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Nigeria and the IMF

Press Release:
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October 17, 2005

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Nigeria: Authorities' Letter, Policy Statement, and Technical Memorandum of Understanding

October 6, 2005

The following item is a Letter of Intent of the government of Nigeria, which describes the policies that Nigeria intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Nigeria, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

October 6, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, DC 20431

Dear Mr. de Rato:

The attached Policy Statement describes economic and financial policies that the government of Nigeria has been pursuing and wants to continue to implement. We request the assessment and endorsement of the policies by the International Monetary Fund under a two-year Policy Support Instrument (PSI) arrangement. The Policy Statement outlines our broad macroeconomic objectives and policies for 2005 and for the medium term. These policies are based on our National Economic Empowerment and Development Strategy (NEEDS), which was completed in 2004. NEEDS has earlier been presented and discussed under previous IMF Article IV missions and World Bank Country Partnership Strategy discussions. We understand that a joint staff assessment of NEEDS will be formally presented to the Executive Boards of the Fund and Bank shortly.

The Government of Nigeria believes that the policies set forth in the attached statement are adequate to achieve the objectives of our PSI program. Given our interests in macroeconomic stability, we stand ready to take additional measures as may be necessary to achieve needed objectives. Our PSI proposes assessment criteria for review dates of end-December 2005 and end-June 2006 for the first and second reviews, expected to be completed on March 31st 2006 and September 30th 2006 respectively. We stand ready to work with the Fund and the Bank in partnership in the implementation of our home grown program and will naturally consult in advance should revisions be contemplated to the policies contained in the PSI.

Sincerely yours,

/s/ /s/

Dr. (Mrs.) Ngozi Okonjo-Iweala
Minister of Finance

Professor Charles C. Soludo
Governor of the Central Bank of Nigeria

The Nigerian Economic Reform Program: Policy Statement

October 6, 2005

This note summarizes the ongoing reforms in Nigeria, the achievements made so far, present challenges, medium-term objectives, quantitative targets, structural benchmarks and assessment criteria. It ends with the Government's case for debt relief.

1. **The Government of President Olusegun Obasanjo instituted a reform program in 2003,** designed to address the structural and institutional weaknesses of the economy, tackle corruption and overhaul public expenditure management. These policies were encapsulated in an all-embracing home-grown program known as the National Economic Empowerment and Development Strategy (NEEDS). In order to provide an objective assessment of the efficacy of the reforms, the Government invited the Fund to monitor, on a quarterly basis, the implementation of the policies and reforms in the context of intensified surveillance. A major weakness of past adjustment programs in Nigeria had to do with the fact that they were not homegrown, and there was no sense of ownership by Nigerians. Consequently, even for needed appropriate policies, the perception was that they were imposed from outside, thereby robbing the programs of local support and scuttling any chance of successful implementation. The home-grown nature of NEEDS has engendered a sense of ownership among Nigerians, with sub-national Governments now developing equivalent programs at the State and Local Government levels. Indeed, given the depth and breadth of the reforms, it is clear that only a true sense of ownership would elicit the degree of support needed to drive the process forward.

2. **The broad goals of NEEDS could be summarized as poverty reduction, wealth creation and employment generation through the empowerment of the private sector, and a reorientation of national values.** This was to entail a redefinition of the role of government in the economy, creating an enabling environment for private sector growth, and improving social services delivery. The pursuit of fiscal discipline through an oil price-based fiscal policy rule and improved public expenditure management, combined with better revenue collection, tax reforms and customs reforms, would foster macroeconomic stability, while reforms to the public procurement system through the due process mechanism and membership of the EITI would address lapses in governance and transparency. Similarly, reforms to the public service would bring about efficiency and improved public service delivery, just as market liberalization and privatization of key public enterprises would help our public finances and quality of service. Finally, far-reaching reforms are being introduced in the banking sector, with a view to consolidating and strengthening the financial sector, after which a wholesale Dutch Auction System would be adopted to replace the present retail system.

3. **Significant progress has been made under the reform program,** as evidenced by the macroeconomic performance of 2004. Real GDP growth of 6.1 percent was recorded, of

which non-oil GDP rose by 7.4 percent (surpassing the target of 5 percent); the diligent implementation of an oil price-based fiscal rule meant that for the first time in the history of Nigeria, public expenditure was de-linked from oil revenue receipts, resulting in the saving of the oil windfall and the highest ever level of foreign reserves in the nation's history. The coordination of fiscal and monetary policies also meant that the Central Bank of Nigeria met its monetary target for the first time in decades, and helped to reduce inflation, from about 24 percent in December 2003 to 10 percent in December 2004. On the foreign exchange market, the tight fiscal and monetary stance also helped to reduce the spread between the official and parallel market rates to about 5 percent.

4. **The strategy under the 2005 budget, and in the medium term, is to build on the success of 2004.** This would be accomplished through a continuation of the oil price-based fiscal rule, continued prudence in public expenditure management, observance of due process in public procurement, intensification of the fight against corruption, and an acceleration of the privatization exercise. In this context, the Government has adopted a Medium-Term Expenditure Framework (MTEF) designed to usher in a multi-year budgeting system that will ensure better planning, prioritization of projects, matching of expenditure to expected revenue inflows and generally improving project implementation. The short and medium-term macroeconomic framework and financial policies may be summarized as follows:

Short-Term Macroeconomic Policies

- Crude oil production is expected to rise from 2.4 Mb/d in 2005 to 2.5 Mb/d in 2006.
- An oil price based fiscal rule will continue to drive the budgeting process, with the benchmark price at $30 per barrel in 2005. The government intends to submit a draft 2006 budget based on a benchmark price of $33 per barrel to the National Assembly by end-2005. [1]
- The MTEF has been prepared as part of the 2006 budget process. In this context, line ministries will formulate their medium-term objectives in line with NEEDS, as guides for sectoral spending programs.
- The targeted primary expenditure of the Federal Government in 2005 is estimated at about 10 percent of GDP, with present estimates suggesting that this variable will fall to 9 percent in 2006.
- Fiscal policy shall target a non-oil primary deficit of about 41 and 38 percent of non-oil GDP in 2005 and 2006, respectively.
- Excess revenue on the crude oil account will continue to be saved, in accordance with the specifications of the Fiscal Responsibility Bill that was recently submitted to the National Assembly. Present estimates, based on the WEO oil price projections (or

[1] The increase of the benchmark price to $33/b in 2006 is due to the fact that there will be no sharing of excess crude oil proceeds in 2006 based on the planned utilization of the savings for the debt buy-back.

$51.10 per barrel average for Nigerian oil in 2005) and a $30 per barrel oil benchmark price, suggest that the balance on the account will rise to $11 billion at end 2005 and $33 billion at end 2006.[2]

- Based on the above, the level of international reserves would increase to $26½ billion by end-2005 and $48 billion at end-2006.[3]
- With continued prudent fiscal and monetary policies, inflation should decline to a single digit level in 2006. In the first half of 2005, monetary aggregates increased more rapidly than anticipated; the 12-month increase in broad money amounted to 34 percent by end-June—more than double the target for the year. Concurrently, year-on-year inflation increased to 26 percent by end-July 2005. The CBN has now taken decisive measures to reign in money growth, with a view to reduce year-on-year broad money growth to 15 percent by end-December 2005. These measures include stepped up foreign exchange sales compared to the first half of 2005 and more active open market operations to mop up excess liquidity. In addition, the cash reserve requirement was increased from 9.5 percent in June to 11 percent in August. The exchange rate band will be subordinated to the money target and the exchange rate will be allowed to adjust as needed.
- A real GDP growth rate of about 6 percent is expected for 2005, with non-oil GDP growth rate of about 7 percent.
- Towards better macroeconomic coordination, all 36 States have developed their counterpart to the NEEDS program, the SEEDS; 35 of them have volunteered to be benchmarked and assessed on their performance. The SEEDS benchmarks cover fiscal policy, communication and transparency, service delivery and budget management. The reviews will be completed by end-December 2005.
- The monetary program envisages zero net lending to Government by the CBN. However, in exceptional circumstances, it would lend to the Government but keep such lending at no more than 5.0 percent of the previous year's retained revenue, and the loan must be cleared to zero by the end of the quarter.
- The growth of broad money shall continue to be monitored, with a target growth rate of 14-16 percent in 2006-2008 consistent with the targeted non-oil GDP growth rate and inflation.

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[2] This takes into account the payment of US$6 billion arrears due to Paris Club creditors after the debt relief negotiations, but not payment of a further projected US$6.4 billion in 2006 after the negotiations with the Paris Club on a comprehensive debt treatment. In any case, it must be emphasized that these projections are based on the present WEO oil price profile, which is subject to large swings.

[3] Again, a note of caution is necessary here regarding the foreign reserve projections since they are based on oil price projections that are known to be very volatile and subject to frequent revisions.

- The CBN will now use its minimum rediscount rate (MRR) as a signalling device for monetary policy, varying the rate in line with inflation and liquidity conditions.
- The CBN will also develop a liquidity forecasting framework, with assistance from the IMF, to strengthen its daily open market operations, and withdraw as needed public sector deposits from commercial banks.
- The CBN will also move to a wholesale Dutch auction system by end-February 2006, with a view to achieving a convergence of the DAS and Inter-bank rates (a structural assessment criterion).

Medium Term Macroeconomic Policy

The Government expects to continue implementing the reform program in the medium term so as to build on the achievements of the short term. The framework will be based on the following assumptions:

- Crude oil production is expected to rise to 2.6 Mb/d in 2007 and 2.7 Mb/d in 2008.
- The oil price based fiscal rule will continue to underpin the budgeting process; the projected benchmark price in 2007 and 2008 is $30 per barrel, subject to the concurrence of the National Assembly.
- The targeted primary expenditure of the Federal Government in 2007 and 2008 is estimated at about 10 percent of GDP.
- Efforts will be made to bring down the non-oil primary deficit to about 38 percent in 2007-2008.
- The monetary program in the medium term will continue as envisaged under the short term program with regard to broad monetary targets, the MRR and inflation.

5. **Structural reforms are being intensified**. In this context, 21 enterprises are listed for privatization or concessioning in 2005 and 2006, while the Government is also establishing regulatory authorities for the relevant sectors to provide oversight functions for these sectors. The enterprises targeted for privatization include the following:

- The State Telecommunications Company, NITEL is being prepared for offer for sale; the opening of the financial bid will be done by December 2005.
- A new Power Sector Act was signed into law in March 2005, paving the way for the reform and privatization of the National electricity company (NEPA). The government will unbundle NEPA into 18 successor companies by end December 2005, i.e. into generation, transmission and distribution companies. A regulatory commission was set up during the second quarter of 2005 as part of the preparation for privatization (structural assessment criterion).
- The Port Harcourt refinery would be offered for sale, with the opening of the financial bid expected by December 2005
- The sale of Government shares in Afribank will be completed in 3 Q 2005
- Steyr Assembly Plant would be offered for sale by 4Q 2005

- Eleme Petrochemical Company would be brought to point of sale by 4Q 2005
- Eleven oil service companies will be offered for sale in 2006
- 51 percent of the shares of Nicon Hilton Hotel will be offered for sale by the end of 2005; the opening of the financial bid will be done by end December 2005. The plan is to subsequently have an IPO for the rest of the shares
- The Le Meridien-Sofitel Hotels would be offered for sale in 2006
- Six brick and clay companies would be offered for sale by 1Q 2006
- The Apapa Ports complex was concessioned in 1Q 2005; the Port Harcourt ports would be concessioned in September 2005; and the Tin Can Island Port would be concessioned by end December 2005.

Other structural reforms

- A five-band customs tariff (0, 5, 10, 20, and 50 percent), based on the Common External Tariff (CET) of ECOWAS, will be implemented by October 2005 (structural assessment criterion). The temporary 50 percent tariff band will apply to a list of selected items competing with locally produced goods, and import bans will be phased out by January 2007 or such date as is consistent with the date for ECOWAS convergence criteria. The 50 percent tariff rate will be reviewed by end-2007, following a study on the impact of the tariff reform on the economy. In any case, the tariff structure will be consistent with ECOWAS requirements.
- A list of contractor arrears is presently being compiled and the claims are to be audited; a framework for clearing the arrears would be developed in 2005, mainly through issuance of 3-10 year bonds.
- A framework for clearing pension liabilities and arrears will be developed and put in place by end June 2006. In preparation for this, the government will establish a computerized database for the management of public servants and pensioners, as well as payroll, pension liabilities and arrears, during the second quarter of 2006.
- An expenditure tracking system is being developed within the medium-term expenditure framework for the health, education, water, agriculture, power and roads sectors. The structure is expected to be in place by December 2005, but for the current year, the preliminary focus will be on HIV/AIDS, anti-polio immunization program, malaria, water (including provision of boreholes), and education infrastructure (classrooms for students and toilets for female students). A program of full tracking would be undertaken in 2006. A virtual poverty fund will be established; public investment reviews will be conducted annually; and cost-benefit analyses will be carried out for large public investment projects as part of efforts to ensure high quality in capital spending. Government will also include in the development of the Transaction Recording and Reporting System (TRRS) and the I.T. infrastructure requirements, the needs of the Oversight of Public Expenditure in Nigeria (OPEN).
- The work of the Due Process Office in ensuring transparency and best practice in public procurement, which has saved billions of dollars for Government in the last 3

years, is continuing with a legislative instrument to underpin its work now in the National Assembly.

- The work of the Cash Management Committee, which is driving the implementation of the budget and ensuring improved public expenditure management, will continue. In a related context, oversight units are being set up for certain areas, including the participation of NGOs.
- The TRRS developed by the OAGF, with assistance from the IMF, will be rolled out in all line ministries and federal pay offices by the 2nd quarter of 2006 to strengthen public accounting at the federal level. This will be made consistent with the proposed Integrated Financial Management System (IFMS) to be developed with World Bank support. The government has moved to a Single Treasury Account.
- The CBN is carrying out a banking sector consolidation program designed to strengthen the financial system and to raise shareholders' funds to N25 billion for each bank by end-December 2005, including through mergers and acquisitions. In this context, a number of milestones have been set that will culminate in the attainment of the final objective. Also, a high-level steering committee was established in June 2005 to oversee aspects of the process. The CBN has also prepared contingency plan to deal with any loss of confidence in the banking system. In addition, bank supervision will continue to be strengthened. In this regard, amendments to the CBN Act and to the Bank and Other Financial Institutions Act (BOFIA) will be submitted to the National Assembly shortly. The amendments are, inter alia, aimed at establishing an administrative liquidation process for closed banks. The CBN will finalize an exit strategy to deal with banks that do not meet the new capital requirement as of December 31, 2005. The strategy will specify how the cost of banks that will be resolved will be financed (structural assessment criterion). The draft bill for the establishment of the Asset Management Company (AMC) will be submitted to the National Assembly by end-November 2005 to help recover non-performing loans and minimize budgetary costs. Towards developing an electronic banking system, the CBN is introducing the Real Time Gross Settlement (RTGS), the Electronic Financial Analysis and Surveillance System (e-FASS) and GLOBUS systems, which will become operational by November 2005.
- The downstream oil market has been deregulated, and most of the subsidies phased out. The present high crude oil price has made it difficult to implement a full pass through to consumers (as with many other countries). However, prices were raised from a level approximately equivalent to $40 per barrel to one equivalent to about $51 per barrel. Government intends to fully implement a deregulated market over the medium term. Whatever price support there is in the transition period would be clearly identified in the budget. The government has also commissioned a study on the benefit incidence of the current subsidy, with issues of sustainability and better targeting it to the poor in mind.
- The Civil Service reforms are being broadened to cover the rest of the Civil Service (beyond the pilot ministries) by December 2005, and will be extended to the rest of the public service as well. The objective is to strengthen the public service, build capacity, bring in the right skills and let go those skills that are no longer needed.

Already 11,000 personnel have been let go from the public service; with further departures expected before end 2005 while recruitment of the top 1,000 graduates has also been launched. An Integrated Personnel Information System (IPIS), to help monitor staffing numbers in the Service, is being tested in readiness for full deployment in Q4 2005.

- The Federal Inland Revenue Service (FIRS) is being restructured for a more effective performance, with new leadership now in place. Among other things, FIRS plans to introduce a unique Tax Identification Number (TIN) by 1Q 2006.
- A Chart of Accounts has been developed by the Office of the Accountant General, which is currently undergoing tests. This will come into full operation by 1Q 2006.
- Central data gathering agencies have been consolidated into the National Bureau of Statistics (NBS), and a new leadership was installed at the NBS in 2Q 2005 as part of Government's efforts to improve macroeconomic statistics. The NBS, in collaboration with the CBN, is working to complete a survey towards developing a quarterly GDP database. This is expected to be completed by December 2005. NBS also plans to revive 5 other surveys by end-2005, covering labour, establishment, and agriculture. In addition, economic, social and poverty-related data collection, processing and distribution will be improved.

Transparency and fight against corruption

- The Nigerian Extractive Industries Transparency Initiative audit of the oil and gas industry is presently ongoing, with a preliminary audit report expected to be published by December 2005 (structural assessment criterion).
- The publication of the revenue allocation to the 3 tiers of Government is being continued.
- A Guideline for public procurement will be introduced by September 2005, and a Federal Tenders Journal before end-2005. A Public Procurement Bureau is expected to be established in 2Q 2006. Also, in 1Q 2006, an online bidding platform will be introduced.
- The Economic and Financial Crimes Commission (EFCC) has continued the fight against corruption, with a number of senior public officials arrested in recent months. These are now being prosecuted. The EFCC has also seized a number of assets judged to have been corruptly acquired; it has made progress in the fight against advance fee fraud and cyber-crime. Similarly the Independent Corrupt Practices Commission (ICPC) is investigating dozens of cases. A country anti-corruption survey is expected to be conducted by March 2006, using an independent consultant. In order to make for a more effective operation, EFCC funding is being increased.
- Nigeria is working towards being ready (including by introducing an electronic reporting system) for on-site visit by the FATF by December 2005, with a target of February 2006 for being delisted from the list of non-compliant countries. The anti-terrorism law is expected to be passed by early 2006.

6. **Steps are being taken to institutionalize the reforms.** In this context, several Bills are either under consideration by the National Assembly or already passed into law. Bills in the National Assembly include:

- The Fiscal Responsibility Bill designed to coordinate fiscal policy among the 3 tiers of Government,
- Public Procurement Bill to ensure efficiency and transparency in this area;
- the Tax Reform Bill, and
- the EITI Bill.

Those already passed are the Power Sector Bill and the Pension Reform Act.

7. **Serious challenges remain, however.** The push to meet the MDGs and the objectives of the NEEDS program—poverty reduction, wealth creation, employment generation, etc.—cannot be met without significant investment in infrastructure, education, and health. Poor infrastructure has been identified as the single most important constraint to development in Nigeria. The private sector cannot be expected to play the role of engine of growth without an improvement in infrastructure. It is estimated that an annual real GDP growth of 7 percent is needed in order to achieve the objectives of NEEDS. Current estimates indicate that there is a financing gap of about $4 billion per annum if Nigeria is to meet the NEEDS/MDG objectives. This is consistent with the requirements for meeting the MDGs by the target date of 2015. Yet, Nigeria has the lowest aid per capita among sub-Saharan countries, at about $2 per capita, compared to the region's average of $28.2. In addition, given Nigeria's current fiscal situation, it will be impossible to achieve the MDGs and NEEDS objectives if the external debt of about US$35 billion (of which Paris Club is US$30 billion) is to be fully serviced. As of now, Nigeria has remained current on its debt service obligations to its multilateral and other creditors while maintaining dialogue with its Paris Club creditors; the Government is paying only the interest obligations of its bilateral debt. This, in itself, has put enormous pressure on the nation's resources.

8. **Nigeria has sought debt relief and reached an accommodation with the Paris Club.** On the basis of the above arguments, Nigeria now needs the full support and cooperation of the international community to bring its debt stock to a sustainable level—a level that would enable the country meet its obligations, while also addressing its development needs, including the MDGs. Our analysis indicates that the debt is unsustainable when the historical average oil price is used for the debt sustainability analysis. Furthermore, when the cost of the MDGs is taken into account, a sizeable financing gap emerges. In the face of opposition from powerful interest groups against change, some quick wins (mostly in the form of debt relief) became imperative to sustain the momentum of reforms and lock it in for the long term. Having demonstrated its commitment to the reforms, the Federal Government will re-engage the Paris Club when the PSI is approved by the IMF, to finalize negotiations on relief of Nigeria's debt burden with the aim of achieving debt sustainability. Considering the huge needs of Nigeria and the challenge of meeting the

MDGs, the Government has made clear, and the Paris Club agrees, that a highly concessional debt relief, on conditions comparable to Naples terms, is necessary.

9. **Program monitoring.** The Government proposes quantitative assessment criteria for end-December 2005 and end-June 2006 on the basis of agreed quarterly quantitative indicative targets (see table 1), and structural assessment criteria and benchmarks (table 2) to assess performance of policy and reform implementation. We would like to request the Fund to monitor program performance under the IMF's new Policy Support Instrument. Review dates for quantitative assessment will be set on a semi-annual basis, and we expect that the first review date will be December 31, 2005, with conclusion of the first review no later than March 31st 2006.

10. **The Government will seek only concessional financing in the period ahead** to help finance its investment program. It also believes that the implementation of Nigeria's home-grown program supported under the PSI and its financing, as described above, will enable the country to achieve its medium-term objectives and remain current on its external debt service obligations. The Government does not intend to request the use of IMF or PRGF resources in the course of implementation of its home-grown program.

Table 1: Nigeria - Quarterly Quantitative Assessment Criteria and Indicative Targets, 2005-06
(In billions of naira, unless otherwise indicated)

	2004	2005				2006		
		end-Mar.	end-Jun.	end-Sep.	end-Dec.	end-Mar.	end-Jun.	end-Sep.
	Estimate	Estimates		Indicative Targets	Assessment Criteria	Indicative Targets	Assessment Criteria	Indicative Targets
Federal government non-oil primary balance (floor) 1/	-594	-147	-354	-652	-937	-322	-570	-785
Reserve money (ceiling) 1/	732	741	754	770	764	784	805	826
Net foreign assets of the CBN (floor) 1/	2,250	2,852	3,209	3,577	3,303	3,856	4,568	5,322
New non-concessional external debt by the Federal government and the CBN (ceiling) 2/	...	0	0	0	0	0	0	0
External arrears 2/	...	0	0	0	0	0	0	0
Memorandum items:								
Oil production (in million barrels per day)	2.50	2.42	2.43	2.37	2.57	2.48	2.48	2.48
Oil price (in U.S. dollars per barrel) 3/	36.5	42.0	50.2	53.6	58.6	60.0	60.5	60.5
Petroleum Profit Tax	826	393	200	429	425	505	513	522
External debt service 4/	227	53	53	53	783	23	23	23
State and local government non-oil primary balance	-1,117	-310	-663	-1,109	-1,540	-447	-843	-1,239

Sources: Nigerian authorities and staff estimates and projections.
1/ Cumulative until the end of the period.
2/ Applies on a continuous basis.
3/ Actual and projected prices lagged by two months to allow for pass-through to government revenue.
4/ Payment of US$6 billion arrears to Paris Club creditors accounted for in 2005, but no debt service to Paris Club included for 2006, pending the outcome of the negotiations with the Paris Club on a comprehensive debt treatment.
Note: The net foreign assets target will be adjusted upward (downward) for positive (negative) deviations of oil prices, oil and gas production, and Petroleum Profit Tax collection, and for negative (positive) deviations for debt service payments from program assumptions.

Table 2. Nigeria: Structural Benchmarks and Assessment Criteria under the PSI Program [1]

S/N	**Structural Assessment Criteria**	**Expected date of achievement**	**Remarks**
1	Finalization of an exit strategy for banks that do not meet the capital requirements, as described in paragraph 5 of the Policy Statement.	End-October 2005	
2	Adopt and implement a five-band customs tariff regime (0, 5, 10, 20, and 50 percent), based on the Common External Tariff (CET) of ECOWAS, as described in paragraph 5 of the Policy Statement.	End-October 2005	
3	Submit Bills for amendments to the CBN Act and Bank and Other Financial Institutions Act (BOFIA) to the National Assembly to strengthen CBN's regulatory capacity, as described in paragraph 5 of the Policy Statement.	End-November 2005	
4	CBN to move from retail to wholesale auction system, as described in paragraph 4 of the Policy Statement.	End-February 2006	
5	Completion and publicizing of draft report of the Nigeria EITI audit, as described in paragraph 5 of the Policy Statement.	End-December 2005	
6	Unbundling of NEPA by establishing successor companies (generation, transmission and distribution), as described in paragraph 5 of the Policy Statement.	End-December 2005	
	Structural Benchmarks		
1	Continue publication of revenue allocation to the three tiers of Government.	Continuous	
2	Identify specific MDG-related expenditures in the six MDG sectors (Health, Education, Power, Water, Roads and Agriculture). Modify the Chart of Accounts to incorporate the identified MDG expenditure items in the six sectors.	End-December 2005	
3	Submission of the Asset Management Company Bill to the National Assembly.	End-November 2005	
4	Complete the audit of contractor arrears in excess of N1 billion	End-February 2006	
5	Opening of the financial bids for the privatization of the State Telecommunications Company, NITEL	End-December 2005	
6	Opening of financial bids for the concessioning of Tin Can Island port	End-December 2005	
7	Opening of the financial bids for sale of Nicon Hilton Hotel	End-March 2006	
8	CBN is to make operational a Real Time Gross Settlement system (RTGS), an Electronic Financial Analysis and Surveillance System (e-FASS) and a Banking Application System (Termenos 24) as part of the movement to electronic banking.	End-November 2005	

[1] Assessment criteria will also apply on a continuous basis to exchange and import measures as in Fund supported programs.

Nigeria: Technical Memorandum of Understanding (TMU)

October 6, 2005

1. This Memorandum of Understanding between the Nigerian authorities and the IMF staff sets out the definitions of performance targets, as well as reporting requirements for the Nigerian reform program supported under the Policy Support Instrument (PSI). The performance targets are reported in Table 1 of the authorities' policy statement dated October 6, 2005.

Quantitative Performance Targets: Definitions and Reporting Standards

A. Floor on Federal Government Non-Oil Primary Balance

2. **Definition:** The non-oil primary balance of the federal government will be measured on a cash basis and will be defined as non-oil-and-gas-related revenue minus total expenditure excluding interest payments. Non-oil-and-gas-related revenue consists of the federal government's share of imports and excise duties, companies' income tax, and value-added tax, as well as the federal government's independent revenue. Federal government expenditure includes recurrent and capital expenditure, as well as any clearance of expenditure arrears and recapitalizations. Capital expenditure on a cash basis is defined as the utilization of capital releases from the current and previous budgets during the relevant period. Interest payments consist of domestic and external interest payments. The non-oil primary balance target is defined as non-oil revenue received less non-interest expenditures incurred from the beginning of the year.

3. **Supporting material:** Data on federally collected revenue and federal expenditure will be provided by the Office of the Accountant General of the Federation (OAGF) to the Fund within six weeks of the end of each month. The OAGF will also provide to the Fund monthly federal government capital account balances within six weeks of the end of each month, and a quarterly summary of capital releases and utilization (for each budget year) within six weeks of the end of each quarter.

B. Ceiling on Reserve Money

4. **Definition:** Reserve money is defined as currency in circulation and deposit money banks' deposits at the Central Bank of Nigeria (CBN). The reserve money target is defined as the end-of-period stock.

5. **Supporting material:** The CBN balance sheet is to be transmitted to the Fund on a monthly basis within six weeks of the end of each month.

C. Floor on Net Foreign Assets of the CBN

6. **Definition:** Net Foreign Assets (NFA) of the CBN are defined as foreign assets minus short-term foreign liabilities of the CBN. The NFA target is defined as the end-of-period stock.

7. **Adjustment clauses**: The floor will be adjusted to reflect cumulative deviations from program assumptions on (a) oil revenue and (b) external debt service payments. The floor will be adjusted upward (downward) to the extent that receipts of oil revenue into the federation account of the CBN exceed (fall short of) the programmed levels on account of higher (lower) than programmed oil and gas prices and production volumes, and upward (downward) to the extent that petroleum profit tax collections exceed (fall short of) programmed levels. The floor will be adjusted upward (downward) to the extent that external debt service payments fall short of (exceed) the programmed level. Programmed levels of oil prices and volumes and of external debt payments are specified in Table 1 of the authorities' policy statement.

8. **Supporting material:** Data on NFA, foreign assets, foreign liabilities will be provided by the CBN and data on oil revenue into the federation account of the CBN and on petroleum profit tax collection will be provided by the OAGF to the Fund on a monthly basis within six weeks of the end of each month. Data on external debt service payments (principal, interest, and total) broken down by creditor will be supplied by the Debt Management Office (DMO) to the Fund on a monthly basis within four weeks of the end of each month.

D. Non-Accumulation of External Arrears

9. **Definition:** During the period of the PSI, the federal government and the CBN will not incur any payment arrears on external debt service obligations to creditors. Official external payment arrears are defined as unpaid debt service by the federal government and the CBN beyond the due date. This definition excludes arrears subject to future rescheduling according to agreements with the Paris Club or bilateral creditors. The assessment target on non-accumulation of external arrears is continuous.

10. **Supporting material:** Details of arrears accumulated on interest and principal payments to creditors will be reported by the DMO to the Fund within two weeks from the due date of the missed payment.

E. Ceiling on Contracting or Guaranteeing of New Non-Concessional External Debt by the Federal Government and the CBN

11. **Definition:** Non-concessional external loans are defined as loans from lenders other than the IMF with a grant element of less than 35 percent of the value of the loan. The grant element is to be calculated by using currency-specific discount rates reported by the OECD

(CIRRs).[4] For maturities of less than 15 years, the grant element will be calculated based on six-month averages of commercial interest rates. For maturities longer than 15 years, the grant element will be calculated based on 10-year averages. This assessment criterion applies to debt and to commitments contracted or guaranteed for which value has not been received.[5] Previously contracted non-concessional external debt that has been rescheduled will be excluded from the definition of "new debt" for the purposes of this assessment criterion.

12. **Supporting material:** Details of all new commitments and government guarantees for external borrowing, with detailed explanations, will be provided by the Ministry of Finance to the Fund on a monthly basis within two weeks of the end of each month.

Memorandum Item: Definitions and Reporting Standards

F. Floor on Non-oil Primary Balance of States and Local Governments (SLGs)

13. **Definition:** The non-oil primary balance of the SLGs will be measured as the non-oil-and-gas-related revenue minus primary expenditure. Non-oil-and-gas-related revenue consists of the SLGs' share of imports and excise duties, companies' income tax, and value-added tax. SLGs primary expenditure will be computed as (i) the non-oil-and-gas-related revenue; plus (ii) the oil-and-gas-related revenue including derivation and the distribution of accumulated excess crude proceeds; plus (iii) change in net claims on SLGs by the banking system (excluding changes in excess crude deposits); minus (iv) external debt service on a cash basis.

14. **Supporting material:** Data on SLGs revenue will be provided by the Office of the Accountant General of the Federation (OAGF) to the Fund within six weeks of the end of each month. The CBN will provide data on changes in net claims (excluding changes in excess crude deposits) on SLGs by the banking system.

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[4] An electronic spreadsheet file that shows the relevant discount rates reported by the OECD (CIRRs) will be provided on a periodic basis by Fund staff.

[5] For this purpose, debt is defined as in IMF guidelines on external debt.