution (for external borrowing) of the NASS.

- The Debt Management Office (Establishment, etc) Act, 2003

This Act establishes the DMO as a government agency, charged with the responsibility of managing Nigeria's public debt. The Act empowers the DMO to, among other things:

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

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

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

- The Local Loans (Registered Stock and Securities) Act, CAP. L17 (LFN), 2004

This Act provides for the creation and issuance of registered stocks, Government Promissory Notes and Bearer Bonds for the purpose of raising loans in Nigeria by the Federal Government.

- The Treasury Bills Act, CAP. T18 (LFN), 2004

This Act empowers the Federal Ministry of Finance (FMF) to issue short-term debt instruments (Nigerian Treasury Bills – NTBs), through the Central Bank of Nigeria (CBN) on behalf of the FGN and to credit the Consolidated Revenue Fund (CRF) with the proceeds of the issuance.

- The Treasury Certificate Act, CAP. T19 (LFN), 2004

This Act makes provisions which enable the FGN to raise short-term loans of not more than two (2) years tenor through the issuance of Treasury Certificates (TCs).

- The Government Promissory Notes Act, CAP. G4 (LFN), 2004

The Act empowers the FGN to issue Promissory Notes to raise sums of money by way of loan for the purpose of repaying any such loan raised by the Federal Government.

- Investments and Securities Act, 2007 (ISA)

The ISA gives legal backing to the Securities and Exchange Commission (SEC) and includes specific provisions guiding the issuance of Bonds and other borrowing instruments in the capital market by the FGN, State Governments and Local Governments. The Act also empowers it to regulate borrowing from the domestic capital market by all tiers of government and their agencies, as well as, private sector enterprises. Pursuant to the provisions of this Act, the SEC makes rules and issues guidelines to regulate borrowing from the domestic capital market.

- The Central Bank of Nigeria Act, 2007

This Act enables the CBN to among other things, act as Bankers to the Government. It also empowers the CBN to register, discount or rediscount Bonds issued by any tier of government and their agencies. Under the Act, only Bonds that are publicly offered for sale and with maturity not exceeding three years, are eligible for discounting and rediscounting by the CBN.

- Fiscal Responsibility Act, 2007 (FRA)

The FRA makes provisions, which seek to promote fiscal discipline on the Federal, and to some extent the States and their agencies, as well as Local Governments. This is with particular reference to its requirement for setting of a consolidated borrowing limit for the Federation, Fiscal Deficit-to-GDP Ratio for the FGN (currently set at 3 percent of the GDP). The Act also prescribes the basis for borrowing, the issuance of Guarantees by the FGN. The FRA also established a Fiscal Responsibility Commission (FRC) as an agency of government for the administration of the provisions in the Act.

Subject to any statutory or regulatory changes, the DMO shall continue to draw its operational powers and conduct Government borrowings and related activities based on these various legislations and regulations for the efficient and effective management of the nation's public debt within the period of the 3rd NDMF.

The Debt Management Office (Establishment) Act 2003 created the Debt Management Office with a vast mandate to, among other functions, "prepare and implement a plan for the efficient management of Nigerian'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". - DMO Act Part 111.6(c). 111. Section 7(a) also said that the Office shall have power to – issue and manage Federal Government loans publicly issued in Nigeria upon such terms and conditions may be agreed between the Federal Government and the Office.

When the composition of the Supervisory Board of the DMO is put into proper perspective and it is realised that its Chairman and the Vice-Chairman are the Vice-President of the Federal Republic of Nigeria and the Honourable Minister of Finance respectively, and that the Attorney-General of the Federation & Hon. Minister of Justice and the Governor of the Central Bank of Nigeria are members, one will know that the institutional framework for the administration of debt in Nigeria is quite a formidable one. Section 6(1)(n) of the DMO Act capped succinctly brought the oversight function of the National into the picture when it states that the DMO has a responsibility to "carry out such other function, which may be delegated to it by the Minister or by an Act of the National Assembly".

The Fiscal Responsibility Act 2007 (FRA 2007) was also enacted "to provide for prudent management of the nation's resources, ensure long-term macro-economic stability of the national economy , secure greater accountability and transparency in fiscal operations within a medium term fiscal policy framework, and the establishment of the Fiscal Responsibility Commission to ensure the promotion and enforcement of the nation's economic objectives and for related matters.

Part IX Section 41 – 43 and Part A Section 44 – 47 of the Act makes provision to ensure order, accountability and transparency in public debt transactions within a medium term borrowing policy framework that will ultimately lead to long term debt sustainability. Part X of the FRA 2007 empowers the Government of the Federation to borrow for only capital expenditure and human development at no more than 3% interest rate with long amortization period and an approval of the appropriate legislative body.

The FRC in its 2014 Annual Report, stated, inter alia, that it intensified its efforts in monitoring compliance with the relevant provisions of the Act across the three tiers of government through the examination of debt transactions reported and analysis of their sustainability in the prevailing situation. The Commission stated that based on available evidence at its disposal, the external debts of the both Federal and States complied with regulation but the same could not be said of domestic borrowing. It stated that there were no clear indications that all the tiers of Government were borrowing for only capital expenditure and human development on 3% interest rate with the approval of the appropriate legislative body.

15. Institutional Structures for Domestic Debt Management

The DMO is the principal agent for public debt management and the roles of other institutions involved in public debt management are stated here.

- Debt Management Office

The DMO is mandated to manage Nigeria's public debt (External and Domestic, including Contingent Liabilities). Part III, Section 6 of the DMO Act, outlines the functions and powers of the DMO as follows:

a. Maintain a reliable database of all loans taken or guaranteed by the Federal or State Governments or any of their agencies;

b. Prepare and submit to the Federal Government a forecast of loan service obligations for each financial year;

c. Prepare and implement a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels compatible with desired economic activities for growth and development and participate in negotiations aimed at realising these objectives;

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

e. On agency basis, service external debts taken by State Governments and any of their agencies, where such debts are guaranteed by the Federal Government;

f. Set guidelines for managing the Federal Government's financial risks and currency exposure with respect to all loans;

g. Advise the Federal Government on the re-structuring and re-financing of all debt obligations;

h. Advise the Minister on the terms and conditions on which monies, whether in the currency of Nigeria or in any other currency, are to be borrowed;

i. Submit to the Federal Government for consideration in the annual budget, a forecast of borrowing capacity in local and foreign currencies;

j. Prepare a schedule of any other Federal Government obligations such as trade debts and other contingent liabilities, both explicit and implicit and provide advice on policies and procedures for their management;

k. Establish and maintain relationships with international and local financial institutions, creditors and institutional investors in Government debts;

l. Collect, collate, disseminate information, data and forecasts on debt management with the approval of the Board;

m. Carry out such other functions, which may be delegated to it by the Minister or by an Act of the National Assembly; and,

n. Perform such other functions which in the opinion of the Office, are required for the effective implementation of its functions under the DMO Act.

The Office also has power to:

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

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

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

In line with its mandate, the DMO has issued some Guidelines that cover the issuance of FGN securities in the domestic market, the secondary market for FGN securities in the domestic market and borrowing by all the tiers of Government and their agencies. These include:

▪ A Guide to Operations for the Debt Management Office, Nigeria, in the Federal Government of Nigeria Bond Market (Revised in 2015); and,

▪ General Rules and Regulations Governing the Primary Dealer Market Maker (PDMM) System in Federal Government of Nigeria (FGN) Securities (Revised in 2015).

▪ External and Domestic Borrowing Guidelines for Federal, States, FCT and their Agencies.

Board and Management Structure of the DMO

- The DMO Act provides for a 7-member Supervisory Board as follows:
- The Vice President of the Federal Republic of Nigeria Chairman
- The Honourable Minister of Finance Vice Chairman
- Honourable Attorney-General of the Federation and Minister of Justice Member
- The Chief Economic Adviser to the President Member
- The Governor of the Central Bank of Nigeria Member
- The Accountant-General of the Federation Member
- The Director-General of the DMO Member/Secretary

16. Departments and Operational Responsibilities

In line with sound practices in public debt management, the DMO's organisational structure is divided into Front, Middle and Back Office, all of which report to the Director-General. The Front Office comprises the Portfolio Management Department, Market Development Department and Strategic Programmes Department. The Middle Office and the Back Office each has one Department – Policy, Strategy and Risk Management Department and Debt Recording and Settlement Department, respectively. There is also the Organisational Resourcing Department, which provides corporate support.

Key functions of the Front, Middle and Back Office:

Front Office:

- FGN Securities Issuance and Contingent Liability Management
- Development of the FGN Securities Market and Sovereign Issuances in the ICM

- Sub-national Debt Management Development Activities and Sub-national Debt Data

Middle Office:

- Development of Debt Policies and Strategies
- Public Debt Statistics, Analysis and Economic Research
- Risk Management, Monitoring and Task Compliance

Back Office:

- Recording and Maintenance of Public Debt Data (external and domestic)

Servicing of Public Debt

The roles and responsibilities of the different operational offices of the DMO under the above structure are as described below:

- Office of the Director-General

The Director-General's Office provides overall coordination and strategic management of all the activities of the DMO, including those of the departments in the Front, Middle and Back Offices, as well as the Organizational Resourcing Department (ORD). There are also two (2) Units which report directly to the Director-General - Legal Services Unit (LSU) and Internal Audit and Control Unit (IA & CU). The LSU provides legal advice to the DMO on its activities, while also ensuring that they are compliant with Laws and Regulations of the Federal Government of Nigeria. The IA & CU carries out independent review of the accounting, financing and other operations of the DMO for compliance, as well as evaluating the effectiveness of the Internal Control system in the organisation.

The Director-General's Office also coordinates the activities of the Secretariat for the DMO Supervisory Board.

- Portfolio Management Department (PMD)

The PMD is responsible for the securities issuance activities of the DMO in the financial markets, and other forms of borrowing as approved. It also participates in the negotiations of the Terms and Conditions of proposed borrowings from Multilateral and Bilateral sources, as well as tracking and managing Contingent Liabilities (Guarantees) of the Federal Government; with a view to ensuring that such liabilities are tracked and monitored for any budgetary provisions, if necessary.

It is also responsible for managing On-lent loans to the MDAs, based on approvals received to grant such loans. In addition, the PMD evaluates all requests by Sub-nationals for borrowing from external and domestic sources to ensure compliance with stipulated thresholds.

- Market Development Department (MDD)

The MDD is responsible for Financial Market Planning and Research, Development of new products, Regulation and Supervision of Primary Dealer Market Makers in FGN Securities, as well as coordinating the activities relating to Sovereign Securities Issuance (Eurobonds and Diaspora Bond) in the International Capital Market.

- Strategic Programmes Department (SPD)

The SPD is responsible for assisting States in the establishment of Debt Management Departments (DMDs), and the formulation of the enabling legislation for prudent and effective sub-national debt management. The Department also implements the DMO's initiatives on the development of debt management capacity, as well as the coordination and implementation of support such as grants from development partners.

- Policy, Strategy and Risk Management Department (PSRMD)

The PRSMD is responsible for the formulation of medium and long-term Debt Management Policies and Strategies; conducting Debt Sustainability Analysis (DSA) on an annual basis, 18

- Statistical Analysis and Risk Management; and, Task Compliance and management of Operational Risks.

The Department is also responsible for the analysis of developments in Nigeria and International environment that have implications for the debt stock and new borrowing.

- Debt Recording and Settlement Department (DRSD)

The DRSD is responsible for the recording of all the FGN's public debt (Domestic, External and other Special accounts), and for servicing the public debt stock. The Department also provides information and data that support the reporting and analysis of the public debt, including debt and debt service forecasts.

- Organisational Resourcing Department (ORD)

The ORD Department provides corporate service support to all the DMO Departments and the D-G's Office. Functions within the Department are: Finance and Accounts, Human Resources Management and General Administration.

- Transparency in Public Debt Management Implemented by the DMO

The organisational framework for public debt management ensures transparency in public debt management activities ranging from the Debt Stock and Debt Service to new borrowing, as well as Debt Management Strategy, amongst others. For this purpose, the DMO prepares and publishes the following reports and documents routinely, while also providing information on topical issues relating to public debt on a need basis through Publication, Media Interviews\ and Press Releases:

Debt Management Strategy, which presents Government's financing strategy and targets that will ensure that the debt stock is sustainable;

i DMO's Strategic Plan, a 4-year Plan document which spells out the Vision, Mission and Broad Objectives of the organisation;

ii National Debt Management Framework, which contains key Debt Management Policies, Strategies and Frameworks that have been designed to ensure that government's borrowing activities are conducted in accordance with statutory provisions and regulations;

iii Annual Report and Statement of Accounts, which contains detailed report on Public Debt Management activities and the use of its resources;

iv Quarterly Debt Data which provides detailed information on the Public Debt at the end of each Quarter;

v Quarterly FGN Securities Issuance Calendar - A quarterly publication which provides the public with information on the indicative amounts of FGN Securities (NTBs and FGN Bonds), to be offered to the public.

Offer Circulars and Auction Results are:

i Monthly FGN Bond Offer Circular - The Circular is issued prior to an FGN Auction and it states the Dates of Auction, Amount and specific instruments to be auctioned, and their respective amounts being offered and other basic details to guide subscribers.

ii Monthly FGN Bond Auction Result – This is released on the Date of the Auction to provide critical information on the Auction such as Total Subscription, Amount Allotted and Marginal Rate.

In addition, the DMO engages the external stakeholders in various interactive fora designed to enhance information sharing and transparency, notably, Press Briefings, through which the DMO regularly offers clarifications on issues around Nigeria's public debt management.

- Accountability

As part of sound public debt management practice, the financial transactions arising from debt management activities are audited annually by reputable External Auditors as a way of engendering accountability. Public Debt Management operation is expected to be audited every three (3) years, in line with best practices as recommended by the World Bank under Debt Management Performance Assessment (DeMPA), and the DMO had conducted such audit in the past, which is expected to be sustained, going forward. The IA & CU also conducts routine audit of the public debt management operations and reports its findings to the Director-General. These reports include, Quarterly, Half-Yearly and Annual Reports. In addition, the IA & CU audits the financial transactions of the Office and renders statutory returns to the Accountant-General and the Auditor-General of the Federation.

- Roles of other key Agencies involved in Public Debt Management

The Legal Framework highlighted in specifies the authority to borrow and to issue new debt, as well as undertake debt and debt-related transactions on behalf of the government. There are other Government institutions involved in Nigeria's borrowing activities. These are presented below:

- Public Sector

a) Federal Ministry of Finance (FMF)

i. Provides strategic leadership for the DMO as the supervising Ministry;

ii. Reviews and approves the DMO's proposals for borrowing in the domestic and international capital markets;

iii. Prepares the Medium-Term External Borrowing Plan for Approval;

iv. Considers and approves proposals for new securities to be issued by the DMO for borrowing purposes;

v. Considers and approves recommendations from the DMO for borrowing by State Governments and the issuance of Sovereign Guarantees;

vi. Leads the Loan Negotiation Team, and Signs all External Loan Agreements with respect to the Multilateral and Bilateral loans;

vii. Participates in the DSA and MTDS Workshops organised by the DMO and provides Fiscal Policy inputs, as well as data on the External Borrowing Plan of the FGN.

b) Federal Executive Council (FEC)

i Approves New Borrowing in the Annual and Supplementary Budgets;

ii Approves the Issuance of Securities in the International Capital Market.

c) The National Assembly (NASS)

i. Approves the New Borrowing in the Annual and Supplementary Budgets;

ii. Approves (by Resolution) the Terms and Conditions of External Borrowings in the International Capital Market;

iii. Approves the Medium-Term External Borrowing Plan and the Terms and Conditions.

d) Central Bank of Nigeria (CBN)

i. Considers and approves new products to be issued for borrowing purposes by the DMO;

ii. Upon the request of the DMO, considers and grants Liquid Asset status to FGN securities issued in the domestic market;

iii. Acts as the Fiscal Agent (Registrar and Settlement bank) for all FGN Securities issued in the domestic market, as well as Issuing House for Nigerian Treasury Bills;

iv. Implements the externalisation of the External Debt Service payments based on the mandate (authorisation) from the OAGF;

v. Participates in the DSA and MTDS Workshops and provides data on Monetary Policy and Balance of Payments (BOP).

e) Federal Ministry of Justice (FMoJ)

i Provides Legal Opinion where required, for domestic and external borrowing;

ii Considers and clears the engagement of external Legal Advisers by the DMO as a stipulated in FMoJ's Circular;

iii Vets and validates contractual documents with external parties to ensure that the Fees (and Expenses), fall within the threshold prescribed by the FMoJ;

iv Vets and validates all legal documents required for borrowing in the International Capital Market.

f) Federal Ministry of Budget and National Planning (FMBNP)

i Prepares the Annual and where applicable, supplementary Budgets of the Federal Government from where the Budget Deficit and New Borrowings to finance the Budget are derived;

ii Projected Debt Service figures are provided by the DMO to the FMBNP for the preparation of Budgets;

iii. Collect, collate and add data and information on key economic indices such as GDP and Inflation to fiscal policy documents;

iv. Participates in the DSA and MTDS Workshops and provides projected data on some Macroeconomic variables, as well as information on the key economic policy thrusts of the government.

g) Fiscal Responsibility Commission (FRC)

Monitors borrowings for compliance with the provisions in the FRA, 2007, as it relates to the Ratio of Fiscal Deficit-to-GDP, which is set at a maximum of 3% amongst others.

h) Office of Accountant-General of the Federation (OAGF)

i Considers and approves new products to be issued for borrowing purposes by the DMO;

ii Issues mandates to the CBN for externalisation of the External Debt Service payments;

iii Participates in the DSA and MTDS Workshops, and provides data on actual Fiscal Accounts;

iv Provides Actual FGN Revenue Figures for the purpose of computing the Debt Service to Revenue Ratio.

i) Securities and Exchange Commission (SEC) i. Regulates activities in the Nigerian Capital Market, where both the FGN and States Governments issue securities;

i. Enforces compliance with the ISA, 2007 by market operators;

ii. The DMO actively collaborates with SEC on issues related to the development of the domestic capital market;

iii. Collaborates with the DMO in the implementation of the External and Domestic Borrowing Guidelines for Federal, States, FCT, and their Agencies.

- Private Sector

a) The Nigerian Stock Exchange (NSE)

i Provides a platform for the listing and secondary market trading for FGN Securities, except Nigerian Treasury Bills;

ii A strategic partner to the DMO for market development initiatives.

b) Financial Markets Dealers Association (FMDA) i. Supports the DMO in its initiatives and activities towards the deepening of the FGN domestic securities market;

ii. Serves as an umbrella body for the DMO-registered Primary Dealer Market Makers in domestic FGN Securities;

iii. Sets parameters for Secondary Market trading in fixed income securities such as standard ticket size and two-way quotes;

iv. Collaborates with the DMO on capacity building for stakeholders.

c) FMDQ OTC Securities

i. Provides the platform for the listing of FGN securities including Nigerian Treasury Bills for secondary market trading by institutions;

ii. Provides a data bank and timely information on FGN securities listed and trading thereby facilitating the information dissemination.

17. Institutional frameworks: The Gap between Theory and Practice

The duo of the DMO and the FRC backed by the Acts that establish them provide a modicum of official control for effective management of domestic debt in Nigeria. However, it seems paucity fund is a challenge to effective operation. The FRC for example, is saddled with the responsibility of monitoring compliance of government with the extant regulatory framework in accordance with Section 44(1) and (2a) FRA, 2007 which empowers the Commission to monitor all the loans contracted by the Governments, in the Federation, their Corporations and Agencies. This is to ensure that such borrowings are applied towards the execution of long-term capital projects and human development. In addition, it is important to ascertain the existence of the project(s) and also, validate the financial expenditure against the actual work. The Commission did not do this for over seven years of its existence.

According to its 2014 Annual Report, it "has not been able to embark on this aspect of monitoring since inception due to paucity of funds". Since it is not within the power of the FRC to appropriate money to fund its annual plan of action, the paucity of fund referred to implies that money was not made available for it to carry out its statutory duty. Apparently, there is a lack of the political will on the part of the Executive and the Federal Ministry of Finance to do the needful to ensure effective performance of the FRC. For this reason the Commission had to resort to publishing the consolidated debts of each of the states and matching them with their statutory allocations to show whether or not they (States) had exceeded their statutory allocation by the 50% ceiling set by the DMO's guidelines on Debt Management Framework. This particular action is necessary for two major reasons:

1. The FG guarantees the states' loan subsequent to approval.
2. The States' debts have to be deducted from their statutory allocations.

The publications of states' consolidated debts along with their statutory allocation provides insufficient information because States' domestic debts are sometimes bilateral with banks and other local creditors like contractors. There is usually no evidence of compliance with the statutory provisions requiring that only debts acquired for capital and human development are viable.

There is an apparent line of demarcation between theory and practice when it comes to regulation governing debt in Nigeria. Besides a deliberate emasculation of the effectiveness of the FRC through provision of insufficient fund as reported, Section 42(1) of FRA 2007 prescribed that the President of the Federal Republic of Nigeria should set the overall limit for the amounts of consolidated debt of the Federal, State, and Local Governments. This has not been done for years of the existence of the Act. This state of affair makes it difficult for the FRC to implement sections 42(3 - 5) and 44(4) of the FRA 2007. It is therefore understandable why the DMO relies on the World Bank threshold of 40% Debt to GDP ratio as the limit.

18. Towards Policy Recommendations

Nigeria's parliament is a bi-cameral legislature made up of upper and lower chambers called the National Assembly (NASS). While the upper chamber has 109 Senators, the lower one has 360 members in the House of Representatives. The NASS has its members drawn from all the States of the Federation and are accordingly elected representatives of the people. The laws that established all the supervisory organs relating to debt in Nigeria were made by the NASS. It is for this reason the NASS should ensure that it performs its oversight functions as prescribed by the relevant regulation. The NASS should also identify deficient areas in the constitution from time to time and be accountable to their electorate. The issue of unwholesome borrowings by the executive should be questioned appropriately by the state legislature or the NASS as the case may be.

Civil Society Organisations have a duty to serve as the peoples' watchdog monitoring domestic debt. CSOs should create awareness of the inherent danger of debt burden. This is with reference to debts that are contracted in clear violation of constitutional provision of borrowing for capital and human development only. It is also within the constitutional rights of CSOs as critical stakeholders in economic growth and development of Nigeria to engage all the tiers of government in dialogues for clarification of issues for onward sensitisation of the citizens. They should also be engaged in constructive criticism of the government's activities for the purpose of all-round economic development. In all these efforts, the CSOs have a responsibility to enrich their members cognitively for effective engagement of both the government, local and international creditors. This will be achieved through organising series of trainings in the area of debt and development for their members. They can also serve as "partners-in-progress" for the government through constant research on different ways of achieving increased revenue generation and identifying areas of human development that should be the focus of policy makers.

The international financial institutions have access to greater human and financial resources capable of carrying out helpful research activities. They should therefore avail the Less Developed Countries (LDC) the opportunity of accessing their expertise. These international financial institutions are also in a position to sponsor development projects and serve as objective financial advisers to a country like Nigeria. This should be in realisation of the fact that the security of the entire world rests on equitable distribution of wealth between the affluent and impoverished. Loan contraction with the LCD should be concessional on liberal terms that will not keep the country perpetually within the vicious circle of debt-servicing-refinancing-debt-servicing.

For an effective management of public domestic debt in a developing country like Nigeria, Anochie [1]opined that an accurate and comprehensive knowledge of the debt in terms of its size, composition, maturity, historical evolution, debt services and future evolution is indispensable for effective management of public domestic debt. This is necessary to ensure that individual creditors are paid promptly as well as in assessing current future debt service obligations. In addition, there should be a relatively longer length of time for rescheduling so as to defray the domestic debt and hence revive the economy.

19. Key Actionable Policy Recommendation

The extant legal and regulatory framework in Nigeria is currently broad in scope. Nevertheless, the legislature at federal and state levels owe it as a duty to the citizens to continue to review legislation pertaining to debt procurement and management in order to achieve perfection. The legislature should be able to call the executive at the federal, state or Local Government level to account for any uncertain loan contraction and ensure that all such are following existing provisions of the law.

In addition, the following should also be considered:

i. Budgetary controls and financial accountability must be established in the public sector. It should be mandatory for government departments, ministers and parastatals to publish their audited annual accounts within 3 months of the end of their respective fiscal years. This would help restore financial discipline and thus minimize the misappropriation and waste of funds. It will also provide up-to-date data needed for meaningful policy discussions and efficient debt management. Both federal and state governments should strive at achieving and maintaining balanced budget. Also, public and private sector borrowing should be reduced through increased revenue generation and a more effective tax collection and administration.

ii. The procedure for controlling internal loans must be tightened to put an end to the practice of indiscriminate internal borrowing of various state governments without prior approval from the federal government. Provision should be made for all projects financed with banks and contractors' loans to be centrally monitored for problems solutions and progress.

iii. Furthermore, the timing of borrowing should be known and this should be when a country's credit worthiness is rated high in international capital markets when the loan is readily available and at a more favourable and less onerous terms. Here, care should be taken not to borrow beyond a country's absorptive capacity and the volume of such loans should be such that it can reasonably service without risking external payment problems.

iv. It is imperative that the spirit of self-reliance permeates every sphere of national life, hence all available local means must be exhausted before alternatives of achieving desired development objectives be sought through

[1] Journal of Empirical Economics
Vol. 4, No. 6, 2015, 298-312

internal borrowing, in particular there should be increase in export of processed agricultural products, minerals and industrial products. The propensity to spend a large portion of export earnings on importation of food should be discouraged through effective taxation. Self-sufficiency in food production can be achieved through measures aimed at increasing the production capacity of local farmers who sustain agriculture.

v. In the attempt to diversify the sources and structures of the debt, the financing package should be selected on the basis of projects which best meet the nation's priorities and has the highest possible minimum amount of market financing because of its floating interest and maturity structure, the maximum amount of capital that can be rolled over and minimum debt service in the first 5 to 10 years of the project. In the same vein, government should hasten the establishment of a petro-chemical complex but with increased private sector equity participation, while at the same time reducing white elephant development projects and also lay emphasis on small scale rural development to reverse the chaotic trend of urbanization.

vi. Most importantly, stiff penalties for economic crimes especially those involving misappropriation and embezzlement of public funds, kickbacks, fee loading, over-invoicing, bribery etc, should be implemented to the letter to uplift the standard of morality and probity of the society and thus contain the gross abuses that hinder economic progress.

All considered, it can be surmised that though, debt might be a burden, when channelled to productive human capital development, it can be a catalyst for economic development. And as Ibrahim, Olarewaju et al (2016) observed, GDP has a strong relationship with domestic debt, domestic credit to private sector, budget deficit and interest rate. It was also observed that there is a positive and significant relationship between GDP and domestic debt. This obviously implies that the funds generated through domestic borrowing have been used partially to finance those expenditures of government which contribute to growth rate of GDP. It also implies that increasing domestic debt (up to a certain level) would enhance economic growth, so far domestic debt revenues are channelled into productive activities in the economy. Another reason for the positive relationship between domestic debt and economic growth in Nigeria is attributed to the marketable nature of domestic debt. Market-base domestic debt increases macroeconomic growth and reduces exposure to external real shocks.

In view of the foregoing analysis, it is wise to channel domestic debt to capital and human development activities in accordance with the dictate of the FRA 2007. This will involve a serious appraisal of each proposed project to ensure its eventual contribution to economic growth.

The President needs to set the limit on consolidated debt of Federal, States and Local Governments in accordance with the dictate of section 42(1) of FRA 2007. The limits should be reviewed periodically (annually) to ensure that they are still meaningful in the current economic circumstances. The appropriate mechanism should be put in place to monitor the impact of new borrowing on overall debt sustainability based on the evolution of the debt indicators and provide prompt fiscal rectification.

The Debt Management Office (DMO) should draw up guidelines to limit the growth of future domestic debt. In this regard, debts service ratio must not exceed 40 percent of allocation from the federation account. Close monitoring of government borrowing through the domestic market is therefore necessary.

Finally, transparency and accountability in the acquisition and use of domestic debt will go a long way towards enhancing development. To achieve this, the citizens must have liberal unfettered access to information in accordance with the Freedom of Information Act 2007. The anti-corruption agencies should be legally enabled to carry out necessary actions against any attempt to take the citizens into a collective economic slavery through corruption-ridden debt contraction.

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[i] International Journal of Social Sciences and Humanities Reviews Vol.6 No.1, February, 2016; p.40 – 50, (ISSN: 2276-8645)

[ii] 2014 Annual Report and Audited Accounts of the Fiscal Responsibility Commission

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