International Monetary Fund

Nigeria and the IMF

Press Release:
IMF Executive Board Completes the First Review under the Policy Support Instrument for Nigeria
April 17, 2006

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

March 30, 2006

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.

March 30, 2006

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. The Policy Statement outlines our broad macroeconomic objectives and policies for 2006 and for the medium term. These policies are based on our National Economic Empowerment and Development Strategy (NEEDS), which was completed in 2004 and formally presented to the Executive Boards of the Fund and Bank in 2005.

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 Policy Statement proposes assessment criteria for review dates of end-June and end-December 2006 for the second and third reviews, expected to be conducted by October 31st 2006 and March 31st 2007 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,

/sgd/ /sgd/

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

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

The Second Phase of the Nigerian Economic Reform Program Under the Policy Support Instrument: Policy Statement by the Government of Nigeria

March 2006

This note represents the Government's policy statement on the second phase of Nigeria's Policy Support Instrument (PSI) following the conclusion of the First Review of the PSI by the IMF. It summarizes the outcome of the reforms in 2004 and 2005, the short- and medium-term objectives, as well as quantitative targets, structural benchmarks and assessment criteria.

1. **This is an update on the Policy Statement by the Government on the Policy Support Instrument (PSI) dated October 6 2005, which spelt out the Government's economic reform program covering macroeconomic, structural and anti-corruption issues. As agreed with the Fund, the first review is now being conducted (February 2006). Nigeria's reform program instituted by the Government of President Olusegun Obasanjo in 2003,** and couched within the framework of the country's home-grown program known as the National Economic Empowerment and Development Strategy (NEEDS) is designed to address the structural and institutional weaknesses of the economy, tackle corruption and overhaul public expenditure management. In order to provide an objective assessment of the implementation of the program, the Fund, at the invitation of the Government, has been monitoring the program since 2004 on a quarterly basis within the context of intensified surveillance.

2. **The broad goals of NEEDS are poverty reduction, wealth creation and employment generation through the development of an enabling environment in the form of** fiscal discipline through an oil price-based fiscal rule improved public expenditure management, better public procurement systems and better service delivery combined with more efficient revenue collection, tax reforms and customs reforms. This would provide a stable macroeconomic environment to enable the private sector play the lead role in spearheading economic growth. Similarly, the anti-corruption work of the Economic and Financial Crimes Commission (EFCC), and that of the Nigerian Extractive Industries Transparency Initiative (N-EITI) in auditing the oil and gas industry would address lapses in governance and transparency within that sector. Furthermore, ongoing reforms to the public service would bring about efficiency, just as market liberalization and privatization of key public enterprises is helping to improve our public finances and quality of service. Finally, with the completion of the banking consolidation exercise, the sale of foreign exchange is now to be conducted through a wholesale Dutch Auction System as against the retail system that prevailed hitherto.

3. **Significant progress has been made over the last two years in implementing the reforms, with increased macroeconomic stability and growth. In 2004,** real GDP grew by 6.1 percent, of which non-oil GDP rose by 7.4 percent (surpassing the target of 5 percent under NEEDS); the diligent implementation of the budget resulted in a consolidated fiscal surplus of about 10 percent of GDP; $5.9 billion was saved in the excess crude oil account;

and foreign reserves rose from about $7 billion to about $17 billion. The strong fiscal performance coupled with CBN proactive liquidity management led to the meeting of the monetary targets and the lowering of inflation. In 2005, the economy consolidated on the gains of 2004. Real GDP is estimated to have grown by 6.3 percent, with the non-oil sector growing at about 8 percent. It is estimated that a consolidated fiscal surplus of about 11 percent of GDP was recorded; the excess crude oil account increased by $5 billion and foreign reserves rose to $28 billion. Inflation, however, inched upward to 11.6 percent at end December 2005, reflecting the impact of the ongoing phasing out of petroleum product subsidy and the increased demand for Nigerian foodstuffs arising from the drought situation in neighboring countries. Broad money grew by about 16 percent (versus a target of 14-16 percent); 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 under 5 percent during this period while the inter-bank exchange rate practically converged with the official rate. On the basis of the above performance, the Government successfully negotiated a debt reduction deal with the Paris Club, resulting in a debt write-off of 60 percent of its external debt of $30.5 billion. The balance of $12.4 billion is being paid off with the savings from the saved excess crude oil revenue. Further, the Government invited international rating agencies (Fitch and Standard & Poor's) to undertake the first ever ratings for the country. Both came out with a BB- rating with stable outlook. All end-December 2005 quantitative targets under the PSI program were met and the Government undertook all structural measures agreed under the PSI. Going forward, the Government has set new targets as shown in Tables 1 and 2.

4. **The strategy under the 2006 budget, and in the medium term, is to build on the previous two and half years** 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 a continuation of the privatization exercise, including deregulation of key sectors, extending the reforms to the rest of the public sector and strengthening of trade facilitation (such as customs reform). The budgeting system will continue to be couched within the Medium-Term Expenditure Framework (MTEF) so as to ensure better planning, prioritization of projects, matching of expenditure to expected revenue inflows, etc. Going forward, the Government is laying increasing emphasis on employment generation, removing physical bottlenecks, which the private sector has identified as the single most constraining factor on its activities, promoting real sector activities (including through a more vigorous implementation of the local content policy), human capital development, and improved service delivery. The short and medium-term macroeconomic framework and financial policies remain as in the original PSI statement, as summarized below:

Short-Term Macroeconomic Policies

- Crude oil production is expected to rise from 2.4 Mb/d in 2005 to about 2.5 Mb/d in 2006.

- An oil price based fiscal rule will continue to underpin the budgeting process; the 2006 budget as passed by the National Assembly is based on $35 per barrel ($2/b higher than the level proposed by the Executive).[1]

- The preparation of the 2006 budget was done within the context of the MTEF; Line Ministries formulated their medium-term objectives in line with the NEEDS program and the MDGs so as to ensure overall consistency of policy for sectoral spending programs.

- The targeted primary expenditure of the Federal Government in 2006 is estimated at about 11 percent of GDP.

- Fiscal policy shall target a consolidated government non-oil primary deficit of 39.6 percent of non-oil GDP in 2006. Excess revenue on the crude oil account will continue to be saved. Present estimates, based on WEO oil price projections (of $60.50 per barrel average for Nigerian oil in 2006) and a $35 per barrel oil benchmark price, suggest that the balance on the account would rise to about $26 billion at end 2006.[2]

- Based on the above, the stock of international reserves is expected to rise to about $46 billion at end 2006 after taking account of the payment of the second tranche.[3]

- With continued prudent fiscal policy and a proactive monetary policy, inflation should decline to a single digit level in 2006, with the Central Bank of Nigeria (CBN) having adequate instruments for liquidity management, to enable it keep year-on-year broad money growth to the 15-17 percent range by end-December 2006. Aside from the use of treasury bills, other instruments include foreign exchange sales and more active open market operations to mop up excess liquidity.

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[1] We had cautioned in the original PSI that the National Assembly might raise the benchmark price, as is their prerogative. It should be pointed out that this was partly because of one-off expenditure items like the 2006 national census and preparations for the 2007 national elections.

[2] This takes into account the payment of US$7.58 billion already made to the Paris Club of creditors following the debt deal and of a projected exit payment of US$4.82 billion in 2006. It should be emphasized that these projections are based on the present WEO oil price profile, which is subject to large swings.

[3] 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.

- A real non-oil GDP growth rate in the range of 7-10 percent is being targeted by the Government for 2006.

- With all 36 States having developed their counterpart to the NEEDS program, the State Economic Empowerment and Development Strategy (SEEDS), Government strategy is focused at deepening the reforms to the level of sub-national Governments through a package of reforms to be implemented in 6 pilots States in the areas of public expenditure management, debt management, Public Procurement, tax reforms, and privatization. The passage of key legislation, such as the Fiscal responsibility bill and public procurement bill will help to underpin the reforms at the State level. Furthermore, the framework for the implementation of SEEDS is being developed by the National Planning Commission, paying particular attention to the attainment of the MDGs.

- The monetary program continues to be based on zero net lending to the Government by the CBN although 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 15-17 percent in 2006 consistent with the targeted non-oil GDP growth rate and inflation.

- The CBN will continue to use its minimum rediscount rate (MRR) as a signalling device for monetary policy, varying the rate in line with inflation and liquidity conditions.

- For a more effective supervision of the banking system following the conclusion of the first phase of the consolidation exercise, the CBN is to introduce by end-December 2006 a risk-based supervision system within the framework of Basel-II Accord.

- Institutionally, the CBN is being strengthened through an ambitious restructuring program to refocus it to deliver effectively on the conduct of monetary policy. For example, a new Monetary Policy Department has been created; the monetary policy implementation committee meets every other day and the Monetary Policy Committee (MPC) meets every quarter; the frequency of CBN analytical balance sheet has been increased from monthly to daily series to ensure effective liquidity management; deployment of five new IT solutions, including the electronic financial analysis and surveillance system (eFASS), RTG, Terminos 24 and ERP; etc.)

- The CBN has developed a liquidity forecasting framework, with assistance from the IMF, which it is using to strengthen its daily open market operations; it will continue to withdraw as needed public sector deposits from commercial banks.

- The move by CBN to a Wholesale Dutch Auction System in February 2006 is expected to lead to a convergence of the DAS and Inter-bank rates.

- To ensure effective clean notes policy in Nigeria, the CBN is embarking on three major reforms as follows:

- The CBN has taken over the Nigerian Security Printing and Minting (NSPM, Plc) and is restructuring it to be a world-class institution, with the target of stopping (by end-December 2006) the over US$100 million annual importation of finished bank notes into Nigeria, as well as position it to serve the rest of West Africa.

- The CBN is embarking on the restructuring of the four lower denominations (5, 10, 20, and 50 Naira) as well as issuing new coins (50kobo; N1; and N2) and there will be a currency exchange of these lower denominations by end December 2006. It is expected that the currency reforms would lead to at least 20 per cent reduction in the cost of currency issuance.

- Heavy investment in equipment and institution to process currency notes and also destroy dirty notes.

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.[4]

- The oil price based fiscal rule will continue to underpin the budgeting process; Government shall continue to target a benchmark oil price in 2007 and 2008 in the range of about $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.

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[4] The figure may well be higher than these levels because of the coming onstream of the Bonga field in late 2005, and expected production from Erha. However, it should be noted that while these developments would affect overall real GDP, there will be no increase in Government revenue for a number of years because these projects are production sharing contracts (PSCs). Companies are allowed to recoup their entire costs before Government starts sharing in the profits.

- The monetary program in the medium term will continue as envisaged under the short term program with regard to broad monetary targets, and the Minimum Rediscount Rate (MRR); top priority will continue to be given to price stability.

5. **Structural reforms are being deepened**. Following on the success of 2005, ten enterprises are listed for privatization or concessioning in 2006 and early 2007, while the establishment of regulatory authorities for the relevant sectors to provide oversight functions for these sectors is continuing apace. The following enterprises are targeted for privatization:

- NITEL is being repackaged for a new offer following the very low bid received at the financial bid opening in December 2005. The financial bid opening took place as scheduled in December 2005, but the offers were below the reserve price, resulting in a decision to do another round of bidding.

- Following the unbundling of Power Holding Company of Nigeria (PHCN) into 18 successor companies and the setting up of a regulatory commission, arrangements are now underway to privatize 3 of the companies by 1Q 2007.

- The Port Harcourt refinery would be offered for sale, with the opening of the financial bid expected by June 2006.

- Eleven oil service companies will be offered for sale in 3Q 2006

- The IPO for Government's 49 percent of Transcorp Hilton Hotel (51 percent was already sold in 2005 to Transcorp), will take place in Q4 2006.

- The Le Meridien-Sofitel Hotels would be offered for sale in Q4 2006

- Six brick and clay companies would be offered for sale by end April 2006

- Following the successful concessioning of a number of seaports in 2005, the Central Railways Corporation will be concessioned in 2Q 2006, followed in 3Q 2006 by the concessioning of the Abuja Airport.

Other structural reforms

- Following the adoption of the five-band customs tariff in October 2005 under the Common External Tariff (CET) of the West African regional economic bloc, ECOWAS, the Government will now work towards reducing or eliminating the prohibition list (list of banned items) 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.

- The reform of the Nigeria Customs Service will be accelerated. The fast track window already created for large Importers/Exporters will be expanded to handle by December 2006 at least 40 percent of the trade (by value), with a view to reducing by half the average number of days it takes to clear goods from the ports.

- In order to strengthen the management of public accounts, the Government will computerize the Budget Office and Office of the Accountant General of the Federation (OAGF), and interconnect their operations with those of the Budget Monitoring and Price Intelligence Unit (BMPIU) and CBN in order to reinforce the Transaction Recording and Reporting System (TRRS). The TRRS will be made consistent with the proposed Integrated Financial Management System (IFMS) that is to be developed with World Bank support, and will be extended by September 2006 to other Ministries beyond the pilot MDAs.

- A Chart of Accounts has been developed by the Office of the Accountant General, and is currently being tested. This will come into full operation by end April 2006.

- Government will implement by August 2006 a tagging and tracking system for monitoring and evaluating spending of debt relief savings in MDG-related sectors.

- Government will produce quarterly reports of spending in MDG-related sectors (Health, Education, Power, Water, Roads and Agriculture) to cover Q1 and Q2 in the first instance.

- Following the conclusion of the audit of contractor arrears in February 2006, arrangements are now underway to pay off by end December 2006 all contractors that are owed up to N100 million. Bonds are to be issued by end August 2006 to cover 50 percent of the debt to half of the contractors owed over N100 million, while bonds for the remaining 50 percent will be issued bonds by end April 2007.

- A database of pension arrears and quantification of the amount of arrears will be ready by end September 2006. The arrears of 2005 will be cleared by end September 2006, while bonds will be issued by the same date for the pre-2005 arrears.

- The Debt Management Office (DMO) is to create by June 2006 a secondary market for bonds by establishing a primary dealer structure.

- Cost benefit analysis of the 20 largest projects are being undertaken, with a view to improving the quality of the portfolio.

- In order to promote investment, Government will establish, by June 2006, a one-stop shop for investors.

- The work of the Due Process Office in ensuring transparency and best practice in public procurement will continue, with steps taken to reduce by 50 percent the turnaround time for reviewing procurement documents. Government will finalize and issue a procurement manual by September 2006. The Public Procurement bill has been passed by the Senate, and is now awaiting passage by the House of Representatives. Once passed, implementation of the Bill, including the establishment of the Public Procurement Bureau, will be a key area of focus.

- The work of the Cash Management Committee, which is driving the implementation of the budget and ensuring improved public expenditure management, will continue.

- With the conclusion of the banking sector consolidation program by the CBN, and the revocation of the licences of the 14 banks that failed to meet the new capitalization threshold, depositors whose funds are trapped in the failed banks will be paid off when the banks are liquidated by the Nigerian Deposit Insurance Corporation (NDIC).

- The downstream oil market has been largely deregulated, and most of the subsidies phased out. However, some price support still remains because of the high level of international oil price (as with many other countries). Government has taken steps in the 2006 budget to explicitly reflect the price support in the budget, with all 3 tiers of government contributing to the petroleum support fund of N150 billion.

- The CBN launched a micro-finance policy on December 15 2005 to improve credit access to farmers and small entrepreneurs. Under the policy, Community banks are required to recapitalize from N5 million to N20 million within a time frame of 18 months.

- The Civil Service reforms are being broadened to cover the rest of the Civil Service. Government is to deepen the reform of the public sector; guidelines for restructuring of Ministries and parastatals have been adopted by the Federal Executive Council (FEC); the restructuring of an additional 5 key Ministries and Agencies is targeted by end 2006, which would bring the total number to eleven. 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. An Integrated Personnel and payroll Information System (IPPIS), to help monitor staffing numbers in the Service, is being introduced; full deployment will commence in September 2006.

- The restructuring of the Federal Inland Revenue Service (FIRS) is continuing. The Agency is to conduct by end December 2006 a nationwide taxpayer enumeration in preparation for introducing an automated tax administration system, which will include Individual Tax Identification Number (TIN). In a related context, Government will set up a tax policy unit in the Ministry of Finance by December 2006.

- In an effort to strengthen macroeconomic statistics, the National Bureau of Statistics (NBS), in collaboration with the CBN, has completed a survey towards developing a quarterly GDP database. It is also making arrangements to conduct 5 other surveys covering labour, capital inflows, manufacturing, and agriculture. In addition, economic, social and poverty-related data collection, processing and distribution will be improved.

- Strengthening and consolidation of the insurance sector, to be completed by end 2006.

Transparency and fight against corruption

- Following the release of the 1999-2004 interim financial audit report of the oil and gas sector initiated by the NEITI (structural assessment criterion), the final reports are expected by end March 2006. Going forward, NEITI plans to undertake an audit of the 2005 oil industry accounts, and also initiate quarterly audits for 2006.

- The publication of the revenue allocation to the 3 tiers of Government is being continued.

- The EFCC has continued to make progress in the fight against corruption, including arrest and prosecution of public officials and advance fee fraudsters; several convictions have also been secured. An anti-corruption survey covering at least six States is expected to begin by Q2 2006 (and running to end 2006), using an independent consultant. EFCC funding is being increased in order to make the Agency more effective.

- The Government expects to complete by June its work towards getting Nigeria delisted from the FATF list of non-compliant countries with the expectation that the FATF Secretariat will complete necessary work to remove the country from the list by this date. As part of this effort, the anti-terrorism law, which is in the National Assembly, is now expected to be passed in 2006.

6. **Steps are being taken to institutionalize the reforms.** Several Bills are either under consideration by the National Assembly or already passed into law, including the following:

- The Fiscal Responsibility Bill has made progress in the National Assembly. Present expectations are that it will be passed into law in Q3 2006. Meanwhile, Government will prepare by June 2006 an implementation manual/guideline in readiness for the enactment of the Fiscal Responsibility Act;

- The Public Procurement Bill has been passed by the Senate and awaiting passage by the House of Representatives; it is now expected that it would be passed into law in Q2 2006;

- The Tax Reform Bill is still making its way through the National Assembly, but there are indications that it will be passed also in Q2 2006; and

- The NEITI bill has been passed by the House of Representatives, and now awaiting passage by the Senate. It is expected that it would be passed by the Senate in Q2.

7. **Serious challenges remain, however, particularly in transmitting the benefits of the reforms to ordinary Nigerians.** The Government is keen to emphasize those areas of economic activity that will enable the benefits of the economic reforms to reach the Nigerian public, in the form of delivering the MDG targets (as also captured under the NEEDS program)—poverty reduction, wealth creation, employment generation, etc. This will entail greater investment in physical and human infrastructure (education and health), productive activities, and a more vigorous pursuit of the indigenous participation agenda. This will enable the private sector to play the lead role as engine of growth. In this context, the Government is targeting an annual real GDP growth rate of about 7-10 percent (it is estimated that a 7 percent growth rate 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. Preparations for the second phase of the NEEDS program, targeting 2007-2011, will be launched soon.

8. **Nigeria concluded a debt deal with the Paris Club of Creditors in October 2005,** under which the country will be given a total discount equivalent to 60 percent of its external debt of about $30.5 billion after a comprehensive debt treatment and buy-back program that will result in a total exit from the Paris Club by around April 2006 after the conclusion of the PSI review. Payment of the balance of the debt of $12.4 billion is currently underway, with most of the required bilateral agreements already signed. As earlier indicated, $1 billion per annum in debt service payments (of which $750 million is from the Federal Government) that will no longer have to be made has been set aside for investment in MDG-related spending.

9. **Program monitoring.** The Government proposes a continuation of the quantitative assessment criteria for the next phase of the PSI program for an end-June 2006 review, and in the context 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 the Fund to continue with its monitoring of the program performance under the IMF's Policy Support Instrument. The expected second review date to assess the performance up to June will be no later than October 31st 2006.

10. **The Government reiterates its commitment to seek only concessional financing in the period ahead** to help finance any gap in its investment program. It believes that the implementation of Nigeria's home-grown program supported under the PSI and its financing, as described above, will go a long way in helping the country achieve the MDGs. It further renews its commitment not to request the use of IMF or PRGF resources in the course of implementation of its home-grown program.

Table 1. Nigeria: 2006 Quantitative Assessment Criteria and Indicative Targets

(In billions of naira, unless otherwise indicated)

	2005	2006			
		end-Mar.	end-Jun.	end-Sep.	end-Dec.
	Estimate	Indicative Targets	Assessment Criteria	Indicative Targets	Assessment Criteria
Federal government non-oil primary balance (floor) 1/	-799	-348	-647	-939	-1,252
Reserve money (ceiling)	759	784	800	810	820
Net foreign assets of the CBN (floor)	3,561	4,273	4,344	5,003	5,649
New non-concessional external debt by the public sector (ceiling) 2/	0	0	0	0	0
External arrears 2/	0	0	0	0	0
Memorandum items:					
Oil production (in million barrels per day)	2.63	2.52	2.52	2.52	2.52
Oil price (in U.S. dollars per barrel) 3/	62.6	60.5	60.5	60.5	60.5
Petroleum Profit Tax	393	497	493	489	485
External debt service	977	22	619	22	22
State and local government non-oil primary balance	-1,625	-365	-727	-1,091	-1,455

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.

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: 2006 Structural Benchmarks and Assessment Criteria under the PSI Program[1]

	Structural Assessment Criteria	**Expected date of achievement**
1	Federal Executive Council to adopt guidelines for the restructuring of at least five ministries and parastatals	End-June 2006
2	Publish the final Nigeria EITI 1999-2004 audit report.	End-June 2006
3	Debt Management Office to establish a primary dealer structure for treasury paper	End-June 2006
4	Establish one-stop shop for investors, as described in paragraph 5	End-June 2006
5	Introduce Integrated Personnel and Payroll Information System (IPPIS)	End-September 2006
6	Establish database of pensioners and estimate size of pension arrears	End-September 2006
7	FIRS to conduct nationwide taxpayer enumeration in preparation for introducing automated tax administration system, including TIN as set out in paragraph 5 of the statement	End-December 2006
8	The CBN to establish prudential standards for consolidated supervision and begin to supervise the banking groups on a consolidated basis	End-December 2006
	Structural Benchmarks	
1	Continue publication of revenue allocation to the three tiers of Government	Continuous
2	Financial bid opening of Port Harcourt and Kaduna refineries	End-June 2006
3	Opening of financial bids for the concessioning of Central Railways Corporation	End-June 2006
4	Opening of financial bids for the concessioning of the Federal Airport (Abuja)	End-September 2006
5	Produce quarterly report of spending in MDG-related sectors (Health, Education, Power, Water, Roads and Agriculture) to cover Q1 and Q2 in the first instance	End-September 2006
6	Finalize and issue Procurement Manual	End September 2006
7	Conduct transparency and anti-corruption survey in at least six pilot States	End-December 2006
8	Set up a tax policy unit in the Ministry of Finance	End-December 2006
9	Settle contractor arrears in cash for creditors with claim of up to N100 million and issue bonds to cover 50 percent of debts owed to larger creditors	End-December 2006
10	Continue reform of Nigeria Customs Service by expanding the operations of the Large Importers/Exporters Unit to handle at least 50 percent of the trade	End-December 2006

[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)

March 2006

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 March 2006.

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).[5] 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.[6] 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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[1] 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.

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