International Monetary Fund

Nigeria and the IMF

Press Release:
IMF Executive Board Completes the Third Review Under the Policy Support Instrument for Nigeria
June 28, 2007

Country's Policy Intentions Documents

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

May 28, 2007

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.

F.11373/S.34/C.562/115 May 28, 2007

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 the remainder of 2007 and for the medium term. These policies are based on our National Economic Empowerment and Development Strategy (NEEDS).

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 requests modification of assessment criteria for end-June 2007 for the fourth review expected to be considered by the Executive Board of the IMF by October 16, 2007 to reflect recent macroeconomic performance. 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.

/sgd/ /sgd/

Mrs. Nenadi E. Usman
Minister of Finance

Professor Chukwuma C. Soludo
Governor, Central Bank of Nigeria

Policy Statement by the Government of Nigeria on the Fourth Phase of the Nigerian Economic Reform Program Under the Policy Support Instrument

May 2007

This policy statement by the Government of Nigeria is on the fourth and final phase of Nigeria's Policy Support Instrument (PSI) following the conclusion of the first three Reviews of the PSI by the IMF. It summarizes recent developments on the reforms, including progress with the existing structural assessment criteria and benchmarks, and the short- and medium-term objectives going forward. Some of the quantitative and structural targets were missed but the overall strength and direction of the program remain very positive.

1. **This Policy Statement by the Government is on the fourth and final phase of the Policy Support Instrument (PSI), following earlier Statements dated October 6, 2005, March 2006, and December 2006. The Statement spells out the Government's economic reform program covering macroeconomic, structural and anti-corruption issues. The third review mission took place during February 14 to 27, 2007. Nigeria's reform program, which was instituted by the Government of President Obasanjo in 2003,** and based on the country's home-grown poverty reduction program, the National Economic Empowerment and Development Strategy (NEEDS), focuses on addressing the structural and institutional weaknesses of the economy, tackling corruption and overhauling the public expenditure management. To ensure an objective assessment of the implementation of the program, the IMF has been monitoring on a quarterly basis since 2004 the implementation of the program at the invitation of the Government 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. Progress in these areas has provided a stable macroeconomic environment, which should enable **the private sector to play its role as the engine of economic growth.** Similarly, the anti-corruption drive of the Economic and Financial Crimes Commission (EFCC), and the work of the Nigerian Extractive Industries Transparency Initiative (N-EITI) in auditing the oil and gas industry are addressing lapses in governance and transparency within that sector. Furthermore, ongoing reforms in the public service would bring about efficiency, just as market liberalization and privatization of key public enterprises are helping to improve the public finances and quality of service. Finally, following the adoption of a Wholesale Dutch Auction System after the banking consolidation, the exchange rates on foreign exchange markets have converged since mid-2006.

3. **The reforms have continued to deliver significant results. Macroeconomic stability has resulted in growth, while other key indicators have also been positive.** In 2006, real GDP grew by a robust 5.6 percent in spite of a 4.7 percent decline in oil GDP due to disruptions to production in the Niger Delta. Non-oil GDP grew by 8.9 percent. This follows the growth rates

of 6.5 percent and 6.6 percent recorded in 2005 and 2004 respectively. In all three years, the performance of the non-oil sector dominated real GDP growth; in 2004 and 2005, for example, non-oil GDP grew by 7.8 percent and 8.6, respectively.

4. **The performance of the fiscal sector has also been impressive.** The consolidated fiscal surplus for 2006 was about 9 percent of GDP, following the surpluses of 11 percent and 10 percent of GDP recorded in 2005 and 2004 respectively. The balance on the excess crude oil account as of end December 2006 stood at $8.3 billion and N627.5 billion (the latter reflecting the balance for the domestic crude oil component). Foreign reserves as of end 2006 rose to $42.3 billion (from $28.3 billion a year earlier) as a result of continued prudent fiscal policy with support from monetary policy. Inflation has continued on a declining path; at end December, the rate was 8.5 percent (year on year) compared to 11.6 percent at end 2005, reflecting mainly the effect of good harvest, as foodstuff constitutes about 64% percent of the CPI basket. The 12-month average inflation rate was 8.2 percent. The reserve money target was exceeded by about 11 percent, largely reflecting the effect of the unexpected growth in currency in circulation in the fourth quarter, influenced by seasonal factors as well as pre-election activities by the various political parties during the period. The CBN successfully introduced a new Monetary Policy Rate (MPR) in December 2006 designed to address the problem of interest rate volatility; preliminary data indicate that this has started to have a calming effect on the rates.

5. Following the exit from the Paris Club, Nigeria is now working to clear its London Club debt; it has redeemed the Par Bonds ($1.486 billion) and repurchased its promissory Notes; it has already successfully repurchased about ⅓ of its Oil Warrants. As of end-2006, Nigeria's external debt stood at about 3% of GDP, most of this being multilateral debt. Two international rating agencies (Fitch and Standard & Poor's) undertook the first ever sovereign ratings for the country in 2005 (both with a rating of BB- with stable outlook). The 2006 rating exercise by both confirmed the 2005 rating. Building on the two successful PSI reviews of end-December 2005 and end-June 2006 targets, Nigeria has met a significant number of the targets agreed for the period up to end-March 2007 and is on course to meet most of those set for May/June 2007. Indeed, some of the assessment criteria and structural benchmarks have already been met (see Table 2). The targets for the 4th phase of the PSI program are as shown in tables 1 and 2.

6. **The 2007 budget was passed by the National Assembly and signed into law in December 2006, the first time this has happened in advance of the commencement of the new fiscal year.** The budget was based on an average price of $40 per barrel for Nigerian crude oil, following the price-based fiscal rule that has been in operation since 2004. The strategy entails building on the gains of the last three years, continued adherence to the medium term expenditure framework (MTEF), prudence in public expenditure management and observance of due process in public procurement. Other aspects include the 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. With the attainment of macroeconomic stability, the Government is now focusing on employment generation through the removal of bottlenecks to private business, promoting real sector activities

(including through a more vigorous implementation of the local content policy), human capital development, and improved service delivery. In a related context, the Government is laying increasing emphasis on the development of the nation's infrastructure in part, by drawing on the accumulated oil savings to fund a number of important projects. In implementing these projects, the Government aims to safeguard macroeconomic stability, including selecting projects with high import content, and to ensure a high quality of spending.[1] The short- and medium-term macroeconomic framework and financial policies remain broadly as in the original PSI statement, as summarized below:

Short-Term Macroeconomic Policies

7. **Short-term macroeconomic policy will revolve around the implementation of the 2007 budget, including the extra expenditure on infrastructure**. It is recognized that in order to enable the private sector to successfully play its role as the main driver of economic growth, infrastructure needs to be strengthened.[2] In this regard, the Government is increasing investment in roads, railways, electricity, and in the dredging of the River Niger to facilitate transportation through the inland waterways. An estimated 75–80 percent of the expenditure will be in the form of imports and part of it will be funded from the excess crude oil account. Towards ensuring good quality capital spending and effective use of excess crude oil account, Government organized a workshop for key stakeholders in February in collaboration with the IMF, World Bank, Government of Norway and other development partners on the theme, "*Infrastructure Gap and Management of Oil Savings in Nigeria: Issues and Challenges".* The outcome document from the workshop provides a roadmap that will partly guide Government in these areas. An action plan for the implementation of the recommendations will be developed by the Government. The oversight role of the Due Process Office will continue to underpin the effort of Government to ensure that the quality of spending is not compromised. In order to ensure that the liquidity impact of the extra spending is managed properly, interaction between the fiscal and monetary authorities are being intensified to enable the Central Bank have up-to-date information on the domestic component of this spending so it can take timely action in the management of the liquidity impact of the extra spending. A Fiscal Liquidity Assessment Committee (FLAC) comprising of representatives of the Ministry of Finance, Budget Office, CBN, OAGF, NNPC, and FIRS has been set up to monitor expenditure developments and their liquidity implications. The FLAC now hold weekly meetings to review developments and to provide advice. Similarly, provision has been made in the budget to fund the cost of liquidity mop-up. Going forward, specific elements of the macroeconomic framework include the following:

[1] In a related move towards ensuring high quality spending, the Government in collaboration with the IMF and World Bank, organized a workshop on "The Infrastructure Gap and Oil Savings: Issues and Challenges" during the 3rd Review mission.

[2] The private sector in Nigeria has consistently flagged poor infrastructure as a drawback to business activity, confirming the findings of several studies in this regard.

- Crude oil production is projected to average 2.50 Mb/d in 2007, taking into account the gradual recovery from the disruption to production in the Niger Delta.

- An oil price-based fiscal rule will continue to underpin the budgeting process; for the 2007 budget, the exact benchmark price was $40 per barrel.

- The targeted primary expenditure of the Federal Government in 2007 is estimated at about 10.9 percent of GDP. In the light of the planned higher capital spending, and the fact that a new Government will be taking office from May, Nigeria will still strive to attain the programmed consolidated non-oil primary deficit of 42 percent of non-oil GDP in 2007 (also taking account of the fuel subsidy), including by careful management of spending of the overflow of the 2006 capital budget, and by prudent implementation of the 2007 budget. However, it should be pointed out that the 2007 budget does not take account of any changes that might occur as a result of the transition to a new Government. Similarly, the Government expects to continue to implement the structural targets set in the 2nd review (see Table 2).

- Excess revenue on the crude oil account will continue to be saved. It is estimated that the balance on the excess crude oil account would rise to the equivalent of 15.6 percent of GDP at end 2007 on the basis of current WEO oil price projections (of $60.8 per barrel average for Nigerian oil in 2007) and a $40 per barrel oil benchmark price.

- Based on the above, the stock of international reserves is expected to rise to $52.3 billion at end 2007[3].

- With continued prudent fiscal policy and a proactive monetary policy, inflation is estimated to remain in single digits, following the 8.2 percent level achieved at end 2006. Related to this, broad money growth rate of about 28 percent targeted for the year by the CBN was exceeded by about 12 percentage points. The CBN is committed to an exchange rate policy in line with the monetary policy objective of single-digit inflation.

- A real non-oil GDP growth rate in the range of 7–10 percent is being targeted by the Government for 2007, with the non-oil sector expected to continue to be the main driver.

- With all 36 States having developed their counterpart to the NEEDS program, the State Economic Empowerment and Development Strategy (SEEDS), Government is continuing to engage States with a view to deepening the reforms to the level of sub-national Governments, particularly in the areas of public expenditure management, debt management, public procurement, tax reforms, and privatization. The passage of key

[3] It must be emphasized that the projections for the excess crude oil account and the external reserves are susceptible to the developments in the international oil market. Similarly, the same risk applies if actual oil production turns out to be below the projected level.

legislation, such as the Fiscal Responsibility Bill and Public Procurement Bill will help to underpin the reforms generally, but the former will especially push the public expenditure reforms to the State level. Furthermore, emphasis is being given in the SEEDS implementation framework to the attainment of the MDGs. An assessment of the implementation of the NEEDS has been undertaken by the National Planning Commission, while an early draft of NEEDS-II has been completed and undergoing review. In this respect, some stakeholder retreats have been held to seek inputs from various groups.

- 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 CBN has introduced a new policy instrument, the monetary policy rate (MPR) to help reduce interest rate volatility. Combined with the role of the FLAC, the new framework will help to bring about a more effective control of the liquidity situation. Initial evidence shows that volatility has, indeed, started to decline.

- The CBN has made progress in its effort to introduce a system of consolidated supervision of banks. In this context, it has prepared a draft framework, which it is discussing with key stakeholders, including sister regulatory agencies (SEC, NAICOM and NDIC). Further, it hosted a workshop on consolidated supervision conducted by the Office of the Superintendent of Financial Institutions (OSFI), Canada under a technical assistance program during April 16–19, 2007. By the time of the fourth review of the PSI, there will be a time-bound action plan for the introduction of consolidated banking supervision.

- The CBN continues to strengthen its effectiveness through an ongoing internal restructuring program to refocus its work towards a more effective conduct of monetary policy.

- The CBN is on course in its restructuring of the Nigerian Security Printing and Minting (NSPM, Plc) and the four lower currency denominations (5, 10, 20, and 50 Naira) and the issuing of new coins (50 kobo, N1, and N2). These measures are expected to lead to a reduction in the cost of currency issuance.

Medium-Term Macroeconomic Policy

8. **The implementation of the reform program is expected to continue in the medium term under the incoming** Administration. The medium-term macroeconomic policy will continue to target macroeconomic stability and structural reforms. The framework will be based on the following assumptions:

- Crude oil production is expected to continue to increase in the medium term, possibly reaching about 2.70 Mb/d in 2008, and thereafter rise further in line with current Government plans to increase the production capacity. The oil price based fiscal rule will continue to underpin the budgeting process, particularly with the recent passage of the Fiscal Responsibility Bill by the National Assembly.

- The targeted primary expenditure of the Federal Government in 2008 is projected at about 10.9 percent of GDP.

- The monetary program in the medium term will continue as envisaged under the short term program with regard to broad monetary targets, and the new monetary policy framework, with priority continuing to be given to price stability.

9. **Structural reforms are being deepened**. Several public enterprises listed for privatization in 2006 and 2007 were successfully sold, including eight oil service companies, while others are on target for sale. The following enterprises are targeted for privatization in 2007:

- With the unbundling of the Power Holding Company of Nigeria (PHCN), Government is now working to privatize all eleven of the distribution companies. Work on the contract for the management of the Transmission Company of Nigeria is ongoing, but there are indications that there might be some delay due to slow procedures in the procurement process for World Bank sponsored projects. Expressions of interest have now been evaluated, and bid documents issued to the four pre-qualified investors. This is now expected to be completed by end-May 2007. Similarly, the bid opening for the Abuja Electrical Distribution Plc will be done by end-June 2007.

- Following initial delays, negotiations with interested bidders in the Kaduna and Port Harcourt refineries have resumed, following the preparation of the draft sector legislation. Kaduna Refinery has been offered as an integrated package to CNPC of China. In the case of Port Harcourt, eight expressions of interest have been received. It is expected they will be offered for sale in 2Q 2007.

- 8 oil service companies slated to be offered for sale in 2Q 2007 were successfully sold ahead of schedule (in January).

- 9 LPG plants will be offered for sale in 3Q 2007.

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 (banned items) by a date that 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 (NCS) continues. The staff survey has been conducted and a competency assessment has been done; the draft report is now being considered by management. Similarly, the drive to have more goods cleared through the fast track channel has continued to progress, with an estimated 30–40 percent of goods now passing through this channel. This is somewhat less than had been targeted because of a discovery that some of the beneficiaries might be taking undue advantage of the system.

- The National Planning Commission commenced the 2nd SEEDS benchmarking in November 2006, using independent assessors[4] Civil Society organizations and other stakeholders were also brought into the process, including development partners. It is expected that the work will be completed soon with a view to publishing the outcome by the end of the second quarter of 2007.

- In order to strengthen the management of public accounts, the Government is currently computerizing the Budget Office and Office of the Accountant General of the Federation (OAGF), with a view to interconnecting their operations with those of the Budget Monitoring and Price Intelligence Unit (BMPIU) and CBN in order to reinforce the Accounting Transaction Recording and Reporting System (ATRRS). The ATRRS will be made consistent with the Integrated Financial Management System (IFMS) being developed with World Bank support.

- A Chart of Accounts has been developed by the Office of the Accountant General, and is now in full operation. The ATRRS is now being extended to Nigerian Missions/Embassies abroad for better financial control in this sector.

- Following the implementation of a tagging and tracking system for monitoring and evaluating spending of debt relief savings in MDG-related sectors, Government has now commenced the compilation of quarterly reports on the debt relief expenditure. However, it is yet to be automated for systematic data generation, because of delays in full implementation of the computerized accounting system ATRRS in the OAGF.

- Significant progress has been made in the payment of contractor arrears. The program commenced in July 2006; contractors that are owed up to N100 million have been fully paid off, while bonds have been issued to cover the debt to contractors owed over N100 million.

[4] The 2006 exercise involved 3.3 States compared to 35 in the maiden edition of the benchmarking. The other three States could not participate because of logistical difficulties.

- Similarly, a database of pensioners has been established and the clearing of arrears is ongoing, with cash payment for arrears for 2005 and bonds for the pre-2005 arrears.

- The Debt Management Office (DMO) has made significant progress in its work towards clearing Nigeria's London debt. It successfully concluded the retirement of the par bonds by paying $1.486 billion, and also the promissory notes and oil warrants. It has developed a debt management framework, which will guide future operations in the areas of borrowing, terms and conditions, repayment, etc. The framework is now being discussed with stakeholders so as to get their buy-in. The Fund has also reviewed the draft, and the Government will be requesting Fund technical assistance for further refinement of the document, after which it would be finalized.

- The work of the Due Process Office in ensuring transparency and best practice in public procurement is continuing; BMPIU has completed a draft of the procurement manual, which will be finalized and published once the Public Procurement Bill is passed into law.

- More progress has been made in respect of payments to depositors whose funds were trapped in the 14 banks that failed to meet the new capitalization threshold; final court orders have been obtained in respect of 10 of the banks; and a provision court order in respect of another, with three others still pending. The healthy banks have been invited to assume the private sector deposits of banks for which court orders have been granted and to cherry-pick the assets of these banks under the Purchase and Assumption resolution method.

- With the international price of oil in 2007 so far lower than in 2006, the amount of oil subsidy has declined, particularly after the upward adjustment of the ex-depot price of diesel in July, 2006. However, the Federal Government had to bear most of the subsidy as lower-tier Governments were unable to contribute their share of the agreed price support. At present international oil prices, fuel subsidy is minimal, limited mostly to kerosene (which is used mostly by the poor). Going forward, Government shall continue to work towards the liberalization of the sector.

- Progress continues to be made in respect of the recapitalization of Community banks (from N5 million to N20 million within a time frame of 18 months).

- The Civil Service reforms are continuing, with full disengagement of 30,000 staff who were not supposed to be in the service in the first place; payment of severance benefits and training for smooth transition to post–retirement life is nearly completed, with full training already provided by end March. Severance payments are progressing, but the process is somewhat slower because of a need to check that the departing staff do not have any outstanding debt to the Government.

- A new salary structure has been introduced designed to motivate retained civil servants and attract good quality staff into the system.

- 12 core Ministries have been restructured (State House, Finance, Solid Minerals, National Planning Commission, FCT Administration, Health, Education, Foreign Affairs (pre-January 2007 part), Commerce (pre-January 2007 part), Science and Technology (pre-January 2007 part), Transport (pre-January 2007 part), and Internal Affairs (pre-January 2007 part)). The Government in January reduced the number of Ministries by merging some of them.

- Complete the restructuring of ministries, departments and agencies, (MDAs) and parastatals in 2nd Quarter, 2007. Progress has been made in this area; the reorganization of the CBN, NBS, and Center for Management Development has been completed, and the reorganizations of NNPC and FIRS are at an advanced stage. Specifically for the FIRS, the restructuring is focusing on the completion of the implementation of its human resource management system, including the installation of HRM hardware and software for nationwide access, and conducting a competence assessment exercise to determine training needs.

- The FIRS has made progress in the conduct of its nationwide taxpayer enumeration, preparatory to the introduction of an automated tax administration system, including TIN. A consultant was engaged for this purpose in late 2006 and is currently conducting the enumeration exercise. The project is now expected to be completed in July 2007.

- A Tax Policy Unit has been set up in the Ministry of Finance designed to help strengthen this aspect of the work of the fiscal authorities. Its capacity is being strengthened through internal reorganization of the personnel, and familiarizing it with the work of the FIRS so as to better define a niche for it and avoid possible duplication of roles.

- The National Bureau of Statistics (NBS) continues to be strengthened through its own internal reforms, with a view to repositioning it for more efficient delivery of macroeconomic statistics. It continues to work towards the introduction of quarterly GDP data, having completed a comprehensive economic survey in collaboration with the CBN.

Transparency and anti–corruption efforts

- The final result of the 1999–2004 audit of the oil and gas sector conducted under the auspices of the NEITI (a structural assessment criterion) was submitted to the President-in-Council in December 2006 and also shared with the public.[5] The post-audit remedial measures were also approved by the Cabinet, and these are currently being put in place

[5] There was an unaccounted for monetary difference of about 3 percent in the original report published in Q1 2006, which the auditors indicated was within the margin of error of the profession. However, Mr. President instructed that further work be done to explain this difference, and this was fully explained (to 99.9 percent) in the final report.

to address the areas of weakness identified in the reports. These include designing standard reporting templates for the relevant agencies and oil companies. Similarly, the Department for Petroleum Resources (DPR) is working with international partners, including Norway, on systems to improve the metering infrastructure in the upstream. The contract of the Hart Group (the auditors) has been extended through a 'change order' arrangement for the purpose of conducting the 2005 audit; the extension contract was signed in March, and work has commenced. The process of procuring an auditor for the 2006 and value-for-money audit was launched in April; tenders have been called for.

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

- The EFCC has continued to make progress in its anti-corruption work, including in terms of arrest and prosecution of corrupt public officials and the screening of politicians vying for public office. In order to sustain the current status of Nigeria as having been de-listed from the category of noncooperating countries and territories under the FATF, the EFCC and other agencies are intensifying their work in checking the activities of internet fraudsters and anti-money laundering. In a related move a nationwide corruption survey was conducted as part of the 2006 SEEDS benchmarking (a benchmark) with focus on public procurement and transparency and prosecution of corruption cases.

10. **The push to get relevant bills in the National Assembly passed has intensified in recent months, as the Government strives to institutionalize the reforms, including**:

- The passage of the Fiscal Responsibility Bill by the Senate took place in February. The Lower House has now also passed the bill.

- The Public Procurement Bill has been passed by both Houses of the National Assembly; including on the basis of another study tour in late 2006 by the relevant Committees.

- Six of the eight Tax Reform Bills have been passed by the National Assembly, and efforts are on to pass the other two; and

- Following more intensive engagement with the Senate, the NEITI bill was passed by the Senate in March; the House of Representatives had already passed its own version of the bill.

It is expected that harmonization will be concluded and all bills signed into law before the end of the current session.

11. **The major challenge continues to revolve around how to transmit the gains of the reforms to everyday benefits for ordinary Nigerians as a means of securing their continued support for the reforms.** In this context, the Government is continuing to lay emphasis on policies that will promote economic growth, particularly in the non-oil sector such

as agriculture, solid minerals, and tourism. These would help towards achieving 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 Nigerian content agenda. 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. The development of the second phase of the NEEDS program (2008–11) is at an advanced stage.

12. **Government continues to pursue its policy of deploying the savings arising from exiting the Paris Club debt** (about $1 billion per annum, of which $750 million is from the Federal Government) into MDG-related spending. In the 2007 budget, a total of N110 billion was appropriated for this purpose, following on the N100 billion allocated in 2006.

13. **Program monitoring.** The Government is continuing with the PSI arrangement involving quantitative targets, assessment criteria and structural benchmarks up to the first half of 2007 and in the context of the agreed framework (see tables 1 and 2). Targets will continue to be used to assess the performance of Government policy and reform implementation. We welcome the Fund's continued engagement with Nigeria to monitor the program performance under the IMF's Policy Support Instrument. In the light of the expected change of Administration, the Government envisages that the fourth and final review to assess the performance up to June 2007 will be no later than October 16, 2007.

14. **The Government reiterates its commitment to seek only concessional financing in the period ahead** to help finance any gap in its investment program. However, an exceptional loan is being taken from China in the amount of $2.5 billion towards the cost of building a railway system and other infrastructure projects for which a framework has been agreed. The terms of the loans are still under discussion, but the interest rate is likely to be about 3%, with a grace period of 3–5 years and a term of 15–25 years depending on the particular project. The Government believes that this one-off arrangement is essential to meet its desire to strengthen the infrastructural base needed to promote economic development. 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 for the use of IMF or PRGF resources in the course of implementation of its home-grown program.

Table 1. Nigeria: Quantitative Assessment Criteria for June '07
(Billions of naira, unless otherwise indicated)

	Assessment Criteria	Revised Criteria
Federal government non-oil primary balance (floor) [1]	-728	-728
Reserve money (ceiling)	866	860
Net foreign assets of the CBN (floor)	6,048	5,560
New non-concessional external debt by the public sector (ceiling) [2]	0	0
External arrears [2]	0	0
Memorandum items:		
Oil production (in million barrels per day)	2.49	2.39
Oil price (in U.S. dollars per barrel) [3]	63.3	64.3
Petroleum Profit Tax	1,111	566
External debt service	38	66
State and local government non-oil primary balance	-878	-858

Sources: Nigerian authorities and staff estimates and projections.
[1] Cumulative until the end of the period and includes the fuel subsidy.
[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 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 for May–June 2007 under the PSI Program[1]

S/N	**Structural Assessment Criteria**	**Expected date of achievement**	**Remarks**
1	Bid opening for sale of the Abuja Electricity Distribution Plc as set out in paragraph 9 of the statement	End June 2007	Ongoing; on target
2	Issue report on SEEDS Benchmarking for 36 States to be published as set out in paragraph 9 of the statement	End June 2007	Ongoing
3	Complete restructuring of MDAs as set out in paragraph 9 of the statement	End-May 2007	Ongoing
4	FIRS to complete implementation of human resource management system, including installation of HRM hardware and software for nationwide access, and conduct a competence assessment exercise to determine training needs.	End-June 2007	Ongoing
5	The Central Bank to introduce a new Standing Facility to help reduce interest rate volatility as stated in paragraph 7 of the statement.	End-June 2007	Done
	Structural Benchmarks		
1	Continue publication of revenue allocation to the three tiers of Government	Continuous	Ongoing
2	Complete restructuring of five parastatals in terms of right-sizing and right-staffing.	End-May 2007	Ongoing
3	Bid opening for sale of 8 Oil Service Companies	End-June 2007	Done
4	Nigerian Customs Service to conduct staff survey to determine suitability of personnel for minimum requirements of service in preparation for rationalization, realignment and right-sizing its human resource system.	End-June 2007	Done

[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)

May 2007

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 May 2007.

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).[1] 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.[2] 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 OCD (CIRRs) will be provided on a periodic basis by Fund staff.

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