

World Experience And Strategy Of Debt Management With a Case Study of Nigeria's Fiscal Federalism

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A. Introduction

- Mid-1980s: Many 3rd world countries defaulted on External Loan obligations
 - ✓ Public debt management becomes prominent in global economic discourse
 - ✓ Various salutary initiatives have been tried including HIPC initiative
 - ✓ Best practices in debt management becomes of interest
 - ✓ Emergence of Multilateral associations/Institutions concerned with sharing experiences and development of DMOs

B. World Experience & Strategy in Debt Management

- Public sector financing gap ---borrowing--- Public debt.
- Core issues in public debt management
 - ✓ Susceptibility to contagion through debt
 - ✓ Size of debt portfolio
 - ✓ Quality of debt portfolio
 - ✓ Sustainability in terms of debt servicing capacity.

Also Issues of Risk Management:

- ✓ Market risk- interest rate; exchange rate; e.t.c
- ✓ Rollover risk
- ✓ Liquidity risk
- ✓ Credit risk
- ✓ Operational risk- recording error, control lapses, security risk, legal risk e.t.c

Result of IMF/World Bank case study of 18 countries in 2001 on global experience

- Based on Guidelines for public debt management
 - ✓ Increasing sophistication
 - ✓ More focus on managing risks
 - ✓ Interest on establishing appropriate institutional framework
 - ✓ Interest in Sub-national debt management as well
 - ✓ Concern with legal mandate and legal framework
 - ✓ Greater transparency and accountability

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- Greater appreciation of and reliance on technology and systems involving huge resources
- Interest in developing domestic financial markets
- Recognition that success is largely contingent on sound macro-economic environment.

C. Nigeria As A case Study

- Before 2000, debt management functions were scattered among various Govt agencies with many shortcomings
- Then, all debt management functions were centralized in a single semi-autonomous agency
- DMO established and commenced operations in October 2000.
 - ✓ Centralization of all debt management functions
- Restructuring in July 2004 to Front – Middle - Back office configuration.

Domestic Debt Problems

- Size:
 - ✓ about 1.36 trillion or about 20% of GDP in 2004
- Tenor:
 - ✓ Over 60% in 91-day Treasury bill
- Holding:
 - ✓ 37 % by Central Bank
 - ✓ 49 % by deposit money Banks
 - ✓ 14 % by non-Bank public
- Monetisation of fiscal deficits
- Absence of sovereign bond issuance for about 18 years
- Wide swings in volume of weekly TB issues

Initiatives On Domestic Debt

- Resumption of sovereign bond issuance with initial floatation of N150billion in Sep 2003.
- Tenors of 3, 5, 7, and 10 years
- Result:
 - ✓ Over subscription for the 3 year and poorer success for the longer tenors
- Participation:

✓ Banks	56%
✓ Pension funds	25%
✓ Non banks	9%
✓ Individuals	2%

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- Smoothing of weekly auction of TBs to reduce fluctuations and money market volatility
- Refinancing of TBs with 182-day and 360 day issues
- Monthly regular issuance of 3 yr bonds in moderate volumes to commence 2nd half of 2005
- Objectives:
 - ✓ To reactivate the capital market
 - ✓ Establish yield curve/benchmark for pricing other securities.
- Plans to develop secondary market to ensure liquidity
 - ✓ Establish primary dealer networks
 - ✓ Establish Market making framework
- Close communication, collaboration and coordination among DMO, SEC Stock exchange, Central Bank and Market players.

External Debt Problem

- Huge & Unsustainable debt stock of about USD 35.9bn as at end- 2004
- Total Debt stock (External and Domestic) to GDP ratio: 80% in 2004
- Erosion of resources needed for poverty reduction
- Debt service projection up to 2010 shows the problem would remain
- Creditor proportions:
 - ✓ Paris club 85.82%
 - ✓ Multilateral 7.86%
 - ✓ London club 4.01%
 - ✓ Promissory note 2.18%
 - ✓ Non- Paris Bilateral 0.13%

Market Risk Manifestation

- Mid-1980s:
 - Libor rose to about 13% whereas loans were contracted at floating rates in 1970s when libor was 3-4%
 - Between 2001-2004, depreciation of the US Dollar relative to other currencies added about USD5.0 billion to the outstanding debt stock.

Initiative On External debt

- Rescheduling on Houston Terms based on Dec 13, 2000 Agreed Minute
- Rescheduling of over 18-20 years offered only a shallow and temporary respite because no debt reduction was involved
- However, interest rates renegotiated to fixed rates of 2.6-5.3%

Way Forward

- Relationship with all Paris Club creditors regularized with signing of bilateral agreements
- Substantial progress made in implementing the countries home grown comprehensive economic and social reform programme - NEEDS
- Negotiations now on for real and substantial debt relief
- 70-75% debt relief needed for a final exit and quick economic revival
- Abundant opportunities for foreign investment which creditors will exploit

Sub-National Borrowing

- Nigeria is a Federation:
 - ✓ One central Government
 - ✓ One Federal Capital Territory
 - ✓ 36 State Governments
 - ✓ 774 Local Governments
- States in particular exercise considerable degree of fiscal autonomy
- Lack of coordination , Poor and incomplete debt data among states
- States are responsible for about 25% of countries external indebtedness

Salutary Initiatives

- DMO Act (2003) requires:
- Banks and other financial institutions to lend to States and Local Government only with approval of the Minister of Finance
- External borrowing by all tiers of Govt. and their agencies needs approval by National Legislature and the Minister of Finance

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- DMO initiated project for restructuring and developing database of states
- Helping states to set up debt management units
- Organizing educative and consensus building interactive forums for states
- Borrowing guidelines for all tiers and agencies now in place

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- Proposed fiscal responsibility law at final stages of its drafting:
 - ✓ Aims to rationalize public sector borrowing
 - ✓ Aims at coordinated borrowing and public finance practices based on minimum standards
 - ✓ Aims at accountability and transparency

Major Challenges

- Getting State Governments to trade off part of their fiscal autonomy for health and stability of overall economy

Conclusion

- Public debt management has become a vital issue facing the global economy
- Unsustainable debt of many poor countries attracts greater focus to the need for best practices in debt management
- Sharing of experience is useful not only among highly indebted countries but also between debtor and creditor countries
- The role of multilateral organizations and associations like WADMO in this respect is very necessary

Thank you